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NEW ZEALAND.

MONETARY COMMITTEE, 1934.

MINUTES OF EVIDENCE.

Presented to both Houses of the General Assembly by Leave.

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GOVERNMENT MONETARY COMMITTEE.

STATEMENT SUBMITTED BY THE TREASURY ON BANKING AND CURRENCY IN NEW ZEALAND.

Pre-war System.

The framers of our banking legislation, the essential portions of which are contained for the most part in the private Acts governing the several banking institutions, evidently intended that the complete gold standard should operate in this country. Trading conditions, however, led in fact to the adoption of a sterling exchange system. Thus the regulative provisions of the several Acts, which are practically uniform on essential points, were and are still practically inoperative.

It might perhaps be mentioned here that we had a gold currency before the war, but then a gold currency is not the only or even an essential element of the gold standard. Great Britain, prior to the suspension in 1931 was operating on a full and free gold standard without a gold currency for internal circulation. The essential elements in the gold standard are—

(*a*) That the whole monetary resources of the country, both cash and credit, shall be regulated by the quantity of gold held within the country for monetary purposes:

(*b*) That gold shall ebb and flow freely into and out of the country in maintaining the foreign exchanges within the "gold points."

That is to say, the total amount of monetary media and therefore the price-level must be directly affected by the flow of gold into or out of the banking gold reserves of the country. Such a monetary system can operate successfully only in a country where the banking system is practically self-contained, and credit expansion is governed by bank advances. As will be demonstrated, these conditions do not apply in the case of New Zealand, and, judged on the essential points mentioned, this country was never on the gold standard.

The principal pre-war regulative provisions, contained in the several private Acts governing the different banks operating in New Zealand, provide in effect—

(*a*) That the notes in circulation shall not exceed the total of the coin bullion and public securities held in New Zealand, or more than three times the coin held in New Zealand:

(*b*) That the debts, engagements, and liabilities shall not exceed three times the coin, bullion, and public securities held in New Zealand:

From a regulative point of view, the first provision says, in effect, that the note-issue shall not exceed three times the metal reserves. The reference to Government securities is presumably to ensure ultimate redemption of the fiduciary part of the issue in the case of a bank failure.

The second provision is evidently intended to limit the credit structure that might be created by the banks. In Great Britain, of course, the ratio of cash to liabilities is governed not by legislation, but by the traditional policy of the banks. In New Zealand, however, it was apparently intended to provide by law that credit expansion through advances should not exceed three times the amount of coin, bullion, and public securities held by the banks. Thus a high ratio of cash to liabilities was to be maintained. The words "intended to provide by law" are used because the wording of the section in question is practically unintelligible in the light of present-day banking practice in this Dominion.

Apart from the legislative provisions, however, the banks no doubt have their own rules concerning the ratio of cash to liabilities, but even so, the other provision limiting the note-issue to three times the amount of coin held has not in fact been the controlling factor of the volume of credit and the price-level. For the June quarter of 1914, for instance, the note-issue amounted to £1,700,000, whereas coin held amounted to £5,280,000. In this instance, the note-issue could legally have been increased to nearly £16,000,000, provided the required amount of Government securities had been purchased. This possible maximum issue would not have been advisable in practice, as gold was in circulation at that time, and could be demanded from the banks. Still, the fact that the maximum note-issue amounted to over half the deposits (at that time about £29,000,000) is a clear indication that further credit expansion was not prevented by lack of cash resources. Further, a study of the published banking figures over a period of years will show that deposits and advances have varied without any apparent relationship to notes in circulation or cash resources, and, in fact, in a manner that would be quite inexplicable in a self-contained banking system.

The explanation, of course, is that our banking system is not self-contained, in that the banks normally hold a large amount of funds in London. In fact, these London balances are the real regulative factor and the key to our whole banking system. This system has evolved out of our economic conditions, and, in general, has functioned smoothly without effective legislative regulation.

In New Zealand there is no bullion market, no bill market, or short-loan market, and generally no money-market in the full sense of the term. The all-important work of our banks is financing our external trade, which per head is one of the highest in the world. Furthermore, a very large part of our trade is with Great Britain wherein is situated the premier international money-market of the world. Under these circumstances, supported by the ties of empire and the fact that this

country has been borrowing steadily in Great Britain practically ever since these Islands were brought under the British flag, the dominating portion of our banking business has centred in London.

The system is quite a simple one. The banks maintain offices in London, and these offices receive the proceeds of the sale of our exports. The exporters receive credit for the amounts due to them, plus or minus exchange at the ruling rate, in the books of their respective bankers in New Zealand. These credits go to swell deposits. The importers, on the other hand, pay to their bankers by cheque in New Zealand the amount of their debt due abroad, plus or minus exchange on London at the ruling rate, and the British or other overseas merchant receives payment directly or indirectly out of the London funds of the banks. Such transactions result in a fall in deposits or an increase in advances in New Zealand, and a corresponding fall in the London balances of the banks.

Thus these London balances are being constantly fed by a stream of funds from the sale of exports and depleted by another stream of funds to pay for imports, the increases or decreases in the volume of either being reflected in the incidence of deposits and advances in New Zealand. The inward stream is also increased by the amount of loans raised abroad, and the outward stream by the payment of interest on such loans. In fact, all items that enter into the balance of international payments affect the position.

Governing Factors.

As is demonstrated later in this statement, the volume of deposits is affected by advances and in other ways. The point to be noted in the meantime is that a credit or favourable balance in our overseas transactions widens the gap between the amount of deposits and advances. Deposits increase and advances are repaid by the credits to customers in New Zealand on account of the increase in the London funds of the banks arising out of New Zealand business. In so far as deposits are thereby increased, the community has more purchasing-power, while, on the other hand, the lowering of advances encourages the banks to grant further advances, thereby still further increasing purchasing-power. This additional purchasing-power unless utilized to pay off debts abroad will lead normally to an increase in imports which will tend to restore the balance in international payments.

Conversely, a debit or unfavourable balance in our overseas transactions (usually brought about by a fall in export prices or excess imports) leads to less deposits and a greater volume of advances—*i.e.*, the margin between them is narrowed. When this happens the banks are more conservative in granting advances to importers and generally take steps by pressure and perhaps by raising overdraft-rates to bring down advances, thus further decreasing the volume of credit in New Zealand. With less credit available, there is less scope for the purchase of imports and less spent on imports, which means less drain on the London balances of the banks.

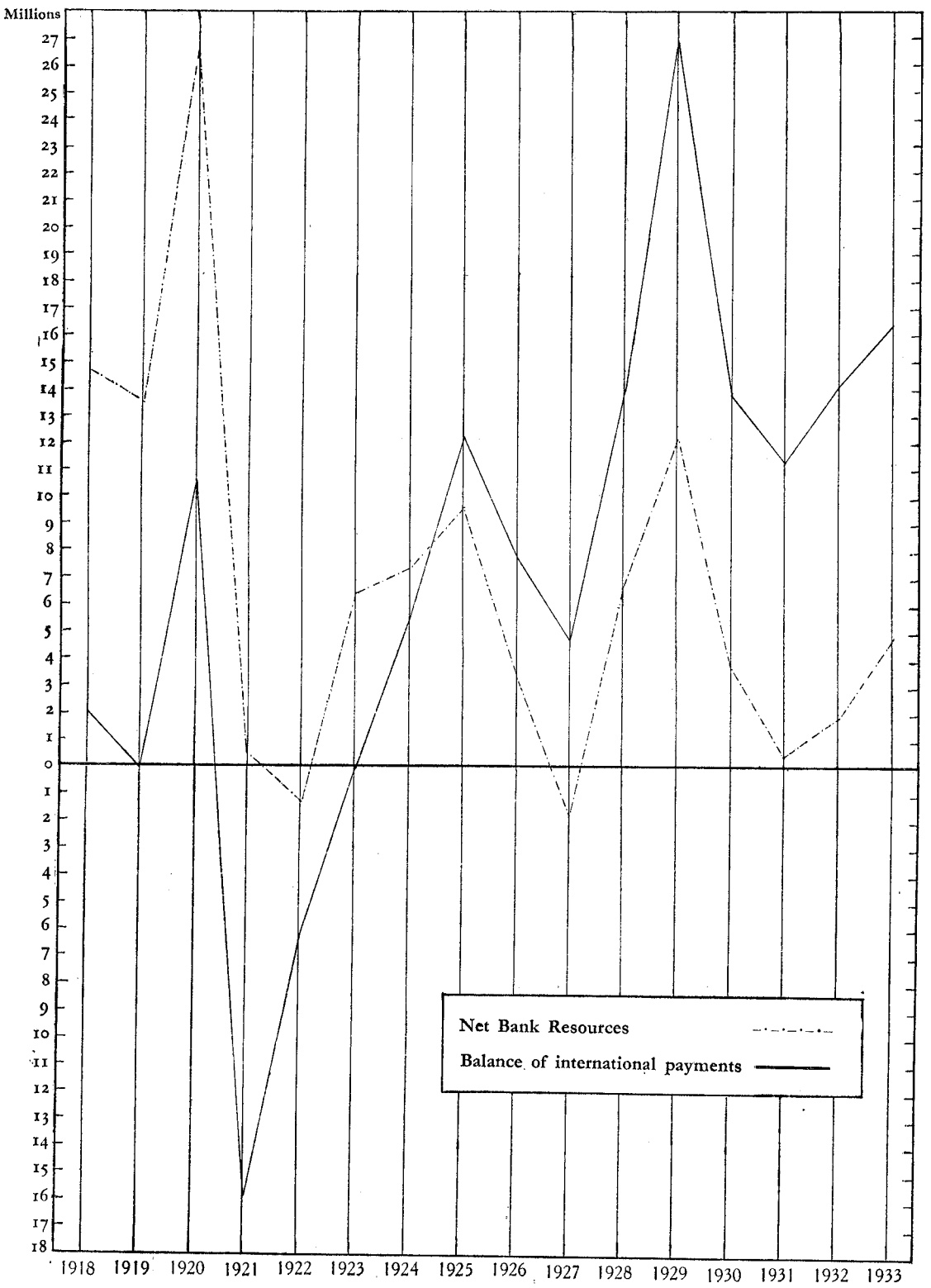
In fact, the pressure on the London balances of the banks is what limits the amount of credit that can be created in New Zealand. As already pointed out, there is ample scope for expansion in so far as cash resources in New Zealand are concerned. If, however, the credit structure is enlarged, apart from any corresponding increase in local production, the additional resources will be used to buy additional imports, and thereby impose a drain on London funds. Failing internal action to lower the volume of credit, such a situation can be met only by raising the exchange-rate, which, in effect, means that more must be paid in New Zealand currency to obtain a given quantity of imports. Thus the additional credit created is neutralized by a depreciation in the purchasing-power of the monetary unit.

It may be pointed out that, while the banks can and do assist in maintaining equilibrium by variations of policy in respect of advances, there are other corrective forces always at work. For the most part purchasing-power reaches the hands of consumers in payment for services in production, using the word in its broadest sense. If, then, increases in the credit structure allow importers to bring in more goods from abroad than can be paid for with exports, having regard to other calls on the latter, the excess quantity of goods will generally be a drug on the market, unless prices are reduced to an unpayable level. Thus importers and merchants generally, although they act independently, are constantly endeavouring to equate supply to effective demand. Naturally they would not accept from the banking system credit for the purchase of more goods than they considered they could sell at a profit. Collectively they do make errors of judgment, for each one is endeavouring to get ahead of his competitors, but it is nevertheless true that to a large extent the initiative rests with the trading community.

The most enterprising banker cannot force advances upon people nor coerce them to make greater use of their deposits. Thus, if the psychological factor in the trading community is adverse, the banks would find it difficult to increase substantially the amount of credit used however much they desired to do so. Central banks can increase the credit available by buying up securities, but that does not put the extra credit to work. During the past year in most countries there has been an abundance of cheap credit available, but with the possible exception of Great Britain in recent months relatively little effective demand for it. In fact, increases in the credit structure involving currency depreciation are usually brought about by Governments borrowing from the banks and spending more than is collected by way of revenue.

Under the sterling exchange system in operation the London funds of the banks must obviously rise and fall by the balance of our international payments from year to year, and, as already explained, such rise and fall is reflected in the incidence of deposits and advances in New Zealand. Deposits, however, can be drawn in the form of notes, and are also affected by the purchase and sale of securities by the banks, so these factors must be taken into consideration in making comparisons to demonstrate the effect of external transactions.

The fluctuations in the aggregate amount of the London funds arising out of New Zealand business are not disclosed, and for past years are not generally known by the banks themselves, the reason being that separate records were not kept of the effect of Australian and New Zealand transactions respectively. The trade figures, together with the amount of interest payments and debt operations of the Government and local bodies abroad are known, while estimates more or less accurate can be made for other items involved in the balance of international payments. The movement of



NET BANK RESOURCES.—BALANCE OF INTERNATIONAL PAYMENTS.

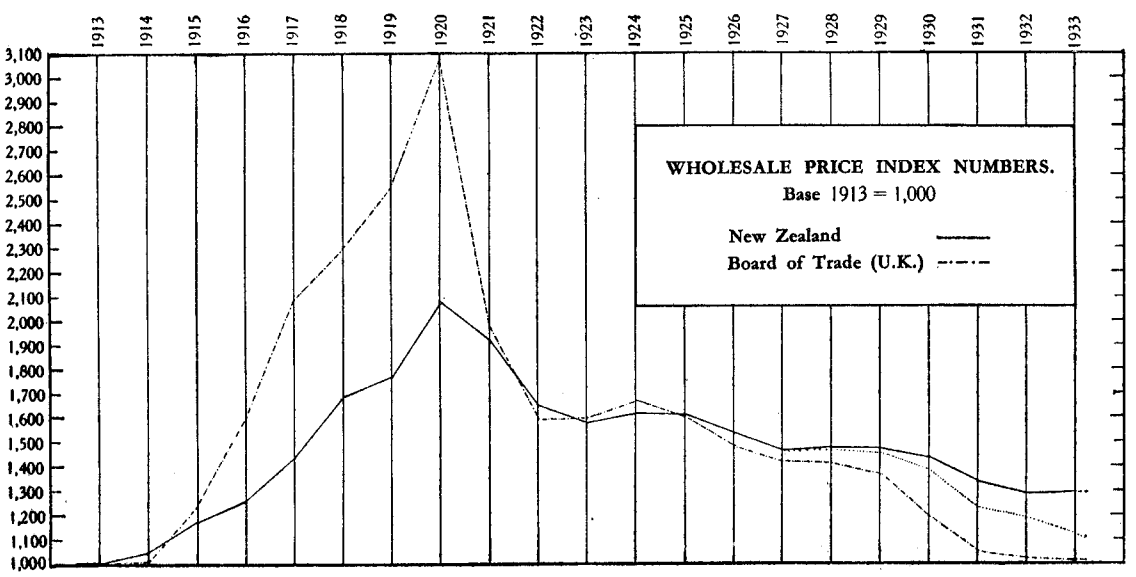
private capital in and out of the Dominion is the most important item in respect to which little or no data is available.

Using all the available data, estimates have been compiled by the Government Statistician of the balance of international payments back to 1918, and the graph above shows how closely fluctuations in the net balance have been reflected in the margin between deposits and notes on one hand and advances and securities on the other.

The degree of correlation illustrated by the graph shows unmistakably how the banking figures are affected by receipts and payments overseas. Such difference as there is will be due largely to the fact that the aforesaid receipts and payments are based to some extent on estimates. Furthermore, the banking figures used are the averages for the March quarter, and these obviously will not coincide accurately with the trade for the financial year. To illustrate the same point Professor Tocker, of Canterbury College, in an article published in the *Economic Journal* of December, 1924, demonstrated the close correlation over a period of twenty years between the visible trade balance and the excess of deposits over advances and securities.

On account of our economic circumstances, this domination of our monetary system by our transactions with London would, probably, be practically inevitable in any case, but, in fact, it has been rendered definite and complete by the exchange policy adopted by the banks. Although at the present time there is a marked departure therefrom, this exchange policy consisted of maintaining stable rates of exchange, unaffected by any but very exceptional trade disturbances. For instance, the rates of exchange for telegraphic transfers New Zealand on London stood at 17s. 6d. per cent. for at least ten years prior to 1914, despite marked variation in the trade balance between 1907 and 1911. This exchange policy was the real regulative factor in controlling the volume of credit, and, through credit, the issue of currency in New Zealand. The result was to keep the New Zealand pound at approximate parity with sterling, and in the broad trend our prices fluctuating round about a definite ratio to British prices which, of course, were regulated by gold.

When British prices are down, goods can be purchased more cheaply in Britain and sold more cheaply in New Zealand. Thus New Zealand prices, while not so sensitive as British prices generally, move in sympathy with those of Great Britain. This approximate correlation in the movement of the respective price-levels is best seen at a time of violent fluctuation such as has occurred since 1913. The following graph shows the movements since 1913 in the British Board of Trade index and the New Zealand Government Statistician's wholesale-price index respectively.



WHOLESALE-PRICE INDEX NUMBERS (BASE 1913 = 1000).

The range of commodities used in compiling these two indices is not altogether the same, the main difference being the greater predominance of raw materials in the Board of Trade index.

Even so, it will be seen that, with a slight lag which one would expect under the circumstances, there is a fairly close correlation between the rise and fall in the two price indices. The violent upward swing which occurred between 1918 and 1920 is not so violent in the case of the New Zealand prices, but the peak was probably smoothed out somewhat in the lag, in addition to which it is well known that our internal prices are relatively slow to move. The lines came together again in 1923, and do not diverge very much thereafter. It will be noted, however, that the fall in New Zealand prices since 1929 is not as great as in the case of British prices. The reason for this is the progressive increase in the rate of exchange on London, and the fact that during this period the proportion of Customs duties to value of imports has risen. The effect of these factors upon the New Zealand index has been approximately calculated, and the dotted line also shown in the graph indicates the level to which New Zealand wholesale prices would have fallen but for the factors mentioned. This uniformity in the movement of the price-levels over a period of violent fluctuation, when for the most part both countries were admittedly off the gold standard, is another indication of the monetary system being definitely linked with sterling.

In fact, all the evidence clearly demonstrates that the volume of credit in New Zealand has not been governed through the currency on a gold basis, as was apparently originally intended, but is automatically governed by an exchange fund held by the banks in London, which fund, so long as Great Britain was on the gold standard, was in effect equivalent to a stock of gold held in London. When Great Britain departed from the gold standard, however, we followed automatically, and our exchanges were not directly affected—that is to say, this country possesses a sterling exchange standard.

A stock of gold coin and bullion has certainly been held by the banks in New Zealand for monetary purposes, but in fact—even in pre-war days—this gold was used only to support a gold circulation and provide for the legal requirements, previously referred to in connection with the note-issue. The export of gold for exchange purposes has been absolutely negligible, and imports of gold have been confined to sovereigns for internal circulation, there being no mint in New Zealand.

Prior to 1914, however, as already pointed out, the amount of gold held was relatively so large that a very large expansion of the currency was legally possible, but never occurred. Scope to expand the currency under the operation of the normal gold standard meant scope to expand credit proportionately. But then, as has been demonstrated, the normal gold standard did not, and does not, operate in this country. In fact, credit is not controlled through the currency, but, on the contrary, the currency is controlled through the credit, which in turn is controlled through the operation of the exchanges with London. Further, the banking habit is well developed in this country, and with the extensive use of cheques, notes and coin are definitely subsidiary, being required for little beyond payment of wages and till-money in the retail trade.

This being the position, it must be realized that under the normal operation of the *de facto* system, as distinct from the legal system, our gold coins played no greater part than our bronze coins. It is true that the gold coins carried within themselves the guarantee of ultimate redemption in value, but as part of our money mechanism they played the part of a token coinage; work that could have been carried out with equal efficiency with much cheaper material.

To sum up this examination of the monetary system, the only conclusions to be drawn from an examination of the facts are as follows:—

1. That the *de facto* system is and always has been a sterling-exchange standard.
2. That it has centred round an approximate fixed par of exchange between the British and the New Zealand pound.
3. That our external trade is cleared through London, and the London balances of the banks are the chief factor in regulating the volume of credit in New Zealand.
4. That the banking habit is strongly developed in New Zealand and notes and coin are very subsidiary, being used for little beyond payment of wages, petty disbursements, and till-money.
5. That the legislative restrictions on the note-issue have been quite inoperative, as the demand has always been considerably less than the maximum amount the banks were in a position to issue.
6. That the volume of credit has regulated the note-issue, and not *vice versa*.

How our Banking System Operates.

As an adjunct to the review of the factors governing the volume of credit in New Zealand, it may be useful to explain how deposits are created and extinguished, and generally how the banking machinery operates.

An understanding of this can best be obtained from simple illustrations of the effect of various transactions on the balance-sheet of a bank in skeleton form.

When the first bank extended its operations to the Dominion the first transactions were probably the purchase of suitable premises to be followed by purchase of gold, it being assumed in both cases that bank-notes were given in payment. A balance-sheet of the New Zealand business prepared at this stage would read as follows:—

Liabilities.	£	*Assets.*	£
Notes and coin	101,000	Premises	1,000
		Gold	100,000
	£101,000		£101,000

Then assume that transactions as set out below took place, the changes in the balance-sheet being given for each one.

(*a*) Bank accounts opened and £50,000 notes deposited:—

	£		£
Notes, &c.	51,000	Premises	1,000
Deposits	50,000	Gold	100,000
	£101,000		£101,000

(*b*) £100,000 advances granted and drawn, £90,000 by cheque and £10,000 in notes, both for payments in New Zealand, it being assumed that all cheques are lodged for collection immediately:—

	£		£
Notes, &c.	61,000	Premises	1,000
Deposits	140,000	Gold	100,000
		Advances	100,000
	£201,000		£201,000

It will be observed that the advances have created an equal amount of deposits and notes.

(*c*) Holders of advances lodge to their accounts £30,000 in notes, together with £40,000 in cheques, of which £20,000 is from depositors and £20,000 from other holders of advances:—

Liabilities.	£	*Assets.*	£
Notes, &c.	31,000	Premises	1,000
Deposits	120,000	Gold	100,000
		Advances	50,000
	£151,000		£151,000

The cheques obtained from other holders of advances had no effect on the total balance-sheet figures, being merely a transfer from one holder to another, but otherwise the total assets and liabilities have decreased by £50,000—*i.e.*, the net decrease in advances has brought about a fall of an equivalent amount in notes and deposits.

(*d*) The Government collects £25,000 in taxation, of which £5,000 paid in notes and balance by cheque £10,000 from deposits and £10,000 by holders of advances, the whole being lodged to Public Account:—

	£		£
Notes, &c.	26,000	Premises	1,000
Deposits	110,000	Gold	100,000
Government deposits	25,000	Advances	60,000
	£161,000		£161,000

The increase of £10,000 in advances has put up total assets by £10,000, the remaining £15,000 representing a transfer from notes and deposits to Government deposits.

(*e*) The Government floats loan of £30,000, of which £10,000 taken up by depositors and £20,000 by bank.

	£		£
Notes, &c.	26,000	Premises	1,000
Deposits	100,000	Gold	100,000
Government deposits	55,000	Advances	60,000
		Government securities	20,000
	£181,000		£181,000

It will be observed that the purchase of securities by the bank has created deposits to the amount involved, while the balance of the loan has resulted in a transfer of £10,000 from deposits to Government deposits.

(*f*) The Government spends loan and revenue collected, paying out £10,000 in notes and £45,000 by cheque, of which £10,000 received by holders of advances and £35,000 by depositors, it being assumed that cheques immediately lodged for collection.

	£		£
Notes, &c.	36,000	Premises	1,000
Deposits	135,000	Gold	100,000
		Advances	50,000
		Government securities	20,000
	£171,000		£171,000

As a result, Government deposits have disappeared, notes and deposits have increased by the respective amounts involved, while advances and the totals have decreased by £10,000.

(*g*) £100,000 worth of produce sold abroad and depositors' accounts credited in New Zealand, £5,000 being added for exchange.

	£		£
Notes, &c.	36,000	Premises	1,000
Deposits	240,000	Gold	100,000
		Sterling	100,000
		Advances	50,000
		Government securities	20,000
		Profit and Loss Account (loss) ..	5,000
	£276,000		£276,000

It should be noted that deposits and the totals have risen by £105,000, the corresponding items in the assets side being sterling and the loss in Profit and Loss Account. The margin between deposits and advances has also increased by £105,000.

(*h*) £90,000 worth of goods imported, £5,000 being charged for exchange, the total being paid for by cheque £50,000 from depositors and £45,000 from holders of advances.

Liabilities.	£	*Assets.*	£
Notes, &c.	36,000	Premises	1,000
Deposits	190,000	Gold	100,000
		Sterling	10,000
		Advances	95,000
		Government securities	20,000
	£226,000		£226,000

It will be observed that the aggregate figures have decreased by the amount of deposits used and that otherwise the decrease in sterling is balanced by increase in advances, the exchange charged wiping out the loss in Profit and Loss Account. Further, the margin between deposits and advances has decreased by the value of the imports plus exchange.

(*i*) £5,000 interest charged on advances and £1,000 paid in notes for wages and expenses:—

	£		£
Notes, &c.	37,000	Premises	1,000
Deposits	190,000	Gold	100,000
Profit and Loss Account	4,000	Sterling	10,000
		Advances	100,000
		Government securities	20,000
	£231,000		£231,000

(*j*) £90,000 further advances made, being drawn wholly by cheques which are lodged for collection:—

	£		£
Notes, &c.	37,000	Premises	1,000
Deposits	280,000	Gold	100,000
Profit and Loss Account	4,000	Sterling	10,000
		Advances	190,000
		Government securities	20,000
	£321,000		£321,000

The figures for both deposits and advances have altered accordingly, but the difference between them remains the same.

(*k*) Holders of advances dispose of sufficient of their assets to liquidate all advances, payments being received, £20,000 in notes and £170,000 in cheques, the whole being lodged to their accounts for collection.

	£		£
Notes, &c.	17,000	Premises	1,000
Deposits	110,000	Gold	100,000
Profit and Loss Account	4,000	Sterling	10,000
		Government securities	20,000
	£131,000		£131,000

It will be observed that deposits and notes combined have gone down by the amount of the advances repaid, the reason being that if all holders of advances are selling out their assets could be purchased only by note-holders or depositors.

Purchasing-power.

The monetary purchasing-power available to the community at any given time consists of—

(*a*) Notes and coin held by the public.
(*b*) Amount of free deposits.
(*c*) Unexercised advances for which authority has been granted.

Under present banking methods in New Zealand the last item is not disclosed in bank balance-sheets or returns. Concerning changes in the volume of the other two items, it should be noted—

(1) That the purchase of gold bullion or Government securities or any additional assets by the bank on its own behalf increases available purchasing-power. (See examples (*a*) and (*e*).)
(2) That advances expended in New Zealand increase deposits and/or notes by an equal amount. (See example (*b*).)

(3) That to the extent that advances are used for foreign payments deposits or notes are not affected. (See example (*h*).)
(4) That internal transactions can vary the volume of notes, deposits, and advances, but, apart from purchase of additional assets by the bank itself, not the difference between notes and deposits on the one hand and advances on the other. (See examples (*b*) to (*f*).)
(5) That export trade increases sterling balances and either increases deposits or decreases advances and in any case increases the margin between deposits and notes on the one hand and advances on the other hand by the value of the exports, plus exchange allowed. (See example (*g*).)
(6) That import trade decreases the margin between deposits and notes on the one hand and advances on the other hand by the value of imports, plus exchange charged. (See example (*h*).)
(7) That repayment of advances, except as a result of exports, automatically cancels out an equivalent amount of notes and deposits. (See example (*k*).)

It will thus be seen that the volume of purchasing-power is directly affected by our external trade and internally is dependent upon the volume of advances granted by the banks and used by customers.

It may be added that the taking of deposits and the granting of advances is of course not confined to the banks. About £3,250,000 of deposits are held by building and investment societies, and £6,500,000 by stock and station agents and other trading companies. The stock and station agents as part of their business regularly make advances to farmers. The firms concerned all have accounts with the banks, and if John Brown transfers £1,000 of his deposit at the bank to a stock and station agent the net effect on the aggregate figures of the banks is nil. If, however, the firm has an overdraft at one of the banks (and most trading companies taking deposits do so to keep their overdraft down) the transfer of John Brown's deposit to the firm means a reduction in both the deposits and advances in the banks' books. As to whether it involves a decrease in available purchasing-power depends on whether John Brown can draw on his deposit with the firm. If the transaction was a transfer from a free deposit at the bank to a fixed deposit with the firm, it has involved a fall in purchasing-power to the same extent as a transfer from a free to a fixed deposit with the bank. Thus appreciable changes in the volume and/or nature of deposits held by other concerns will affect comparisons of bank figures over a period.

Many of the representations made are based on an assumption that insufficient monetary purchasing-power is available, but little or no evidence has been offered in support of that assumption. In so far as the quantity of available purchasing-power is concerned, the statistics are fairly complete, except that there is no information in respect of advances authorized but not used, nor of the extent to which deposits held by trading companies can be operated upon by cheque.

Concerning the extent to which the available purchasing-power is used, or what is commonly referred to as the velocity of circulation, we have since 1928 statistics of bank debits. These debits are charges against bank accounts including deposits and overdrafts. It is not uncommon for firms to work on overdraft the amount involved being constantly turned over as receipts and banked against drawings. Such rate of turnover will probably be much the same as in the case of firms working on deposits for the receipts in question will be largely drawn from deposits. Advances outstanding, however, do not constitute available purchasing-power, and in difficult times many advances are apt to become more or less frozen. The situation is thus best judged on the basis of free deposits. An analysis of the figures on the assumption that all debits represent charges against current accounts including Government deposits, gives the following turnover per £1 on current account:—

1929	.. 42 times.	1931	.. 41 times.	1933	.. 40 times.
1930	.. 42 times.	1932	.. 42 times.		

As the debits include those to overdraft accounts the figures do not correctly represent the actual turnover of deposits for any particular year, but it is considered that, as an index, the figures are approximately comparable from year to year.

It will be observed that the rate of turnover indicated has remained very steady over the period.

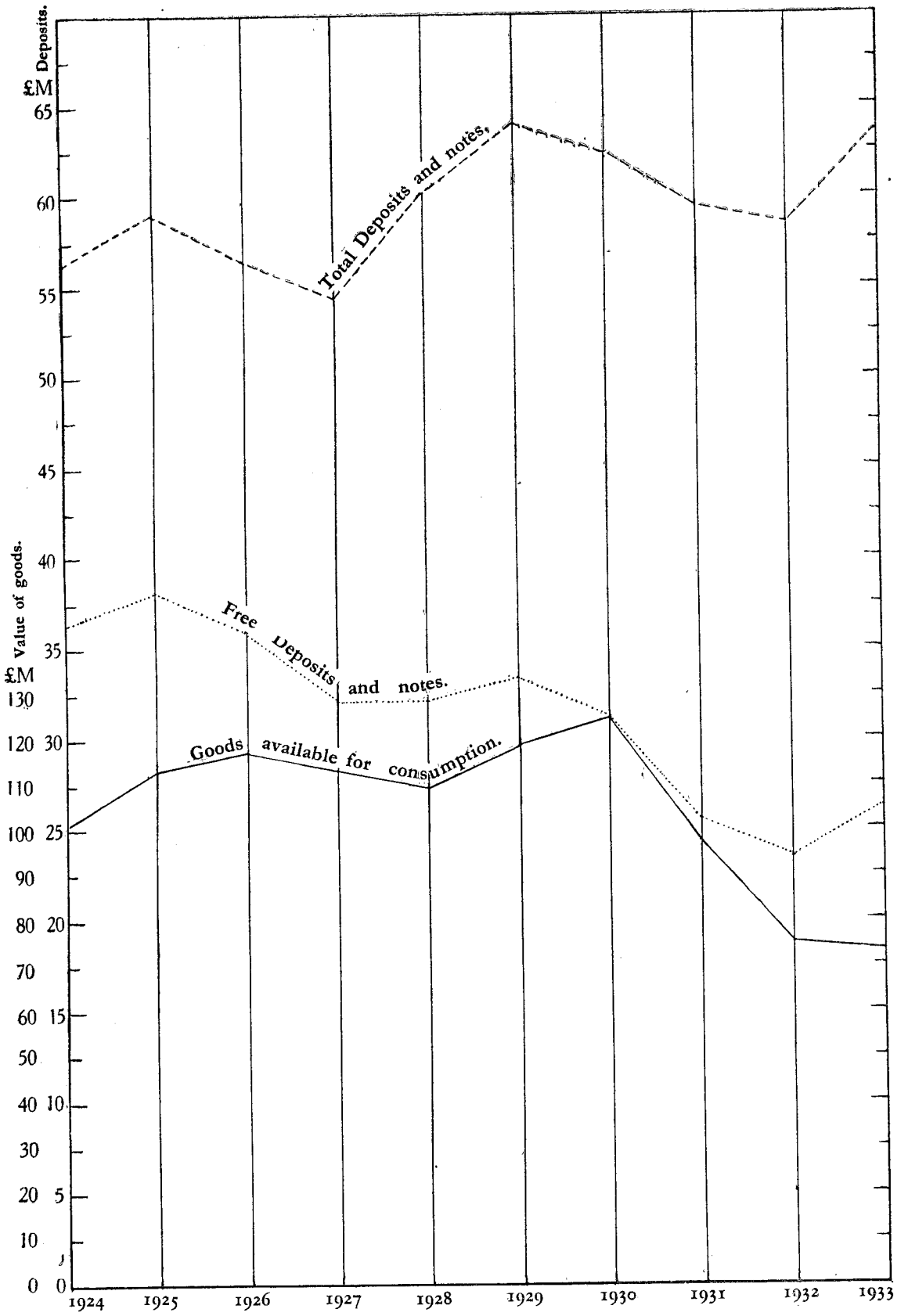
There are no records of the turnover of notes and coin, but the Government Statistician has made an estimated analysis of the class of payments for which notes and coin are generally used for the year 1931–32. Based on these estimates, the average turnover of each £1 of notes and coin was forty-one times, a result that coincides remarkably with the more definite calculation of the turnover of deposits. In bad times the turnover of notes in circulation probably increases for, on the average, wage-earners will keep less in their pockets.

On the other side of the equation, statistics of production are available, but there is little definite information as to the amount that should be added to cover personal services not included in the production figures. In so far as the value of production is an index to the need for purchasing-power, the graph below illustrates the position over the period of ten years—1924 to 1933 inclusive.

In order to arrive at more accurate figures of the volume of goods involved in internal trade, the production figures have been adjusted by deducting exports and adding imports for each year concerned.

Bearing in mind that the velocity of circulation of money does not appear to have altered appreciably during the period, it will be observed that the purchasing-power immediately available, represented by the free deposits and notes, has declined more or less in accord with the fall in the

value of the goods to be dealt with in internal trade. In other words, depositors have left on current account only sufficient resources to cope with current requirements and the balance has been placed on fixed deposit, the increasing volume of which is represented by the difference between the two lines on the graph concerning deposits. Fixed deposits are for relatively short terms,



PURCHASING POWER AND GOODS AVAILABLE FOR CONSUMPTION.

which are maturing daily, so that depositors can at any time rapidly increase the volume of free deposits. This being so, the analysis of the position made does not lend any support to the suggestions that our troubles are due to a lack of purchasing-power in New Zealand. The aggregate of possible purchasing-power represented by all deposits and notes is as great now as at any time since 1924.

As an indication of the fundamental source of the present stringency, the following indices, prepared by the Government Statistician, are of interest:—

Year.	Volume of Production apart from Buildings.	Volume of Exports.	Volume of Imports.	Volume of Goods available for Consumption.
1926	100	100	100	100
1927	108	108	96	102
1928	117	112	100	111
1929	122	116	114	121
1930	124	119	106	118
1931	117	120	69	92
1932	114	132	66	83
1933	122	151	66*	82

* Figure not available but assumed that it is the same as for 1932.

The periods for the volume of production figures are slightly different from those for the other two indices, but goods must be produced before they can be exported or consumed and the difference is not sufficient to invalidate comparisons.

Building and construction is more in the nature of capital expenditure, and therefore has been eliminated in considering the volume of consumable goods. It will be observed that between 1928 and 1932 production in the aggregate was fairly well maintained, the figures indicating a decline of 2½ per cent. only.

In 1928, 51 per cent., or approximately half of the total production (apart from buildings, &c.), was exported. Between 1928 and 1932 the index figures indicate that the volume of exports increased by 18 per cent. In exchange for the greater quantity of exports, after making provision for payment of interest and other fixed claims, we received in return for 1932 34 per cent. less quantity of imports compared with the position in 1928. The net effect of this was that for 1932 the quantity of goods available for consumption in the Dominion was 25 per cent. lower than in 1928. On the same basis the shortage for 1933 was 26 per cent. This was a real loss due principally to—

(*a*) Having to set aside a larger quantity of produce to meet fixed obligations overseas; and

(*b*) The fact that the terms of barter in Great Britain have gone against us, with the result that in exchange for a given quantity of primary products we now receive less manufactured goods than formerly — that is to say, the price of primary products has fallen more than the price of manufactured goods.

The upset in the balance of economic factors internally, resulting from the heavy fall in prices, has undoubtedly had far-reaching reactions, but it seems that our present economic troubles and shortage of real purchasing-power are largely explained by these factors, which are quite outside the scope of banking methods and entirely distinct from our internal monetary system. Accordingly it does not appear possible for this real loss in goods—amounting to one-quarter of our aggregate production—to be overcome by any monetary changes in the Dominion. Furthermore, the analysis of these figures disproves, or at any rate heavily discounts, the popular idea that there are ample goods in the Dominion to meet requirements, and all that is lacking is the money with which to buy them. It may be, of course, that in some directions, owing to psychological factors and disorganization of trade, our productive capacity is not being fully utilized. If so, there is scope for improvement through increasing and widening the production in the Dominion of goods needed for local consumption. But whatever action is necessary to do this lies outside the monetary system, for the additional production will automatically draw forth the additional purchasing-power required to buy those goods.

Changes arising out of the War.

Following the outbreak of the Great War the law relating to banking underwent considerable change, but several of the temporary provisions made proved entirely unnecessary, and presumably were made under the anxiety of war conditions, with the idea of placing the banks in a position to meet practically any contingency that might arise. Accordingly, the pre-war restrictions, inoperative though they had been up to that time, were largely removed.

On the outbreak of war bank-notes were declared legal tender by Proclamation issued under the provisions of the Banking Amendment Act, 1914. Successive Proclamations have maintained the position ever since, and under the last Proclamation issued the notes of the trading banks, unless they are replaced by Reserve Bank notes, continue to be legal tender until the 10th January, 1935. During the period limited by these Proclamations the export of gold is prohibited, except with the approval of the Minister of Finance.

War regulations made under section 44 of the Finance Act, 1916, were issued from time to time from August, 1916, to December, 1920. The first regulations authorized the issue of 10s. notes, and provided for an alteration in the form of the statutory bank returns consequent upon the

notes being declared legal tender. Others issued during the same month practically suspended the legislative restrictions on the note-issue and credit-expansion. Briefly, these regulations provide in effect—

(*a*) That the note-issue is to be limited only to the total amount of coin, bullion, and public securities held in New Zealand, with a proviso that the Minister of Finance may by Warrant authorize the inclusion of public securities held in the United Kingdom, provided the securities are hypothecated to the Crown. This regulation means that no gold at all need be held :

(*b*) That the sections in the several private banking Acts limiting the debts and engagements to three times the coin, bullion, and public securities held in New Zealand are extended to include public securities held in the United Kingdom. These are the sections intended to control credit-expansion, previously referred to as being unintelligible under the existing banking practice :

(*c*) That the definition of " public securities " in the several banking Acts previously restricted to New Zealand Government securities is extended to include public securities of the United Kingdom or of the Commonwealth of Australia or any State of the Commonwealth.

By additional regulations made in 1917 and 1920 the limit of the note-issue was extended by adding to the total of coin, bullion, and public securities the amount of the advances to customers to enable them to invest in war loans or discharged-soldiers-settlement loans, and also the amount of the advances against wool held in store at that time. Special returns of these advances had to be made to the Treasury.

In 1919 a section in the Finance Act removed the ban on the exportation of uncoined gold. This, of course, occurred after the cessation of hostilities, and probably was a recognition of the fact that mined gold is one of the normal trade exports of this Dominion. In the following year, 1920, it was deemed necessary to pass a further section in the Finance Act making it an offence to melt down or use gold or silver coin except as currency. The reason for this last piece of legislation probably lay in the fact that at that time gold was at a considerable premium—that is to say, gold bullion was worth in notes considerably more than the mint par as fixed by the gold content of the sovereign.

Since 1920 no further changes have been made in these Acts and regulations, and insofar as they are not overridden by the recent Reserve Bank of New Zealand Act they are still in force to-day. Now, what was the economic result of all these changes in the law ?

Declaring notes legal tender led to an ostensible change in the withdrawal of gold from circulation, but this in itself was of no real economic significance, as a pound-note does the work just as efficiently as a sovereign. In fact, in many respects the note is much more convenient than gold, and now that we have got used to paper, we would probably find that gold was a nuisance if it were again put into circulation.

On the face of things, a much more fundamental change was made when by regulation the legal restriction limiting the note-issue to three times the amount of coin held was removed. With a self-contained banking system this alteration, coupled with the ban on the export of gold, would have opened the way to unlimited credit-expansion. As already explained, however, the volume of credit was definitely dependent on credit conditions in Great Britain, and the relaxation of the restrictions on the note-issue in no way contributed to such credit-expansion as did occur in New Zealand during and immediately after the war. In fact, throughout the whole period of inflation right down to the present time the note-issue was practically covered pound for pound by the gold held by the banks. Removing the restrictions on the note-issue thus meant little or nothing in the economic affairs of the country. The additional provisions extending the issue of notes up to the amount of the wool and war-loan advances were never used.

The widening of the definition of public securities, and the further provision allowing securities held in Great Britain to be included in reckoning the ratio of securities to liabilities, may at times have been useful to the banks under such interpretations of the section in question as they may have adopted, but, for reasons already fully explained, the volume of credit was not really affected thereby.

In fact, none of the changes in the law referred to had any real economic significance, for the very good reason that the original permanent provisions which were subject to amendment or were suspended by the war regulations had always been quite ineffective. To amend a law that is practically a " dead letter " is obviously not going to make much difference to anybody. The only difference is that whereas prior to the war the law simply did not apply, now it is legally suspended or rendered inoperative. The essential point to which attention is drawn is that throughout the war period, and since, the pre-war *de facto* sterling-exchange system was maintained without any fundamental change.

Recent Changes.

Until recently economic facts and the traditional exchange policy of the banks were the only real regulative factors of our banking system. The position, however, has been changed by the passing of the Reserve Bank of New Zealand Act, 1933. This Act overrides the pre-war legislation and gives legal recognition to the sterling-exchange standard. The formal provision is contained in section 16 of the Act, which makes it mandatory for the Bank, after it commences operations, to supply on demand sterling in exchange for its own notes and gold and, *vice versa*, notes in exchange for sterling, both at rates of exchange to be fixed by the Board of the Bank. The unlimited authority thus granted to the Bank is unusual, and is due to the abnormal conditions prevailing both in Great Britain and here. It is normally the duty of Parliament to fix the basis of the currency by Act which in our case would mean fixing the par of exchange ; after which it would be the duty of the Bank to maintain

the value of the currency by holding the exchange-rates within a swing of approximately 30s. per cent. either way, that being the approximate cost of shipping gold from London to New Zealand and *vice versa*. When the time comes to stabilize the currency—which will normally accrue when sterling is again stabilized on some definite basis—it will be necessary to amend the Act accordingly. Hitherto, parity has been pound for pound, but a sterling-exchange standard could function at any other ratio, provided the chosen ratio was in accord with the relative price-levels in the two countries.

In recognition of the fact that notes are subsidiary to credit, no separate limitation is placed upon the note-issue, but the Bank is required to maintain a reserve of liquid sterling assets or gold of not less than 25 per cent. of its demand liabilities, including notes. It may be added that in the long-run, if not in the early stages of its operations, the reserve will probably consist mostly of sterling assets, which will mean that the volume of London funds will still be the governing factor of our credit structure.

The trading banks are to be deprived of their rights of note-issue on 1st August next, and are required to retire their own notes in circulation. When this operation is completed, we will have a single note-issue as a liability of the Reserve Bank and the trading banks will have to buy all the notes that they require from the Reserve Bank. Thus in future, in their internal operations, the trading banks must have regard to their ability to acquire Reserve Bank notes, and this fact, coupled with the necessity of maintaining a minimum balance with the Reserve Bank, will give the latter effective control over the credit structure. Provided there is the necessary margin in the reserve, it is, of course, open to the Reserve Bank to increase cash resources generally by buying securities. Power to control the internal credit structure, especially if combined with a substantial balance of London funds, will give the Reserve Bank control over exchange-rates. Furthermore, the statutory returns which the trading banks have to make monthly to the Reserve Bank will supply the latter with all essential information in regard to the position of the trading banks.

One of the items to be disclosed by each bank in such monthly return is the overseas assets in respect of its New Zealand business held in London and elsewhere respectively. This should be the means of overcoming a weakness in the banking system that has hitherto existed. This weakness arose out of the fact that four of the six banks carrying on business in New Zealand, from the point of view of their operations, are primarily Australian institutions. Australia is operating on a sterling-exchange system very similar to that of New Zealand, and the London balances to finance the trade of both countries, so far as these four banks were concerned, really formed one fund. In fact, some of the banks themselves did not know how much of their London funds had accrued from New Zealand business and how much from Australian business. As a result, the two countries have practically been regarded as one for the purposes of exchange on London, and the approximate uniformity of rates of exchange for both Australia and New Zealand fixed in the past by the six banks in association was presumably based on the average economic conditions and outlook of the two countries combined. Now, Australia is a much larger economic unit than New Zealand, and accordingly this country is much more affected by Australian conditions than Australia is by New Zealand conditions. Thus the rates of exchange New Zealand on London and *vice versa* were governed to a preponderating extent by Australian conditions. The implication was that the London balances built up by the banks from the good trading years of New Zealand were used to support the Australian exchange when Australian external conditions were adverse. At times the operations were no doubt the other way round, but as Australia is so much larger than New Zealand and liable to greater ups and downs from climatic conditions, the net result on balance worked out unfairly to the people of this Dominion.

The Reserve Bank, in their actions generally, including the fixing of exchange-rates, will have regard to the trading position and economic outlook of New Zealand only, and to be able to operate successfully at those rates the trading banks will generally find it necessary to reserve the proper proportion of their London funds for their New Zealand business and deal with Australian business separately.

The severance from Australia will be made more complete owing to the fact that, when the Reserve Bank takes charge, we will have a New Zealand board of directors exercising a deliberate and conscious control of our monetary system in the best interests of the Dominion as a whole. Hitherto all matters pertaining to our currency and credit have been largely in the hands of the six trading banks, of which only one has a New Zealand board of directors and four of the remaining five have much larger interests in the Commonwealth than in the Dominion. In the circumstances narrated it is obvious that the trading banks could not have any defined or conscious policy relating to the volume of money and credit as a whole or take into consideration the effect of their united transactions on the price-level of commodities in general. Although they act in association in fixing rates there is strong competition for business among the trading banks, and, as a result, the tendency has been in the direction of over-advancing in prosperous times and too drastic curtailment when conditions became adverse.

At present our exchange-rate is pegged at 25 per cent. off sterling under an indemnity arrangement with the banks whereby the Government purchases all surplus London credits at the pegged rate. A considerable amount of surplus credits have been taken over to date, and the banks have received payment in New Zealand in the form of Treasury Bills. Now, as previously demonstrated, if a Treasury Bill is sold to a bank in exchange for credit in New Zealand, the expenditure of that additional money increases purchasing-power, and thus has an inflationary effect. This is not the case with the Bills given in exchange for London funds, as no additional expenditure in New Zealand is involved.

The accumulation of sterling in the hands of the Government can, however, be used to place the Reserve Bank in a strong position from the outset. This can be accomplished by handing over the surplus sterling assets to the Reserve Bank, which under its statutory provisions must give notes for the same in New Zealand. These New Zealand resources can then be applied in paying off the Treasury Bills issued to the trading banks in payment for the sterling. These operations will lighten the interest burden of the Government, and so increase the sterling reserve of the Reserve

Bank that, if necessary or desirable, it will be in a position to permit, or itself bring about, a considerable increase in the volume of credit in New Zealand. Finally, it may be added that the large amount of London funds will in no way be a burden on the Reserve Bank, however long it may hold them, for it will have given its own notes in payment for the funds, and these notes, of course, will not bear interest. In fact, the Bank will derive some revenue from the investment of the funds in London. This, however, is only incidental to the use of the funds as a basis for the control of currency and credit in New Zealand. The Bank has little interest in the question of profits, the great bulk of which will go to the Government.

Finally, it may be added the establishment of the Reserve Bank will increase the flexibility of the whole banking system and be the means of providing on a sound basis ample credit resources to meet all legitimate requirements of trade and industry.

The Treasury, Wellington, 20th March, 1934.

A. D. Park,
Secretary to the Treasury.

B. C. Ashwin,
Second Assistant Secretary to the Treasury.

APPENDIX.

Table I.—Bank Resources and Balance of International Payments.

(Figures used in first graph.)

Year.	Averages for March Quarter.			Balance of International Payments for Years ended 31st March.	
	Total Deposits and Notes held by Public.	Advances and Securities.	Difference used in Graph.	Annual.	Cumulative Total used in Graph.
	M£	M£	M£	M£	M£
1918	49·83	35·17	14·66	+ 2·0	+ 2·0
1919	52·42	38·88	13·54	— 2·1	— 0·1
1920	65·96	39·40	26·56	+ 10·7	+ 10·6
1921	60·54	60·02	0·52	— 26·5	— 15·9
1922	51·06	52·41	1·35†	+ 9·6	— 6·3
1923	54·79	48·35	6·44	+ 6·2	— 0·1
1924	57·85	50·50	7·35	+ 5·6	+ 5·5
1925	59·52	49·90	9·62	+ 6·7	+ 12·2
1926	57·88	54·44	3·44	— 4·4	+ 7·8
1927	55·01	56·71	1·70†	— 3·1	+ 4·7
1928	58·55	51·93	6·62	+ 9·3	+ 14·0
1929	64·50	52·23	12·27	+ 12·9	+ 26·9
1930	63·81	60·00	3·81	— 13·1	+ 13·8
1931	59·88	59·44	0·44	— 2·5	+ 11·3
1932	59·17	57·20	1·97	+ 2·8	+ 14·1
1933	61·13	56·19*	4·94	+ 2·3	+ 16·4

* Adjusted to eliminate Exchange Indemnity Bills. † Excess advances and securities.

Table II.—Wholesale-price Index Numbers used in Second Graph (Base 1913 = 1000).

Year.	New Zealand Government Statistician's Wholesale-price Index.		United Kingdom Board of Trade Index.
1913	1000	..	1000
1914	1041	..	1006
1915	1170	..	1235
1916	1258	..	1600
1917	1432	..	2086
1918	1685	..	2295
1919	1761	..	2543
1920	2067	..	3073
1921	1919	..	1972
1922	1645	..	1588
1923	1579	..	1589
1924	1615	..	1662
1925	1608	..	1591
1926	1535	..	1481
1927	1460	..	1416
1928	1474	1460*	1403
1929	1470	1445*	1365
1930	1432	1380*	1195
1931	1330	1233*	1042
1932	1282	1184*	1016
1933	1292	1117*	1009

* Adjusted to eliminate effect of increase in Customs duties and exchange.

TABLE III.—PURCHASING-POWER AND PRODUCTION FIGURES USED IN THIRD GRAPH.

Year.	Average of Four Quarters of Calendar Year.		Value of Production less Exports plus Imports, Year ended 30th June.
	Total Bank Deposits and Notes.	Free Bank Deposits (including Government) and Notes.	
	M£	M£	M£
1924	56·1	36·7	100·5
1925	59·0	38·3	113·5
1926	56·8	36·0	117·7
1927	54·8	32·2	113·4
1928	60·2	32·2	109·6
1929	64·0	33·7	118·1
1930	62·7	31·4	124·4
1931	59·4	25·5	97·3
1932	58·9	23·7	74·8
1933	63·8	26·2	73·6

Witness: Mr. B. C. Ashwin, representing the Treasury.

Wellington, 17th April, 1934.

The Chairman: I would just like to say to the Committee that the matter that is under discussion is the statement bearing on banking and currency in New Zealand.

Captain Rushworth.] You do not agree that the banks lend their deposits?—Actually, no.

I would like to ask your opinion as to why it is the banks seek deposits?—How do you mean "seek deposits"?

They seek deposits by offering a rate of interest. I will suggest a possible reason, it is the only reason I can think of. It is to attract to themselves the money that otherwise might be available for competitors?—No. I think it is the other way round, in so far as they offer rates of interest for fixed deposits and from that aspect of the matter alone they do it not so much with the idea of attracting them as keeping them.

Then the putting of money on fixed deposit is really a detriment to industry?—In general, yes. It withdraws it from active circulation, and that may be a reason in certain cases for offering a rate of interest; for the purpose of pulling down the volume of active deposits.

Returning to the statement—there are several places in the statement where an interesting train of thought is set up. First of all, on page 1, the paragraph last but one, the wording is: "The explanation, of course, is that our banking system, &c." Could I understand from that—monetary system. Would that be synonymous?—Yes. In the general sense of the term, unless you have any specialized meaning for monetary system.

Strictly speaking, our banking system here, controlled by the local directors of the banks, is a self-contained system, but that really the monetary system is not self-contained?—Yes. The explanation of the paragraph is that the whole business is not centred in the Dominion. They operate in London as well as here. The active part of the business is done at this end.

That paragraph, read in conjunction with other paragraphs, leads me to think that what you intended was not so much the banking systems, as such not being self-contained, but that the monetary system which they administer should be self-contained?—Yes.

On page 2, about the middle, the paragraph starting,—

> In fact, the pressure on the London balances of the banks is what limits the amount of credit that can be created in New Zealand. As already pointed out, there is ample scope for expansion in so far as cash resources in New Zealand are concerned. If, however, the credit structure is enlarged, apart from any corresponding increase in local production, the additional resources will be used to buy additional imports, and thereby impose a drain on London funds. Failing internal action to lower the volume of credit, such a situation can be met only by raising the exchange-rate, which, in effect, means that more must be paid in New Zealand currency to obtain a given quantity of imports. Thus the additional credit created is neutralized by depreciation in the purchasing-power of the monetary unit.

Then on page 4, the bottom paragraph,—

> In fact, all the evidence clearly demonstrates that the volume of credit in New Zealand has not been governed through the currency on a gold basis, as was apparently originally intended, but is automatically governed by an exchange fund held by the banks in London, which fund, so long as Great Britain was on the gold standard, was in effect equivalent to a stock of gold held in London. When Great Britain departed from the gold standard, however, we followed automatically, and our exchanges were not directly affected—that is to say, this country possesses a sterling exchange standard.

And on page 5,—

> To sum up this examination of the monetary system, the only conclusions to be drawn from an examination of the facts are as follows:—
>
> 1. That the *de facto* system is and always has been a sterling exchange standard. . . .

Now, all those paragraphs, taken together, indicate quite clearly that New Zealand has never been a self-governing country so far as its monetary system is concerned. Is that correct?—No. I mean that the sterling-exchange system was adopted voluntarily, and it may be involuntarily, in that it grew up and was not part of a financial policy determined in advance. But it does not mean that this country is not self-governing.

That is to say, so far as the monetary policy is concerned, it had the power to become self-governing, but it was not so in fact?—Yes, even in fact, in that the system evolved was just as self-governing in working on the volume of London balances as the Bank of England was in the English system in working on a stock of gold.

Your wording here that the *de facto* system is and has always been a sterling exchange standard?—Yes, and by that I mean that the basis of our credit in New Zealand is and has always been the balance of sterling kept in London.

So that it is sterling that has been the sheet anchor?—Yes. Even so, that balance is only the reflection of our own trading position. That balance is built up by the sale of our exports and is depleted by payments for imports and by debt payments. The controlling factor has been our external trade and debt operations abroad.

Excepting those, this sterling balance depends entirely upon sterling policy?—Yes, in so far only as it affects the prices we receive for our exports. The sterling policy may lead to a given average price-level in Britain. If that price-level goes down, that automatically decreases the proceeds from the sale of our exports, and therefore the inflow into the basis of our monetary system.

But the prices of our exports in sterling rose rapidly when the sterling policy indicated that that course be taken. During the war for instance ?—Yes.

Lately the sterling policy has been deflationary and, as a result, our price-level has fallen ?—Yes.

So that what has controlled the prices of our commodities has been the sterling policy ?—Yes, through the trade ; but not by any conscious control over our banking operations. I consider we could not have avoided that effect no matter what monetary system we had had.

Who or what is it that controls sterling policy ?—You mean the monetary policy ?

Yes ?—Largely the Bank of England within the limits of their statutes.

Largely the Bank of England ?—Yes. The British Government prescribe the monetary standard.

In 1925 Mr. Winston Churchill, as Chancellor of the Exchequer, reverted to the gold standard ?—Yes.

And operating on that the Bank of England adopted the gold-base policy for sterling ?—Because they had no option. They were placed on that basis by law, and it became their duty to hold the currency to that basis.

Subsequently in 1931 Mr. Winston Churchill stood up in the House of Commons and said what I thought was a particularly brave thing, he confessed openly that that was the mistake of his life ?—Yes.

And he explained that he had acted on the advice of his experts. Who would be the experts ?—That I do not know.

It was stated at the time that it was the Treasury officials ?—A step of that kind, I should say, would call for a field of consultation wider than the Treasury officials.

About that same time the Governor of the Bank of England said that the difference between the Bank of England and the Treasury was the difference between Tweedledum and Tweedledee, so we get back to this same idea that, although the British Parliament ordained the return to the gold base in 1925, the presumption is that that was done on the advice of the Bank of England ?—It is a natural presumption, yes.

We therefore come back to this idea : That our destiny here is being controlled and has been controlled by the Bank of England through its control of sterling policy since 1931, when it was ordained that the gold base should be departed from, and there was no other base substituted for it ?—No.

The policy of the Bank of England is to lift sterling to some undisclosed point above gold ?—That is the declared policy of both the Government and the bank, as I understand it.

But there is no limit. There are no legal limits at all now, apparently ?—No.

They can go up or down ?—Yes.

And whether they go up or down really decides the general price-level ?—Yes, in so far as it is possible for monetary action in the short-run to lift prices. That is a matter upon which there is a good deal of diversity of opinion. It seems to me that a central bank is much more effective in stopping a rise than in starting a rise.

The Bank of England being a central bank ?—Any bank can stop a rise by cutting off supplies of credit, but a bank, when a depression has run its course, with all its attendant psychological reactions, is largely impotent to start the forward movement again. They have far less power for positive action. Stopping a rise is done by positive action of the bank, but the bank's action can only be negative when it comes to starting things.

You know there has been some very severe criticisms of the Bank of England and its policy in recent years ?—Yes.

Lord Beaverbrook launched a campaign and is still fighting it and insisting that the Bank of England must be brought back to its position as a servant, and not the master of the nation. Mr. McKenna has also drawn attention to the matter not once, but in almost all his annual speeches to the Midland Bank. I have here a copy of what he said in January of this year in connection with the matter, dated 26th January, 1934 :—

> Our daily operations are directly influenced by the policy of the central bank, and the whole trade of the country is deeply affected by it.

Then he refers to the shares of the trading banks. He goes on,—

> It is entirely beyond their power to vary the sum total, which is controlled by the Bank of England. The influence of the quantity of cash reserves on banking operations can hardly be overstated, for not only are these reserves the active element in a bank's daily business, but in their totality they govern the aggregate volume of bank deposits. The primary effects of central-bank policy on the joint-stock banks are, however, of less importance than the secondary effects, which result from its influence upon the trade and industry of the country. It is now well recognized that an adequate supply of money is essential to sustained business activity. Nothing in monetary practice is more certain than that contraction of the volume of money, or even failure to secure an adequate increase, tends both directly and indirectly to put a brake upon business of every kind, and to produce the very troubles—unemployment, unremunerative commodity prices, unbalanced budgets, and general depression—which have been apparent in almost every country in the world in the past four years. With expanding population and production, we need some expansion in the supply of money, or it will inevitably follow that consumption will not keep pace with production. There may in any circumstances be temporary maladjustment between production and consumption of individual commodities ; but if the supply of money is adequate the price-level of all commodities taken together will be kept approximately stable, and general consumption will be maintained. It follows, then, that the policy of the Bank of England is of the utmost concern to every one, for no one escapes the effects of general depression, and not one of us fails to benefit from sustained prosperity.

The main point to be considered at this stage is the question of control. You will agree that the Bank of England is a private corporation, privately controlled ?—Yes, except that it has evolved to a stage where it might rightly be considered a national institution in that I think the question of profits has become very subsidiary indeed.

I am not talking of profits ; control is far more important than profits. It would be possible for the controllers of an institution like the Bank of England to take no profits from the banking operations,

but by causing periodical trade booms and slumps make enormous fortunes by buying and selling ?—That is possible theoretically. I understand your point. That possibility would still be there if your directorate was appointed by the State.

Yes ?—When a man has much power to vary the price of commodities there is always the possibility of his exploiting that power for his private benefit.

There is this difference ; you might have venal officials but they do it with a rope round their necks. A private corporation can get away with it ?—You mean they are not there for the public benefit ?

Yes ?—Personally, my view is that as far as the Bank of England is concerned, I think they have very little regard for their shareholders ; they regard themselves as generally acting in a national capacity, although they are not actually so legally. Such action as exploiting their powers would amount to the venal action you mentioned.

You know that the shareholders do not appoint the directors ; they are appointed, as you know, by the merchant bankers of London City. Those merchant bankers never appear in public ; they figure as agents sometimes ; I believe the agent for the New Zealand Government in negotiating loans is one of these merchant bankers ?—It is an underwriting house.

It has come down through the centuries ?—I do not think the firm with which we deal does any banking at all. Their business is simply underwriting.

It is a euphonious term. These merchant bankers appoint the Court, or the directors, of the Bank of England ; they could take considerable advantage of trade cycles if they knew they were coming beforehand ?—Theoretically, yes.

So that, generally speaking, would it not be a good thing to have the controllers of such a mighty engine as controllers of the monetary system responsible to public opinion ?—Theoretically, yes, although there may be practical dangers in that.

I will not pursue it ; it is not fair to do so. Have you read Hawtrey's "Art of Central Banking" ?—I have glanced through it, but have not read it *in toto*.

He has been advanced as the authority on central banking at the present time ?—His book is not a technical book. It is really just a series of articles.

It is for popular consumption ?—He apparently gave this series of talks at various times, and then put them in the form of a book ; it is not a comprehensive treatise.

He is a very able man ?—Yes.

He has a high position in the British Treasury. In his "Art of Central Banking," he says, "Governments make money out of silver, copper, and paper. Banks create it out of nothing. But other lenders have not this mystical power of creating the means of payment out of nothing. What they lend must be money that they have acquired through their economic activities." That throws a flood-light on some of our misconceptions. Going back to your statement, page 2, paragraph last but one, "Thus, if the psychological factor in the trading community is adverse" : In reading that, it occurred to me that it would be more accurate, perhaps, to change the words "psychological factor" into "selling-ability." That is really the case, is it not ?—Yes, though it may be wider than that. The selling-quality of an article is always a problematical matter. If a man decides to manufacture anything at all, the question as to whether he will be successful is always problematical, but the question of whether he will start or not depends upon his psychological reactions. If he thinks the outlook is pessimistic, as is generally characteristic of a depression at a certain stage, he will not do anything. In other words, traders are not active when the outlook is bad ; when they think the outlook is good, it is a considerable factor in making it good.

If a man's liver is out of order, he will take a pessimistic outlook, but that would not apply to the whole of the trading community ?—It is a question of mass psychology.

If the whole of the trading community were able to sell their goods, there would not have been that pessimistic outlook ?—No. You mean you would not expect to find a pessimistic outlook in a time of boom ?

It is a question of cause and effect. Pessimism is very real but does not that arise from the continued inability to sell ?—Yes, it does ; but industries act and re-act on one another to such an extent that, when from any cause one man shortens sail, he affects the market of the next man.

But only within a certain small area ?—There are many ramifications and the effects go right through the economic system. You take one large manufacturer : If he for any reason at all decides to cut down by 50 per cent. and cuts down his staff, another manufacturer finds his sales affected and it runs right through.

I suggest it is something like a fishing-net. If you hang a fishing-net with a hole in it on the wall ; on the top of that hole is the pessimistic gentleman. He starts shortening sail and it has its effect. Later on, the hole will close of itself. Other people will come in, competitors and so forth. We have the case where the fishing-net is cut off altogether ?—The reverse effect will come when the tide turns and bolder spirits think there is money to be made. They will start, and it is equally cumulative.

Would you raise any objection if I write in here "selling-ability" ? Do you think that would be altering your sentiments ?—I regard the selling-ability as only one part of what I mean by the phrase "psychological factor."

You do not regard them as synonymous ?—No. I think mine is wider.

Yes, I think it might be in certain circumstances. On page 4, the paragraph before the graph—that is an interesting paragraph and meets several points. It deals with the exchange of goods on a barter basis ?—Yes.

"Goods can be purchased more cheaply in Britain and sold more cheaply in New Zealand" ; that depends on Customs tariff ?—Yes.

Generally speaking, that would apply, but the main point is that the subject of debts is left out ?—You mean as far as price is concerned ?

I mean to the wage-earner, to the man who lives on dividends; it is not so much what money they receive as what that money will buy when they get it; but that has to be read in connection with their commitments to fixed charges?—Of course. You are speaking now of fixed charges on the country, but the graph is a comparison of the whole prices of goods in Britain and New Zealand.

Quite. The point I am suggesting is really not relevant to this particular paragraph, but I wanted to draw attention to it to indicate that that paragraph taken by itself is not sufficient. Regard must be paid to individual and national debts in fixed terms of money?—Undoubtedly yes, in dealing with changing price-levels.

Page 5, first paragraph: "The export of gold for exchange purposes has been absolutely negligible"?—Yes.

You put in those words "for exchange purposes" in order to exclude the gold that has been exported, the product of Waihi and Reefton?—Those are trade exports.

And yet there is no difference in the commodity?—They no more affect our banking system than the exports of butter.

They were not used for exchange purposes, although they could have been if required?—Yes.

If so, the gold would have to be purchased by the Government?—I mean by that: To balance the exchanges the banks did not export a portion of their gold reserves held in the country.

The next paragraph, "Prior to 1914, however, as already pointed out, the amount of gold held was relatively so large that a very large expansion of the currency was legally possible, but never occurred." Why? During that period I find we were borrowing overseas?—The reason why it never occurred is, as explained here, that the currency or banking system was not operating on the basis of the quantity of gold held in the bank vaults in New Zealand, but on the volume of their London funds. It is difficult to explain in a few words.

But for the purpose of record, it may be as well to put it down?—You want to know exactly why the currency was not expanded?

Why, during that period, so much borrowing was indulged in when the currency could have been expanded proportionately?—But if the currency had been expanded in lieu of borrowing, you would have driven up your rates of exchange and therefore departed from the existing monetary system.

That brings the question back again: quite apart from the question of control of the Bank of England, the policy, whether it was international or otherwise, has been of working on what has been called an exchange level rather than the internal price-level?—Yes.

It has been stated categorically here by witnesses that they are mutually destructive terms, the exchange-level basis and the internal price-level basis?—Not necessarily.

I quite agree. Attempts are being made in some countries to reconcile those two, to have the internal price-level and at the same time to utilize the foreign exchange-rate. Sweden, Malaya, and Egypt have made the attempt, all by different methods. Would it not be possible for something of that sort to be devised for New Zealand?—I do not think so; it is not possible, except in a very short-run, to raise our price-level while the British price-level remains stationary and yet have the same rates of exchange.

Why?—Because to raise our price-level you would increase the volume of credit in the country by one method or another. That would put greater purchasing-power in the hands of the community which would lead to a greater volume of imports than the exports could sustain on the existing exchange basis, and the exchange-rate would be forced up.

Supposing you ration your imports by governmental action to prevent that?—That is tantamount to giving people the money and stopping them from using it.

That is if you imported everything, but not if you did not import everything. Would that not provide a tremendous stimulus to internal trade here?—Yes, if you put a ban on imports.

I do not suggest a ban, I suggest rationing?—To the extent that your rationing is effective, you undoubtedly give a greater field to local enterprise.

You could not only ration the imports, you could set the price for them. You could have a variable price; certain things below par, other things above par, if your national policy so required?—To do that, of course, the State has got to, as it were, do the whole external trade for the country, otherwise you would have to take over the exports and sell them, and then buy the imports and sell them in the country. You could fix the price that way and average it out. You could sell one-half 10 per cent. below and the other half 10 per cent. above cost, and you would come out square.

Something of that sort is being done in Egypt. It is not necessary for the Government to do the actual selling?—I did not mean the Government selling retail. It would only be possible if the Government handled the transactions until they were landed on the wharf.

Our production, butter, meat, cheese, wool, honey, &c., would have to be sold in the world's market on Government action?—Yes.

And the goods received in exchange, after debt charges had been paid, would have to be bought on license from the Government?—If you are still pursuing your idea of averaging your prices, if you give a man a license to import a certain class of goods and you desire him to sell below cost, you would have to adjust it by subsidizing.

It could be worked that way; there are several ways. I am rather suggesting that to the mind of man that has evolved the atomic theory, a matter of that sort should not pass his wit. It is worth investigation, is it not?—Yes, undoubtedly, it is vital to all of us.

Lower down on page 5 you give a very valuable illustration of how the banking system operates. You start off with notes and coin on one side, and assets on the other side. Your second stage then assumed the transactions below took place and the changes in the balance-sheets. "(*a*) Bank accounts opened," you do not say how. I suggest the interpolation of "by advance of £50,000"?—No. All that happened there was that the people who were holding £50,000 of notes and coin simply

came along and said they wanted to put it on deposit. The bank took the notes and gave them credit in its books.

You start off from the beginning, but you do not show any issue of £50,000 ?—For the purchase of gold the bank handed out £100,000. That was probably what, in the normal course of things, happened when the first bank came over here to New Zealand from Australia. The man who was sent over to start operations brought a stock of gold and silver coin and notes and he went out to the goldfields and simply bought gold. Having handed out £100,000 of notes, I assumed that £50,000, or the holders of that amount, came and said "Here are your notes, give us a credit for them."

There is a gap. You agree that there are two methods by means of which that £50,000 could come into existence: one by purchase of gold by the bank, and the other by creation by advances ?—That is shown in (*b*). (*b*) is where £100,000 advances are granted. In that case deposits and notes have jumped by the £100,000.

The particular point that seems still controversial in some quarters will not be settled by that illustration—that is the unfortunate part ?—What point is that ?

The suggestion will be inferred from this that the banks have lent the deposit ?—No. That illustration is intended to show that the additional deposits and notes have resulted from making the advances, but the depositors in one sense have created the deposit. The depositors handed over value for the bank deposits.

You notice that your description of the monetary system differs very materially from that given to us by the banks ?—I do not think so; only in minor aspects.

I think that yours is much more accurate ?—It may be due to the fact that I set out to show the operations; the banks were only dealing with them as they exist, and they are so complicated that you cannot see these effects.

They could not see the wood for the trees ? I think there is something in that. Page 8, second paragraph, "It will thus be seen that the volume of purchasing-power is directly affected by our external trade and internally is dependent upon the volume of advances granted by the banks and used by customers": There is, of course, the converse—that is, the calling-in of overdrafts ?—That cancels out deposits.

Yes. You know there has been a very considerable calling-in of overdrafts ?—No. You are referring to the fact now that the volume of overdrafts has gone down in the last year or two.

I was not referring to the banks' statistics at all, but to things I hear ?—In individual cases, yes, undoubtedly there has been; but, as far as internal action is concerned, taking the advances *in toto*, I do not think the drop in the bank advances is due to that fact at all, but to the reaction from external trade.

One of the greatest difficulties that I have found in understanding the banking figures is that both for advances and deposits the Government business is excluded ?—It is shown separately, that is all.

I have not been able to get hold of it ?—The bank figures show the Government deposits in the statutory returns.

What one wants really at the same moment is the Government advances on bonds and Treasury bills, the Governmant deposits, and then the private deposits and advances, and it is very difficult to get that over the same period ?—That is shown in the statutory quarterly returns as far as the banks are concerned.

I have not been able to find it. Maybe I have not looked in the right quarters, but I have searched very hard, and I have even gone so far as to ask a very prominent officer of the banks, and he was not very communicative. Perhaps he does not know. But perhaps later on I could have a chat with you, and you might be able to indicate where I can get the information. A little further on, on the same page. "Stock and Station agents. It is part of their business to make regular advances to farmers." Where do they get the money from ?—Partly from bank overdraft and to some extent from deposits.

The money really originates from the banks. They are in a secondary capacity are they not ?—Yes.

They are in the same position as a pawnbroker or any other kind of money-lender. They have not the power to create ?—No.

The next paragraph is the one I drew attention to as controversial. "Many of the representations made are based on an assumption that insufficient monetary purchasing-power is available." There is a fairly important school of thought in the world that holds a contrary view to that. McKenna, I have just mentioned, is one ?—But that extract of McKenna's you read was chiefly concerned with the question of having sufficient purchasing-power.

We are faced with this situation throughout the world: We have a growing destitution and growing poverty: people in the direct need of the bare necessities of life in many cases, and we have at the same time such a plenitude of those things that they require that fairly expensive methods of destruction are being adopted, all suggesting, in the absence of any evidence to the contrary, that it is due to a lack of purchasing-power, lack of money. Is there any way of getting away from that ?—Yes. Take a man in England. He may be destitute and want our butter and not have the purchasing-power to buy it. It is true in that sense.

In picturing it myself I have pointed out that there are some thirty to forty millions of registered unemployed in Western civilization. They are destitute, and behind them is a great mountain of stuff that they require, stuff that they themselves in some cases have helped to produce. Now, the curious thing is that they cannot purchase that great mountain of surplus goods until they get their jobs back, and, getting their jobs back, involves making more of those same goods ?—Or making some other goods.

Well, what goods are we short of ?—We are short of a great many things. There are cases in the world to-day, where we have relatively an overproduction in certain lines, particularly in foodstuffs and things like that.

That is true. That is obvious and patent to all of us. Primary products generally. But at the same time we know, by looking further, that the tremendous increase that has taken place in the

production of primary products is not a circumstance to the frightening increase that has taken place in manufactured goods. The mass production factories of the United States can supply all the needs of the world ?—They can supply, but they are not doing so at the moment.

They are only working two days a week ?—Yes. The capacity is there, but the whole thing has got many sides to it, and it seems to me fundamentally that, all said and done, we all live by taking in one another's washing, but it is a question of organization and balance in the factors.

Has that not always been the case ?—Yes. But we have never had the whole system disorganized or broken down to the extent it is now.

What has happened ? Is it sunspots as somebody suggested ? There must be some explanation ?—As to the cause of the depression, innumerable causes have been put forward. Scores and scores of factors come into the picture. They react on one another, but it seems to me that that is the basic factor, because theoretically, as we all know, trade both external and internal is only, after all, an exchange of goods and services. If we had a self-contained community, small or large, in which all the required goods were being produced in their right balance—that is to say, that if you had one man producing sufficient bread for the whole community and another man sufficient meat and so on, theoretically every man would be fully employed and there would be no surplus and no unemployment.

If that were done, with the latest applications of the discoveries of science and the harnessing of power, there would not be a job for the great majority of people ?—If you had perfect co-ordination and balance you could have either one of two things, either a higher standard of living or much more leisure.

I agree. Human requirements are dynamic. They are not static. Production is terrifically dynamic. In fact, it looks as though the powers of production have become much greater than our powers of absorption ?—I do not think that is correct. The thing still falls back on the question of preserving the balance in the different productive capacities. As long as you could keep perfect balance in your productive side of the picture, which involves many things, including tariffs and quotas and all that type of thing and not only the potential capacity of factories in different countries—if you could keep all that, the consumption would flow evenly and automatically.

The net result is that we are having leisure forced on us ?—Yes. A section of the community is.

We call it unemployment. Leisure, you would agree with me, is the greatest boon humanity can crave for ?—Yes.

So that there is no unemployment problem and it is wrong to call it a problem if that is the case ?—I do not agree with that, but it would be true if the leisure were properly distributed.

Mr. Langstone.] Leisure with income ?—That is so.

Captain Rushworth.] If we regard unemployment as a problem, within the framework of the existing monetary system, there is only one solution, and that is to take our scientists and engineers and put them in prison. Is that right ?—No.

I suggest that we should not regard it from that angle at all. At the bottom of page 9 you draw attention to the deposits in 1924. How do the deposits at that date compare with the deposits at the present time ?—You mean total deposits ?

Yes ?—It is illustrated on the graph. You will say that they are somewhere about £56,000,000 or £57,000,000, and now of course they have risen to somewhere about £64,000,000. That includes the notes as well.

You have got total deposits and free deposits, but you have not got fixed deposits ?—It is the difference between the two. The top line shows the total deposits and notes, and the other the free deposits and notes. The difference between the two is the volume of fixed deposits.

The paragraph that begins "Furthermore" half-way down page 10: "The analysis of these figures disproves, or at any rate discounts, the popular idea that there are ample goods in the Dominion to meet requirements and all that is lacking is the money with which to acquire them." That leaves out the potential production does it not ?—That is not only a statement of fact. It implies this, that if there were only sufficient goods to meet current needs of the community in 1928, and that supply is now reduced by 25 per cent., then there is an actual shortage on the goods side—that is, goods actually produced. I am not referring there to potential capacity.

But we have 70,000-odd registered unemployed, including men of almost every trade and profession ?—But that is covered here in the same paragraph, where reference is made to the fact that for various reasons our productive capacity has not been fully utilized.

That mitigates the effect of the previous sentence, but the trouble is that people reading this hurriedly may only get the one side of it without the qualification. I draw attention to it because that will correct it perhaps. Then the last sentence in the same paragraph: "But whatever action is necessary to do this lies outside the monetary system, for the additional production will automatically draw forth the additional purchasing-power required to buy those goods." Is that true ?—Broadly, I think it is.

Can it possibly operate that way ?—Yes.

Here is a point that may be new: It is suggested that no industry distributes as much in purchasing-power as is included in the cost of the goods that it produces ?—I think that is a fallacy.

May I give you an illustration to indicate what I have in mind. Before constructing any capital works we must of necessity first save up food, clothing, and shelter and suchlike things for the men engaged on that work. In order to distribute that food, clothing, and shelter we have to use money. We borrow money for the purpose. We distribute the money as wages. The wages are used to purchase the food, clothing, and shelter that we have saved up, and the money is paid back to the issuing authority, and at the end the whole thing is complete. The factory or other capital works are completed, the goods that have been saved up have been consumed, and the factory is free of debt. Now, we start the illustration, and to make it as simple as possible I assume that we get our raw materials

for nothing. We make no profit. We pay no rates and taxes. We deposit the title deeds of the factory with the bank as collateral security for an overdraft of, say, £1,000. Now, we start operating and we distribute the whole of that £1,000 as wages during the financial period of one year. At the end of the year, what is the minimum charge, The minimum financial cost of the product of that bank ?—What are you hitting at, bank interest ?

No. I will exclude interest altogether. Let me put it this way : The minimum charge must include the total wages that are paid out, £1,000, but the bank says this is a wasting asset, they insist upon the business being carried on on business principles, and they insist on a depreciation fund of 10 per cent.—that is to say, that £100 has to be paid back to the bank, so that the minimum charge that can be made is £1,100 and you have only distributed £1,000 ?—But the depreciation itself gets distributed. Depreciation is a fact which is going on all the time, and factories are wearing out and being replaced all the time, and, except in an odd case where you have a sudden increase in capital expenditure so that the amount being set aside for depreciation is for the time being less than is being spent in replacement of assets, the thing balances all right.

I am not saying it is wrong, but that is the procedure. If that is true, and I cannot see any fallacy in it myself (I have been thinking over it for some four years)—if that is true, then it is also true that that kind of thing applies to every industry, and no industry is apparently able to purchase the whole of its own output, that it only succeeds in doing so by a variety of circumstances which are more or less incidental. For instance, the flotation of a loan by a Government and the construction of a road or a railway or a bridge. That distributes purchasing-power and the purchasing-power is able to purchase the surplus product of that factory. In turn that loan-money has to be recovered *in toto* by means of taxation to form a sinking fund, and so on. The suggestion is that industries and nations can only carry on under the present system by getting deeper and deeper into debt ?—There has been a considerable increase in debts, but I do not think it is a case of cause and effect at all. Fundamentally, it is not necessary.

At the present time there has been a tapering-off of national debts in particular, and private debts for that matter too, and the result of that cessation, or, as McKenna says, " the failure to inject increasingly large sums of money into the community, has caused the whole of our fabric to start falling in like a house of cards." That is the theory ?—In regard to this point that you mention here, I think the analysis of that made in that book of Cole's on " Money " is sound.

There was a most interesting controversy between Cole and Douglas on this very subject. It ran for some months in *Time and Tide* and one or two other London papers. I followed that controversy with a great deal of interest, and Cole shut up in the end ?—I went through that analysis very carefully and it seeemed to me to be quite sound.

I draw attention to it purely because you take it as a particular question here, that the additional production does automatically follow. I suggest that that cannot be regarded as certain by any means. It is worthy of further investigation anyhow ?—That is a matter of opinion. I am satisfied on the point, and hence the statement.

We have had such a painful experience here. Mr. Massey can tell you that our production of butter has gone up tremendously, but it has not called forth the extra purchasing-power, has it ?—No. But that is due to an external cause.

It is not automatic then ?—I am speaking there of local production.

But does it do it in local production. I think it is open to question even there. You have goods here being produced in the country that cannot be sold ?—You are referring to the case where, to meet the market, we have to sell goods below cost. That is practically what the farmers are being compelled to do at the moment in many cases. They are being compelled to sell butter below cost.

That is not because the people have all the butter they require. It is because they cannot afford to buy more ?—And the reason they cannot afford to buy more is due to a great many causes.

Page 12, the fourth paragraph : " We will have a New Zealand board of directors exercising a deliberate and conscious control of our monetary system in the best interests of the Dominion as a whole." The fact that that control is on sterling balances and sterling policy is controlled by the Bank of England, is that quite justified ?—I do not get the point of your question.

We decided some little time ago that the monetary policy of this country is tied up with—linked—to sterling policy, and that sterling policy is controlled by the Bank of England ?—Yes ; in its reactions to prices.

Under those circumstances I suggest that it is not clear that it is quite justifiable to insert that sentence ?—The point of that statement is this : That up till now we have not had any deliberate or conscious policy in our monetary affairs at all. In future we are going to have it, and the Board has been so constituted—as far as it can be—that we have removed all other incentives from them as far as possible in order to leave them to base their decisions solely on the welfare of the country in general.

But the proof of the pudding will be in the eating ?—Yes ; the human element is there, of course.

A bit more than the human element. You have the legal restrictions that the Reserve Bank must operate on ?—Yes. Though at the present moment it is quite open. They are not tied at the present time at all.

That is true, of course, and you have the further point that that Act can be amended or repealed. I call attention to the fact that I think those words are not quite justified. The same thing applies to the last paragraph of the whole thing. That is really, as I read it, a condemnation of the existing banking system. It is a negative condemnation, in that this is reckoned to be an improvement. It means that the existing banking system is not flexible enough—that it did not provide, on a sound basis, ample credit resources ?—Yes and no. That is true in this aspect, that while they had the

power to do it, as they did not have any deliberate or long-range policy at all, the banks did not always make the best use of their powers. That is the sense in which I mean it.

Could it be put this way: That the trading banks are left to pursue their ordinary proper bank functions ?—Yes.

But that some power has been removed from them that will now be operated by the Reserve Bank ?—Yes.

And may I suggest that it is a little misleading to describe that institution—the Reserve Bank—as a bank. Is it not rather the modern equivalent of the Royal Mint ?—No. I do not think so. The work of a mint is purely putting a State certificate on metal is it not ?

Is it not putting the sole fount of the manufacture and issue of coin with the Reserve Bank ?—No it does not directly bring the coin into use, it only regulates the other banks in doing so. The increase and decrease of credit will still be carried out by the commercial banks in making advances as they do now; except this, that there has been a method of control over their operations devised whereby the Reserve Bank will exercise an overriding power to make them pursue a given line of policy.

But the words are in this Act somewhere "manufacture and issue." Do you remember them ?—Of bank-notes ?

Yes ?—Yes.

It is section 23, subsection (3) (*h*). I will read it: The form, denomination, design, and material of bank-notes, and also their manufacture, custody, issue, redemption, retirement, and cancellation ?—That is true.

If we applied that term to coins that would be in effect what the Royal Mint does ?—Yes. But the Reserve Bank does a lot more than that. The point is, that those bank-notes, as pointed out in this article, are purely subsidiary to the credit structure.

The Reserve Bank does do more than that, it keeps the Bank accounts ?—The Reserve Bank can do this, if they think an expansion of credit is desirable, they have various means of bringing it about.

They can force people to borrow ?—No, but they can tempt them.

Meaning that the present banks do not tempt the people to borrow ?—No, not to the extent that they might. The whole thing comes back to banking policy. It might be pointed out that our commercial banks are primarily profit-earning institutions, and they are after profits in business. When times are good they may fall over one another in their competition for business, and thus tend to carry things too far. When times are bad and they are all trying to avoid losses they will probably tend to go too far in the other direction from the point of view of being too sudden and drastic in restricting credit. Now our Reserve Bank, being freed from pressure in chasing profits, should avoid these pitfalls.

Is the Reserve Bank free from that ?—Yes. It has no interest in profits at all. That is the whole object underlying the provision whereby the State takes all the profits apart from the fixed dividend on the share capital.

Why was it considered necessary in these circumstances to have private shareholders at all ?—That is one of the means devised as an additional measure of stability, with the idea of keeping the controlling factor of monetary policy to some extent outside burning political questions of the day. It is only a means of giving an extra broad basis to the Reserve Bank.

On page 2 of your statement you say, "but it is nevertheless true that to a large extent the initiative rests with the trading community" as to whether they are going to have credit or not. Is that correct ?—Yes.

So that the banks do not control the situation ?—No. Their action is largely passive.

They are not a positive element in bringing prosperity necessarily ?—No. They can tempt people, but they cannot force them into taking action.

Mr. Langstone.] What is the position when there is a sudden calling-in of overdrafts like there was in 1921 ?—That comes back to the point that I made earlier, their power of positive action is greater in stopping a boom than in starting a forward movement following a depression.

If it is nevertheless true that to a large extent the initiative rests with the trading community, if the banks call in the overdrafts how can a community come into it. It has been initiated by the banks ?—That is restriction. I am speaking here, of course, of moving the other way.

Dr. Sutch.] On page 5 you say, "The export of gold for exchange purposes has been absolutely negligible." After the Exchange Pool was there not £1,000,000 went out to assist sterling balances ?—Yes.

That definitely was to help the sterling funds overseas ?—Yes.

On page 6, at the bottom, you have an item "sterling" in your account there, and you have a Profit and Loss Account of £5,000. Are you not adding New Zealand currency and sterling together ?—Yes. That is so. Normally the basis upon which sterling should be included depends upon the relative position of the two currencies.

It would be included in New Zealand currency, I suppose ?—Yes, if we had a different money of account than sterling. In other words, if you assume that our parity of exchange is no longer pound for pound.

Is not the assumption that the exchange was £105 ?—Yes. That is true, but still that is presumably only a fluctuation.

I was inferring that it should be brought into the balance-sheet at its New Zealand value at the moment ?—That would not be sound. Supposing the exchange was fluctuating widely and went to 50 per cent., you would then have a large increase in your sterling assets, whereas later on you might have to sell that sterling for 10 per cent. or for par.

On page 8 you have "The firms concerned all have accounts with the banks, and if John Brown transfers £1,000 of his deposit at the bank to a stock and station agent the net effect on the aggregate

figures of the bank is nil." Are there not some of these stock and station agents who do not have accounts with the banks ?—No. I should not think so. The banking machinery is such a convenient facility that I could not imagine such a firm carrying on without it.

Mr. Fussell suggested there were some who worked outside the system ?—No, only in relation to exchange business.

If there is a fall in the British price-level and our imports fall in value as much as our exports do, that is not an advantage to New Zealand, is it ? If we have fixed external debt payments what we would want would be higher prices in England ?—Yes. If the fall in the import prices was equal to the fall in export prices so far we would be no better or no worse off, except in so far as we would suffer from our fixed charges.

If both sets of prices fall equally we are still worse off ?—Yes.

Why have you fixed the exchange-rate with a swing of £1 10s. per cent. on either side of what it is stabilized at ?—It is only a theoretical point worked on the approximate cost of shipping the gold from New Zealand.

But we would not be on the gold standard ?—But we may use the same theoretical gold points as though we were.

But you do not need to ?—We could allow more latitude if desirable and allow a swing of say 5 per cent., but the wider it is fixed the less definite is your basis.

Do you think the advances that have been given to the Government on the Banks Indemnity Act have tightened credit to the rest of the community ?—No. Not the actual advances to the Government, but what has tightened up the position is really the rate itself. The point is this : That we give the banks Treasury bills and they give us the sterling which they do not want on the present basis of operations, but it does not tighten credit up. If they had any use for the sterling as a basis for credit here they would not give it to us.

Do you think an additional amount of deposits with the banks enabled them to give more sterling ?—Additional deposits with the banks normally come from two sources. One is from the sale of exports abroad, and the other from the issue of advances in the country.

But with a single bank, if it sees its deposits going up will it tend to make advances ?—Yes.

So that it bases its advances to some extent on the amount of its deposits ?—Yes.

Captain Rushworth.] But it does not lend its deposits ?—Actually when the margin is widening it is an indication that London funds are piling up and to that extent the banks can afford to expand credit in the country.

Is it not an indication that more money is being drawn out of industry ?—No.

Dr. Sutch.] Does the sterling-exchange standard mean that we have no control over our internal monetary situation ?—No.

So we can control our monetary system here despite the fact that we have sterling balances ?—Yes.

I was wondering whether sterling balances are determined on sterling policy. At present sterling policy is inflationary—the price of butter has not been helped, the price of wool has gone up quite apart from the sterling policy. Here we have our sterling balances increased in one direction and decreased in another, but both those things have happened quite apart from sterling policy. We are not controlled as much by the Bank of England policy as one might think ?—No, we are not ; particularly in the short-run, but in the long-run the level of prices is the governing factor and in the long-run its banking policy must affect prices.

It is the demand for our products in various parts of the world rather than sterling policy ?—Yes ; that is implied. The monetary policy in Great Britain is not the sole determinate. The action taken in other countries must vitally affect the British situation, because, no matter how they tried in Britain to work to a given price-level it could be seriously upset by the action taken in other countries.

So that, even if the State wholly controlled the Bank of England, it would not necessarily mean that we were going to be better off in New Zealand ?—No ; it could work out otherwise.

Does the British Government have a controlling influence in the Bank of England ?—Legally, no.

But in fact ?—I should say that they would be a powerful influence.

So that the decisions of the Bank of England are really the decisions of the British Government ?—Some people put it the other way round, and say that the decisions of the Government are really the decisions of the Bank of England. I should say there was very close co-operation between the two, and at one time it might be the opinion of the one and at another time the opinion of the other.

The Chairman.] There have been times when the British Government have been able to compel the Bank of England to do things for them ?—Yes, and in a time of crisis the opinion of the Government would go.

Dr. Sutch.] Do you think that a stable price-level is necessarily a good thing ?—No. Not altogether.

In the United States we had a Federal Reserve policy which accentuated the present depression very much. They kept prices stable instead of allowing them to fall. The cost of production was falling and there was a profit inflation instead of falling prices ?—The price-level should fall with the fall in costs, so that the consumer may get the benefit.

A stable price-level is not necessarily always to be aimed at ?—No.

Do you think that expansion of the currency here is just as good in operation as borrowing abroad and expanding that way ?—That is a difficult question to answer. It depends on the circumstances ruling at the time as to whether borrowing abroad is advisable or not.

Borrowing abroad when expanding the currency here. If we had a fixed policy we could either borrow on Treasury bills or borrow abroad. Do you think they are exactly the same process ?—No.

What is the difference ?—When you borrow abroad you borrow goods—that is to say, you bring in an additional volume of goods and services and apply them to the purpose for which you are raising the loan.

When you are borrowing abroad you are borrowing wealth, when you are issuing Treasury bills here you are not necessarily adding to the sum total wealth against which those Treasury bills will be spent ?—No.

Mr. Langstone.] What is the difference ? Suppose you fetch in extra wealth and never use any more of your New Zealand wealth and by note-issue or raising a loan utilize the wealth already in existence it is purely a matter of bringing goods into consumption is it not ?—Yes, but the question as to how far you can deflect the purchase of goods from current consumption or rather the labour of your people into capital works depends on how much you can afford to save.

Dr. Sutch.] Do you think it is advisable, say, to control the importing situation so that imports would have to be rationed over a price fixed ?—Generally, no.

Mr. Langstone.] I suppose that if we want to keep assets and securities stable we must have a stable price ?—More or less, yes.

And yet you do not believe in a stable price ?—But that is not to say that I believe in wide swings in price.

In reply to Dr. Sutch when he asked if you were in favour of a stabilized price you said it was not desirable ?—Not to this extent : That I say the price-level ought to fall with the fall in the cost of production in order that the consumers might get the benefit of the technical improvement.

If we want to have some standard basis of security it seems to me that the price factor is the central determining factor of all of your assets and securities, and you cannot have stability of securities and assets unless you fix your price factor ?—Yes, but you can have a great deal of fluctuation in individual prices which will not disturb your general price-level.

Hon. Mr. Downie Stewart.] I understood that you thought it was desirable, but very difficult ?—Yes.

Mr. Langstone.] In the beginning of your paper you point out that the gold standard does not apply, and you are evidently trying to set out that in an endeavour to keep the external exchange stable ?—No, it was not. The origin of the whole thing is that it is evident from the existing bank laws, apart from the Reserve Bank legislation altogether, that it was the original intention that we should work on a stock of gold in the country. It did not work out that way.

Inherently that is false. It is false for two reasons, if you take gold out of the country to settle exchange you constrict the base of your own currency ?—Yes.

You put up the bank-rate and also there is a fall in prices ?—Yes.

You have the bank-rate rising and the prices falling ?—Yes.

So you get a double disadvantage at the one time ?—Yes, that is inherent in the whole operation.

That assumes, then, that the question of the gold standard is a fallacy ?—No. The gold standard works to that extent automatically. One of the reasons why the gold standard did not work in the post-war time was that it was not allowed to have those effects.

You point out also that in 1914 we had £1,700,000 in notes, but on the gold held, provided there was sufficient Government securities purchased, the notes could have been £16,000,000 ?—Yes.

So really the amount of coin in circulation depends upon the action of the Government ?—No ; because the point you come back to is that the quantity of notes that go into circulation depend upon the habits of the community in relation to the volume of credit.

There seems to be some relationship between the bill money of the nation and the credit money ?—As the system operates in Great Britain that is the position. The controlling factor is the cash resources and they have the credit expanded almost to the limit. Our system really works the other way round.

Do we not in this country—if there are more advances is there not therefore a greater demand for cash ?—Yes.

And even if it is given to the Government and other people and there is an expansion in business there is a bigger payment in wages ?—But then the ratio on which cash goes out depends on the extent payments are made by cash and cheque respectively.

Our habits have not changed entirely. In 1921 there were about £8,000,000 of notes out. To-day with our greater increase in wealth, you have about £6,000,000 of notes out. We have greater wealth to-day, there are better roads and more factories, and everything ?—But those are not factors that directly bear on the quantity of money at all. The note-circulation and the circulation of volume of credit are dependent upon the current supply of goods that are up for sale. Factories and lands generally are not in the market for sale.

People are wanting things, but very few working-people have banking accounts, or for some reason or other they are not able to get them ?—In other words they have not got work, which in the majority of cases means they have not a job.

The basis of income in New Zealand to the working-people is work ?—Yes. It is the basis of income of every one, more or less.

But through something remiss in our monetary system these people are denied the right to work not because they are not willing to work, but because they cannot get work ?—But I do not think you can lay all that at the door of the monetary system. There are a great many other factors such as the question of disorganization.

How is the disorganization brought about ?—As far as New Zealand is concerned it is through the violent fall in sterling prices.

Why did prices fall ?—You mean in Britain ?

Yes ?—Through the interaction of a great many causes.

We have it from Dr. Walter Leaf in his little book on banking that the Government definitely decided on a policy of deflation, and they paid off securities of £500,000,000 ?—No, they funded their Treasury bills.

No, they did not fund their Treasury bills. They collected taxation and they redeemed the debt to that amount ?—What they did in effect was they collected money from the taxpayers in general, and handed it over to some of the taxpayers who were bondholders.

When they took that £500,000,000 from the taxpayers and paid it back to the bank it destroyed that amount of credit. Therefore while you had the same amount of money required you had £500,000,000 less ?—You imply that the Government should never pay off debt ?

I say it is not advisable for them to pay off debt. In fact, I say the Government should never get into debt. Again, on page 46 of his treatise on banking he says,—

> On the outbreak of the war a new fiduciary currency was established by the issue of notes through a department of the Treasury. The amount and manner of the issue was left to the absolute discretion of the Treasury. This was essentially a war loan free of interest, for an unlimited period, and as such was a highly profitable expedient from the point of view of the Government.

That was free money ?—That boils down to this, that it was practically a forced loan on the part of the community.

Is it not a forced loan if it is issued from the banks—it is a forced loan over the community. Only there is this : That the Government did not have to pay that back ?—Actually they did issue Government securities to the Note Redemption Fund, and those securities are still outstanding.

But they were non-interest bearing ?—No.

The first lot of the John Bradburys had no interest attached to them ?—No, but the Government established a Note Redemption Fund, and every note issued was covered by Government securities. The Redemption Fund, I think, was established with the establishment of the issue.

But that would only be a matter of book-keeping anyhow ?—Yes.

You could not owe money to yourself ?—No.

And the State could not owe money to itself ?—Broadly, no.

The fundamental principle behind the issue of money is no different between what the banks are doing to-day and the Government of Great Britain did in 1914 ?—To what banks are you referring now.

If the Government wants a loan to-day the banks accept Treasury bills. They advance against those Treasury bills by way of discount ?—They buy securities.

With what ?—They create a deposit.

But that creates its own deposit. When it is circulated in the community it goes back into the bank again. So the banks have not used anything belonging to themselves ?—No ; but a liability to other depositors is created.

They get 5 per cent for using the people's credit. Their share for doing that job would be £50,000 a year. If the State did that for themselves they would do it without paying £50,000. They would not be owing a debt, whereas now they pay this £50,000 every year and still owe the debt ?—Yes, that is true up to a point too ; but they can pay the debt off.

The State cannot pay a debt off to themselves ?—They can to the bank, though.

Yes, if they issue it through the bank, but if they issue it through the Treasury the Government will not be recalling that much of your issue. Assuming you had a State issue of notes and their purpose being effected you wanted to bring the volume of money back to what it was, you would have to recall your issue ? You come to Captain Rushworth's point immediately you do that. If £1,000,000 is necessary to do a certain job, when it is done the amount for all the labour and industry to do the job is demobilized and that £1,000,000 is taken out of circulation. You have still got the counterpart of a hundred men ?—You contend then that there should be no reverse gear at all.

If a Government collects taxation, which is an evidence or a contribution by the citizens to the Government itself, if the Government are spending that amount, the citizens get the benefit ?—Taxation is an entirely different matter to the question of issuing additional currency.

But the Government goes to get financial accommodation because they are short of income—that is, the proceeds of taxation are not sufficient, otherwise they would not discount Treasury bills ?—No. But the point on which I disagree with you is that deficit financing on Treasury bills should be a temporary phase, and the position should later be made good. If there is to be no reverse gear you are going to steadily, over a period, depreciate the value of money.

If we take the year's trade about 1921 onward where we gave back, I think, £4,000,000 per annum (some years much greater) in remission of taxation—the income-tax, you will remember, was reduced from 8s. 9d. to 4s. 6d.—at that same period when we were giving away our revenue, we were borrowing millions abroad to make up for it ?—No, not to make up for it. The two things might still be quite consistent. The fact that you are reducing taxation means that you are leaving a larger share of the current production available to residents of the country in their private capacity. That might still be consistent with the fact that you have insufficient to save enough to carry out the loan project.

We will say you gave back in taxation £4,000,000 and borrowed £6,000,000 ; you would possibly have needed £2,000,000 ?—The point is this, when you are remitting taxation and as it were cutting down the surplus, you are giving to the community. It is only a question whether the community gets better service when it is carried out by the State instead of by themselves. Otherwise you might say you could collect the whole income of the community and do everything for them.

There is no further obligation attached to the money they receive from taxation ?—Because they are making demands on people to hand over a share of their income in payment for services they have received from the State.

But if you borrow money, there is a continuous liability attached to it. That is the difference between the two forms, money raised purely from revenue and money raised from loans ?—I grant that. There is this vital difference that the limit of borrowing is the limit of what people can afford to set aside out of their current consumption.

You remember the Auditor-General pointing out a case where in 1879 we raised a loan of so-much. We transferred it into stock at 4 per cent. giving them a big discount. Then gradually it went through another process and latterly we had to reconvert it at a higher rate of interest. All the work done fifty years ago has gone out of existence, but the debt charge remains and is increased by 28 per cent.?—I do not know whether the work has gone out of existence or not; I assume it was used for railway construction or similar work.

Yes, for railways and for bridges washed away. Therefore you have got no asset, but a liability. Wherever you had any money through revenue purposes, even if you have got no asset, you have still got no liability ?—That comes down to this: whether you will make the community save the cost of that asset in one bite or spread it over a period.

The question of an internal price-level: We will assume that we gave a farmer £3,000 for a quantity of butter in New Zealand currency. We took that Home and it was sold for £1,000. £1,000 worth of goods was brought into New Zealand, and by way of bringing them up to an internal price-level we added an exchange-rate or a Customs duty or something of the sort. There was only £1,000 worth of goods, and we had £2,000 making the balance of £3,000 we had given for them. Would it affect your exchange-rate ?—Yes, that would be the exchange-rate.

It still leaves you £1,000 in England to buy £1,000 worth of goods, but still leaves you £3,000 in New Zealand. Do you not see that that is totally different from what you are doing to-day ? The fellow to-day is getting £1,000 for the goods, but owing to all the internal charges, no external charges, they are at least £2,000 in New Zealand. He has only got £1,000 worth of income to buy them with ?—Apart from the exchange, the cost of imports is put up by taxation, but then that only boils down to this: That that farmer, or whoever it is, having received the £3,000, has to hand a share of it over to the State who in turn spends it for him.

The reason they gave him the £2,000 bonus in the first place was to monetize his wealth to meet monetary commitments ?—But his taxation is part of his commitments.

Taxation is only difficult when you have not an income. He has still the same taxation on £3,000 as he had on £1,000 ?—Why ?

For the reason that he has still the same rates and insurances to pay, and the same cost of living ?—You mean he has got fixed charges. That is taxation on him. Some of his taxes are fixed, his land-tax and rates are fixed. His income-tax is not, and to some extent his Customs tax is not.

It is not so much value; it is a question of monetization of it, or the demonetization of it. In New Zealand the people are short of income, not of wealth ?—Our income is a question of cost on the one side and returns on the other.

Our income is determined by real things, goods and services, but we leave it to some other country to fix what that monetization point will be ?—We cannot do otherwise.

Why can we not ? Why did the Government inaugurate an exchange-rate ?—To increase the return to the primary producers.

There was no need to have kept it to 25 per cent.?—The higher it went up, the greater would be the difficulty of maintaining it.

The difficulty in maintaining the exchange-rate was this: That they stopped the price from falling as low as it would have fallen, but they never put the extra money in to sustain that price. If they had put 25 per cent. more currency into circulation, we would not have felt the exchange in this country at all ?—By that you mean that the rate was fixed without relation to our internal conditions to the extent that the rate was artificial ?

I say the whole thing is artificial ?—What you were advocating was an extension of the same thing.

With this fundamental difference: That we give the farmer the income first; when the charges come afterwards he is in a position to pay them; he is solvent ?—In other words, you say that the exchange-rate should have been left to look after itself and the additional money paid out in New Zealand.

I say that has a two-fold effect—one, you give the farmer here the price for his product, the exchange overseas belong to the Government. Seeing that they have paid for them here, then they know the quantity of them overseas. It is quite a simple thing, then, for the Government to determine what quantity of goods is to come into New Zealand ?—Whatever you add on the one side you have to add on the other, and also have regard to whether the community in their present state of incomes can buy those goods.

The void is with the bank to-day. The banks say they cannot put money into the pockets of people unless they have assets and securities, but the Government could, if it wished ?—The Government could ? How ?

By starting public works, pensions, superannuation, &c. ?—Or increasing salaries ?

Yes. It seems to me desirable that if they fix an internal price-level for goods they would have to fix an internal wage-level ?—That is implied, you would have to control it right through.

Replies to Questionnaire submitted to the Associated Banks, 7th March, 1934.

Question 1. What determines the rate of interest charged and paid by the banks ?

Answer: Broadly speaking, it may be said that the law of supply and demand determines interest-rates charged and paid by the banks.

A considerable portion of a bank's profit-earning capacity rests on the margin between their deposit and their overdraft and discount rates. The necessity for maintaining an adequate margin has, therefore, a bearing on advance and deposit rates.

There is no fixed figure which can be quoted as the actual margin, which varies as between deposits of different terms, and as between overdrafts yielding different rates of interest; it may be mentioned however, that the margin between the minimum overdraft rate and the twenty-four months' fixed-deposit rate is at present 2 per cent., though the margin is only 1½ per cent. and even ½ per cent. in respect of may fixed deposits still current. From the margin between the deposit and overdraft rates the banks have to make provision for a considerable portion of organization and running-expenses, reserves, depreciation, bad debts, and income-taxation; after making these provisions the margin left for net profit is extremely narrow.

For taxation purposes it is arbitrarily assumed by the Taxation Department that the income earned by each bank is constantly 30s. on each £100 of the total average assets and liabilities of the bank for the four quarters of the year, less bad debts actually written off and the income on tax-free securities.

On the fictitious income computed on this arbitrary basis the banks are required to pay income-tax at the maximum rate.

No allowance is made for the fact that in lean years bank profits represent a much smaller proportion of total assets and liabilities than in good years.

The margin between overdraft and deposit rates is required to furnish income-taxation to the extent of 17s. 6d. for each £100 of overdrafts plus each £100 of deposits, and this fact, of course, must be taken into account when fixing the minimum overdraft rates.

The necessity of having a margin between overdraft and deposit rates indicates the fact that bank overdraft and discount rates depend to a large extent on the rates paid for fixed deposits. What then, it may be asked, determines the rates paid by the banks for fixed deposits? The answer is, that these rates depend on the interaction of supply and demand for deposits. It is clear that, to preserve what the banks consider a proper volume of deposits, it is necessary for them to offer rates which will enable them to compete effectively with the rates offered by the competitive institutions, such as Government Departments, including the Post Office Savings-bank and Public Trust Department, also many trading concerns. In this connection the following official statement by the chairman of the associated banks was published on 27th February, 1933:—

> Were overdraft rates to be reduced without adequate adjustments being made in the method of taxing bank incomes, the inevitable and inescapable result would be to curtail the banks' means of assisting their customers and the community in general. The banks are willing to provide additional relief to the present situation by way of further reduction in interest rates if, to enable them to do so, some reasonable and fair alterations are made in respect of their income taxation, and if the Government rates for deposits are suitably reduced.

Further reductions in deposit and advance rates were subsequently made as indicated in the reply to question 2.

Question 2. To what extent has interest on overdrafts and other advances been reduced, and what proportion of accounts has benefited?

Answer: During the past four years the minimum rates for overdrafts and discounts have been decreased as under: On 1st November, 1931—Reduced from 7 per cent. to 6½ per cent. On 1st September, 1932—Reduced from 6½ per cent. to 6 per cent. On 1st May, 1933—Reduced from 6 per cent. to 5 per cent. The present minimum rate is 5 per cent. All accounts have benefited.

During the same period fixed-deposit rates were reduced as under (reductions applied to fresh deposits of all terms from three months to twenty-four months, but only the twenty-four months' rates are quoted here to illustrate the degree of reduction): On 1st August, 1931—Reduced from 5 per cent. to 4½ per cent. On 1st June, 1932—Reduced from 4½ per cent. to 4 per cent. On 2nd December, 1932—Reduced from 4 per cent. to 3¼ per cent. On 11th July, 1933—Reduced from 3¼ per cent. to 3 per cent. The present rate for twenty-four months' deposits is 3 per cent.

It should be mentioned that these reductions apply only to deposits taken subsequently to the dates mentioned, and that the customers whose deposits were already current on those dates continued to receive the benefit of those higher rates until their deposits matured—for example, though the twenty-four months' rate was reduced from 4 per cent. to 3¼ per cent. on 2nd December, 1932, a considerable volume of fixed deposits are still receiving the 4 per cent. rate, and some even 4½ per cent., though the present rate quoted is only 3 per cent., so that, in view of the reductions in overdraft rates during the past few years, it is clear that a material proportion of the banks' overdraft deposit business has been unremunerative to the banks during that period. This can be illustrated by taking the case of fixed deposits receiving 4½ per cent. concurrently with the existence of the minimum overdraft rate of 5 per cent.

The margin between the two rates is 10s., which margin is obviously inadequate to provide the expenses in respect of such business—*i.e.*, 17s. 6d. income-taxation in respect of each £100 of such overdrafts plus each £100 of such fixed deposits and, in addition, a proportion of other overhead charges and trading expenses.

Question 3. To what extent are variations in interest-rates reflected in the number and volume of applications for advances?

Answer: It is a well-known economic fact that the *tendency* of higher rates is towards lessening the number and volume of applications for advances, and that the *tendency* of lower rates is to increase the number and volume of applications. However, the variations in the minimum rates during the past twelve years have not exceeded a range of 2 per cent., and with the exception of the recent reduction from 6 per cent. to 5 per cent., the alterations have been only in ½ per cent. steps.

Other economic factors affecting trading conditions, then, have also come into operation, and the comparative trends of overdraft and discount rates on the one hand, and the volume of advances on the other, can be seen from the following table :—

Minimum Rate for Advances.	Per Cent.	Advances (excluding Government).	£
June, 1920	6	June quarter, 1920 ..	34,790,000
January, 1921	6½	December quarter, 1920 ..	47,118,000
March, 1921	7	March quarter, 1921 ..	52,446,000
January, 1923	6½	March quarter, 1923 ..	42,522,000
May, 1927	7	June quarter, 1927 ..	50,753,000
July, 1928	6½	September quarter, 1928 ..	45,119,000
February, 1930	7	March quarter, 1930 ..	53,677,000
November, 1931	6½	December quarter, 1931 ..	51,017,000
September, 1932 ..	6	September quarter, 1932 ..	49,975,000
May, 1933	5	June quarter, 1933 ..	46,757,000

From this table it will be seen that sometimes, contrary to the economic *tendency*, the volume of overdrafts has increased after overdraft rates have been increased, and has decreased after overdraft rates had been decreased.

Question 4. What are the limiting factors at present time in respect to—

A. Further lowering of interest-rates?

B. Further advances for business?

C. Is there any unsatisfied demand for the latter?

D. Does the amount of advances depend on the amount of legal tender held by the banks?

Answer : A. The answer to the query as to the limiting factors in respect to further lowering of interest-rates is to a large extent contained in the answer to question 1 of the questionnaire ; it may be said briefly by way of recapitulation, however, that at the present time the limiting factors are :—

(*a*) The obstacles to reduction of fixed deposit rates—namely, outside competition, which hinders further appreciable reduction in the fixed deposit rates.

(*b*) The fact that there are still fixed deposits receiving interest at the rate of 4½ and 4 per cent., though the twenty-four months' rate now quoted is only 3 per cent.

B. The limiting factor in respect to further advances for business is as under :—

As a result of the heavy fall in overseas prices for our exports on which this country very largely depends, and the consequent impact of the depression on New Zealand, there are fewer avenues of profitable employment of money. The effect of this is—

(*a*) That those who possess liquid funds refrain from employing them :

(*b*) That those who could obtain advances, or who could increase their advances, refrain from doing so.

C. As to whether there is any unsatisfied demand for advances for business, it is a simple fact that there is no bank limitation. In fact, the banks are very willing to extend their advance business, and the reduction of total overdrafts is not in accordance with their own wishes. The factors a banker takes into consideration in granting such advances are those set out in the answer to question 9 ; to advance money on inadequate security or unsound propositions would have the inevitable effect of freezing bank resources and aggravating the existing conditions.

D. The query as to whether the amount of advances depends on the amount of legal tender held by the banks is not clear. Taking legal tender to mean legal tender notes, the amount of these *held* by the banks has no bearing whatever on the amount of advances.

If the question refers to legal tender in circulation, the answer is No.

If the question refers to gold coins held, the answer is also No.

Question 5. Has there been any appreciable change over a period of years in New Zealand in the cheque-using habits of the people? Would it be an advantage to encourage the general practice of using cheques in everyday transactions?

Answer : As in Britain and other English-speaking countries, the cheque-using habit is highly developed in New Zealand, and the proportion of cheque currency to note and token currency is in accordance with the convenience of the users. Statistics show that the ratio of cheque clearings to notes in circulation in 1932 was less than in 1928, which would be due not so much to the habits of the people as to the fact that cheques are more used for larger transactions and notes for lesser, and the decline in cheque clearings is merely a reflection of trading conditions. As to whether it would be an advantage to encourage the use of cheques in everyday transactions, it may be mentioned that cheques are already so used widely, and the Government stamp duty of 2d. per cheque, coupled with the convenience of legal tender for pocket and till money, would probably militate against a much more general use of cheques.

Question 6. Do stock and station agents come into active competition with trading banks?

Answer : To the extent that stock and station agents perform banking functions they may be said to be active competitors. This is involved by the very nature of stock and station agency business ; but, as against this, there are certain functions performed by stock and station agents which are

outside the scope of ordinary banking practice. To some extent some stock and station agents obtain financial accommodation from the banks, but they also get their funds from—

(1) Their own shareholders;
(2) By debenture stock;
(3) By deposits from customers.

There are examples in New Zealand of large stock firms which do not require financial accommodation from their bankers.

Question 7. What proportion of the exchange business of New Zealand is conducted by the trading banks—(a) in normal times; (b) at present?

Answer: These particulars are not available to us. Possibly 80 per cent. or more is done by the banks, but this is merely conjectural. Under present exchange conditions there is more inducement for importers to endeavour to deal outside the banks.

Question 8. In normal times what is the procedure and what are the determining factors in settling the exchange-rate?

Answer: Broadly speaking, the exchange-rates in normal times depend on the supply of and demand for London funds, and these exchange-rates may be said to represent the market price at which London funds are bought and sold.

If an unbalanced external trading position results in a shortage or overaccumulation of London funds, it is, of course, necessary to make adjustments to correct the position, because it is obvious that the perpetuation and aggravation of such a position would be to the detriment both of the banking organization and of the country in general. In the last analysis goods pay for goods, and the goods we import must be paid for by the goods we export. Government borrowing overseas would have the effect of relieving a shortage of London funds which might otherwise necessitate an increase in the exchange-rates. An unfavourable trading position might be coupled with conditions of demand for bank accommodation necessitating an increase in overdraft rates.

Subject to the above remarks, it may be said that in normal times an increase in the exchange-rates is an indication that the supply of London funds is less than the demand, and that a decrease in the exchange-rates is an indication that there has been an accumulation of London funds which cannot be disposed of at the current exchange-rate.

Question 9. What are the factors a banker takes into consideration in granting an overdraft?

Answer: These considerations are—

(*a*) The purpose for which the advance is required—*i.e.*, whether the money will be used in such a way as will enable the debtor to provide for interest and repayment, and so enable the bank to avoid becoming involved in frozen assets.

(*b*) The length of time for which the advance is required, it being borne in mind that bank advances are normally repayable on demand; this principle also being necessary to avoid tying up assets.

(*c*) Whether the present and prospective value of the security affords a sound and safe cover for the advance. The character and commercial morality of the customer is also largely taken into account, particularly where an advance or part of it is made on the "personal security" of the borrower.

(*d*) The banks of this country, recognizing that this country is predominantly a primary producing country, render financial assistance to a very large extent to primary producers; the proportion that advances to primary producing interests bears to total advances in New Zealand on the books of one of the banks, excluding Government accounts (which may be taken as a typical example) is—

	Per Cent.
Primary producers	53
Co-operative dairy companies	4
Mercantile concerns (which include stock and station agents)	22
	79
Industrial concerns	7
Other parties	14
	100

Question 10. Advances vary from year to year: What are the specific causes of this?

Answer: Broadly speaking, variations in the output and in the range of prices of produce and in imports may be said to be the root causes of advances varying from year to year. When seasons and prices are good, and the farmers' incomes increase, business activity is promoted, imports increase, new ventures are embarked on, and the demand for overdrafts is stimulated. Low prices, on the other hand, limit the farmers' spending-power, and the community has therefore to pass through the period of adjustment necessary to the altered conditions. During that period advances for new ventures are not so generally sought by borrowers.

Question 11. In declaring a dividend are reserves drawn upon?

Answer: It is not usual, even if permissible under bank's charter, to draw upon reserves to pay dividends; the general practice is to provide for dividends out of the years' profits. However, in special circumstances reserves might be temporarily drawn upon to contribute towards payment of the dividend; it may be taken as being contrary to banking practice to deplete reserves permanently for the purpose of paying dividends. Nevertheless, reserves form part of shareholders' funds, and the investment of such reserve funds, or the employment of them in banking business, has the effect of contributing towards the earning of dividends.

Question 12. If dividends are sometimes paid from reserves, are securities sold to provide for these?

Answer: Not necessarily, and we are not aware of that ever having been done in New Zealand.

Question 13. What are the uses of reserves?

Answer: Reserves are set by from undistributed profits and/or from shareholders' contributions for the following purposes:—

(*a*) To strengthen the bank's general position;
(*b*) To assist in maintaining the bank's position liquid—a necessity of the first magnitude;
(*c*) To provide for losses or other contingencies.

A primary essential for the effective conduct of sound banking business is that there should be entire confidence in the bank on the part of depositors, the business community, and the public generally; sound reserves provide a tangible basis for such confidence.

The banks, as trading concerns, adopt the practice of all prudent commercial organizations in building up adequate reserves to enable them to cope with adverse economic conditions. It is to their reserves, combined with prudent trading, that the banks of this country owe their success in withstanding the impact of the depression with unimpaired soundness and without losing one penny of their depositors' funds. Furthermore, banks, as repositories of the funds of depositors, have wisely and traditionally adopted the precaution of building up ample reserves which, apart from their direct utility in the ways just mentioned, afford a tangible assurance to depositors that their interests are being properly safeguarded; in this connection it should be pointed out that all sound banking concerns regard their first duties as being to safeguard the funds of note-holders and depositors. This is in itself a duty of national importance.

It may further be mentioned that the general practice with these reserves is to specially invest portions in readily realizable securities, preferably Government stocks, in balances with central banks and to employ the balance in the banks' own business.

Question 14. What were the amounts of sterling funds held on New Zealand account by the banks since 1920 to 1932 (quarterly or monthly figures)?

Answer: These particulars are not available, as it has not been the practice to segregate the figures.

Question 15. To what extent is there evidence that importers may be withholding external payments in anticipation of a return of New Zealand currency to its former parities?

Answer: There is evidence that external payments are being retained in New Zealand meanwhile, but so far as the banks are aware not to any considerable extent.

Question 16. Is there evidence of the withholding or the accelerating of capital movements from or to New Zealand by reason of current economic conditions or of the rate of exchange?

Answer: To assist the Government, and at the request of the Government, the banks decline to facilitate the transfer of capital funds from England to New Zealand. As to capital transfers from New Zealand, it is clear that the present exchange-rate acts as a deterrent.

Question 17. What other agencies in New Zealand, apart from the trading banks, extend credit to business men or farmers?

Answer: Other such agencies include—

(*a*) Stock and station agents:
(*b*) State Advances, including Advances to Settlers, Rural Advances, Rural Intermediate Credit, Advances to Workers, Repatriation Advances, Fruit Preserving Industry Advances, &c.:
(*c*) Government Life Insurance Department:
(*d*) Other insurance companies:
(*e*) Building and investment societies:
(*f*) Savings-banks other than Post Office Savings-bank:
(*g*) Wholesale houses and retailers:
(*h*) Dairy companies:
(*i*) Private lenders and trustees:
(*j*) Public Trustee.

Question 18. Would it be advisable to have greater co-operation between and, if possible, co-ordinated control over these outside agencies?

Answer: It is felt that it would not be competent for the banks to express an opinion on the principle of co-ordination or control of the outside organizations referred to.

Question 19. Are securities ever sold in order to obtain a greater cash holding?

Answer: Yes. Every bank carries easily realizable securities which are available should it be necessary to add to its cash holding.

Question 20. Are there any specific improvements in New Zealand's monetary policy that can be suggested by the banks as desirable from the viewpoint of restoring and maintaining general prosperity?

Answer: The present conditions in New Zealand are due to world conditions outside the control of this country; specifically—a fall in prices for our produce in the market where that produce is sold—and the banks emphatically consider that prosperity cannot be achieved by monetary manipulation.

As already mentioned, it is not the present banking policy to restrict financial accommodation, and, moreover, the amount of demand deposits in the trading banks and savings-banks alone aggregated over £70,000,000 at the end of 1933. The fact that money is available for good investments is evidenced by the response to the Reserve Bank issue, and by the premium already attaching to Reserve Bank shares.

The remarks of the Chairman of Barclay's Bank in the course of his address at the recent annual meeting of that bank should be of interest in this connection. He said:—

> It is a matter for congratulation that we are upon a sound financial basis, and that, largely owing to the wisdom of the Chancellor of the Exchequer, the wild and unsound schemes proposed for currency and credit manipulations, designed to secure a quick return to prosperity, have been disposed of. We should realize that only by constant, patient, and faithful adherence to sound principles can the credit of the country be maintained at its present high level in the eyes of the world, and that by these means alone can we hope to lead the world to eventual recovery.

Question 21. It is requested by a member of the Committee that a brief explanation of the working of the present monetary system be given, with particular reference to the following points:—

(*a*) A definition is required of money in its various forms:
(*b*) How money comes into existence:
(*c*) How it is put into circulation:
(*d*) How it is cancelled out of existence.

Answer: There is no universal monetary system, and a brief general explanation of "the working of the present monetary system" or systems does not seem practicable; moreover, the Parliamentary Committee has at its disposal expert economic advice on such matters. However, some comments on the monetary system affecting New Zealand may be of assistance to the Committee, and are given hereunder:—

Prior to the World War, and subsequently from 1925 to 1928 Britain was on the gold standard, and New Zealand was also prior to the war. From April, 1928, to September, 1931, Britain was on the gold exchange standard, or the gold bullion exchange standard, as it has sometimes been called. During the latter period New Zealand might be said to be on the gold exchange standard in the sense that gold bullion could, if necessary, have been obtained in London in exchange for the banks' London funds held there, but, in effect, the standard was and still is a sterling-exchange standard. In view, however, of existing conditions it would probably be more technically correct to describe the present standard in New Zealand as an exchange standard of inconvertible bank paper money depreciated below par with sterling, but bearing a definite ratio to sterling, which, in turn, is depreciated below par with gold.

Since the wealth and prosperity of New Zealand is founded principally on primary production for overseas markets, a fundamental service of the banks of this country is the financing of our external trade, which is, *per capita*, one of the largest in the world.

The broad basis of the operation of the working of this system of financing our external trade is well known, and only brief mention need be made.

To the extent that external trade transactions are made through the banks, the London offices of the banks receive the proceeds of our exports, and disburse the cost of our imports; these transactions are preceded or followed by corresponding entries in the bank accounts of the exporters and importers of this country; it is evident that the London balances are continually being augmented by funds received from the marketing of our exports and overseas borrowing and depleted by withdrawals to pay for our imports and Government and local-body interest.

Within the country the banks provide the standard banking services efficiently and as cheaply as possible. Financial accommodation is readily available for productive purposes under proper safeguards. The banking institutions of this country are established on sound principles, and their business is prudently conducted, with the result that they thoroughly merit the confidence reposed in them by depositors and note-holders, whose interests the banks regard as the primary banking duty.

(*a*) Definition of money in its various forms: Money has been defined as "that which passes freely from hand to hand throughout the community, in final discharge of debts and full payment for goods, being accepted equally without reference to the character or credit of the person who offers it and without the intention of the person who uses it to consume it, or enjoy, it, or apply it to any other use than, in turn, to tender it to others in discharge of debts or payment for commodities."—*Walker.*

Money has been more simply defined as "anything which is widely accepted in exchange for goods, or in discharge of other kinds of business obligations."—*Robertson.*

The conception of money consistent with these definitions includes—(1) Gold, silver and copper coins, (2) convertible or inconvertible bank-notes, (3) Government Treasury notes.

"Currency" is a more generic term, and is referred to by Sykes as follows: "The term 'currency' is generally used to denote the whole of the circulating medium by means of which debts are paid and prices are measured. It is synonymous with money in its broader sense, and contains the two subdivisions of the coinage and the paper circulation—that is, bills, notes, cheques, postal orders, and similar forms of money."

(*b*) How money comes into existence: (1) Metallic money comes into existence by being dug from the earth and minted.

(2) Bank-notes come into existence by being issued by banks, in accordance with the law of the land and under proper safeguards, and on a basis representing tangible value.

(3) Cheque currency comes into existence by being drawn by the spender on a bank or other firm which accepts deposits or makes advances that may be operated on by means of cheques.

(4) Government money (*e.g.*, Bradbury's) comes into existence by being issued by a Government Treasury Department.

Bank-notes in circulation are almost invariably backed to the full extent of their issue by gold and/or securities.

In English-speaking countries cheque currency forms the bulk of the circulating medium; cheque currency arises out of claims on banks or other firms by the drawers of the cheques. Claims on a bank entitling customers to draw cheques may arise from the following sources:—

(1) The deposit of gold, or token coins on current account.
(2) The deposit of notes of that bank or of another bank or banks on current account.
(3) The paying of cheques or other negotiable instruments into current account.
(4) The obtaining of a loan from the bank on current account. Such loans are usually backed by security lodged by the borrower over tangible evidences of real wealth—*e.g.*, land, buildings, or marketable goods or securities. Such cheque currency thus has the dual backing of—
    (1) The security against which the loan is granted;
    (2) Banking resources.

(*c*) How it is put into circulation: This question is partly answered under (*b*) above. Bank-notes are put into circulation—

(1) On the initiation:
(2) At the option—

of those having claims on banks, and to the extent that money in that form is effectively required for circulation in the community.

The expression "effectively required" is used because a person who had no goods or services exchangeable for money would not be able to effect any increase in the note-circulation on his own initiation or option.

Cheque currency comes into circulation at the option and to the extent required by those having claims on, and the right to draw cheques on, banks or other firms.

The modes in which bank-notes come into circulation are as under:—

(1) By the encashment of cheques or other negotiable instruments at a bank.
(2) As the result of those having gold bullion or coins, or token coins, exchanging them for bank-notes.
(3) By the payment of wages or salaries to bank employees.

The mode in which cheque currency comes into circulation is by customers of banks or other firms exercising their right to draw cheques, and by their exchanging such cheques for goods or services.

The mode in which coins may come into circulation are—

(*a*) By those having claims on banks exchanging other forms of currency for such coins:
(*b*) By the minting of coins.

(*d*) How it is cancelled out of existence:—

(1) Bank-notes: While in circulation bank-notes represent bank liabilities. When in the hands of the *issuing bank* the notes are neither bank assets nor bank liabilities. Bank-notes cease to be money in circulation when they are returned to the issuing bank, and are "cancelled out of existence" when they are no longer eligible or required for reissue. Cancelled notes are replaced by new notes to the extent effectively required by the community. Note issues are increased to the extent effectively required by the community, subject to statutory provisions.

(2) Cheque currency and other negotiable instruments are cancelled when they are presented for payment at the bank or firm on which they are drawn. The purchasing-power which they represent, however, is not thereby cancelled out of existence by banks; if they are paid into a credit account, they increase the balance of that account by an equivalent amount.

The expression "cancellation of money by banks" refers to the repayment of loans to banks. Such cancellation, while it may have the effect of decreasing the balances of some credit account or accounts (and so decrease the amount of immediately "spendable" money available) at the same time normally frees from liability to the same extent the property or other tangible form of wealth which had been the basis or security for the loan.

Unless such property or wealth has deteriorated in value, it can, if economic conditions warrant, be re-employed as the basis of fresh loans. The "cancellation of money out of existence" is normally at the option of the user or users of the money, and not on the initiation of banks.

WELLINGTON, WEDNESDAY, 7TH MARCH, 1934.

Witnesses: Messrs. T. G. A. HARLE, E. C. FUSSELL, and J. SHAW, representing the ASSOCIATED BANKS OF NEW ZEALAND.

The Chairman: Gentlemen, we have this morning Mr. Harle, Mr. Fussell, and Mr. Shaw, representing the associated banks. Now, the Committee first of all decided to send in one or two questions, and these have been replied to and the answers distributed last evening. The banks, on the other hand, have prepared a statement as from the associated banks, and this, of course, will be incorporated in the evidence as they have prepared it, I take it, to assist the Committee in their deliberations. I have not read it through, as it has only just arrived; of course it will be for the Committee to raise any questions that they care to put in regard to that statement itself. We have not arranged for any other witnesses, realizing that the banks' requests will take up a great deal of time, and no doubt we will be carrying on with them this afternoon.

I would like to ask you, Mr. Harle, if you would first of all read this statement, as we have not had time to look at it, and then possibly you may care to make a statement—it would be quite optional. Mr. Fussell and Mr. Shaw may also care to make a statement—you take the matter as you think fit. If it is not your desire to make a statement or to amplify what you have put in, then the Committee will take up the matter by way of question.

Mr. Harle: I thank you for your suggestions. We have prepared a reply to your questionnaire, as you will observe, very fully, so that your Committee will have the matter fully before you. We have prepared this minor statement with the object of placing before you a general outline of the banking schemes in New Zealand. I do not think there will be any need to amplify it, but we will be very pleased to endeavour to answer on all these matters whatever questions the Committee put. We may ask your indulgence to speak on another matter also.

Mr. Harle read the first statement. This was included as evidence:—

We have thought it desirable, with a view to saving your Committee's time in the ensuing discussions, to place before you a résumé of the incorporation of the trading banks doing business in New Zealand, showing how they obtain the franchise they hold, their functions, and some of the statutory restrictions imposed upon them.

1. There are six trading banks operating in New Zealand, and we deal with them in order of age in New Zealand:—

The Union Bank of Australia, Ltd.—A British bank with registered headquarters in London. Branches throughout New Zealand and Australia. Commenced operations in New Zealand in 1840. Received its statutory powers originally under Ordinance (Session III, No. 1) of the Legislative Council of New Zealand. This was repealed by a fresh Act (Private, No. 1) of 1882, which laid down the basis of the bank's right of note-issue in New Zealand.

Bank of New South Wales.—An Australian bank with headquarters in Sydney. Established 1817. Has branches throughout Australia, New Zealand, Fiji, and New Guinea. Commenced business in New Zealand in 1861. There is a special Act of the New Zealand Legislature in existence (Bank of New South Wales Act, 1861) dealing with its operations and right of note-issue in New Zealand.

Bank of New Zealand.—An institution with headquarters in New Zealand. Formed 1861. Branches throughout New Zealand, also in Melbourne, Sydney, Fiji, and Samoa. Various enactments of the New Zealand Legislature give the Bank of New Zealand its legal franchise. Its right of note-issue is governed by the New Zealand Bank Act, 1861, as amended by the Bank of New Zealand Act, 1920. The State is a shareholder to the extent of one-third in the Bank of New Zealand. In addition to the ordinary functions of banking, the Bank of New Zealand has a special long-term-mortgage department.

Bank of Australasia.—A British company with headquarters in London. Branches throughout Australia and New Zealand. Former under Royal Charter dated 1835. Commenced operations in New Zealand in 1864. Its rights of note-issue are granted under its charter. The charter would, of course, be subservient to such special legislation as is contained in the New Zealand Banking Act, 1908.

The National Bank of New Zealand, Ltd.—A British company registered in 1872 under the Imperial Companies Act. By special Act of 1873 the New Zealand Legislature granted it powers of note-issue. Branches of this institution are confined to New Zealand.

The Commercial Bank of Australia, Ltd.—Founded in Australia in 1866. Has branches throughout Australia and New Zealand. Commenced operations in New Zealand in 1912, when the New Zealand Legislature passed the Commercial Bank of Australia, Limited, Act, 1913, under which this bank obtained its right of note-issue in New Zealand.

All the foregoing institutions conduct general banking business, and, in addition to their various branches, have agents throughout the world.

2. New Zealand banking operations come under the following main heads:—

(*a*) The resources of the trading banks come (1) From shareholders' capital, (2) shareholders' reserves, (3) funds deposited (i) on time deposit at interest, and (ii) on current account (*i.e.*, demand) deposits from the public and/or Government.
(*b*) The banks, under their existing franchise, issue the bank-note currency of New Zealand.
(*c*) They accept deposits as set out above.
(*d*) They make advances on overdraft to borrowers and also discount bills.
(*e*) They purchase bills (including produce bills) on places outside New Zealand—that is, our "export" bills—and, on the other hand, they sell bills to pay for imports into New Zealand.
(*f*) They act as the medium through which overseas' loans are arranged for municipalities.
(*g*) They act as repositories for the safe-keeping of their clients' documents and valuables.
(*h*) They conduct a "clearing system" throughout the country for the collection of the cheque currency.
(*i*) They act as bookkeepers for their customers.
(*j*) They are a source of large revenue to the Government.

3. *Shareholding in Trading Banks.*—As has been pointed out in the press in Australia, a commonly entertained but utterly erroneous belief is held by some people that the banks are owned by a limited number of wealthy people. There are nine trading banks in Australia and their shares are owned by some 71,000 people. The average capital holding is £528. The shareholders are drawn from every class in the community, except only the improvident; and

their holdings for the most part represent savings invested after careful thought, with the double motive of avoiding risk and ensuring a constant if low return. The average return on these investments, which was 7·4 per cent. in 1929, was only 2·47 per cent. in 1932.

The shareholders, as in other businesses, exercise complete control of the banks. They elect, reappoint, and remove directors, according to the degree of efficiency with which these are deemed to be discharging their trust, and, through the directorates, they control the management and staffs of the institutions. It is inconceivable that the shareholders would permit their servants to take a course of action which was inimical to their interests. That the officers of the bank would themselves initiate such a policy is incredible. Like the shareholders, they have all their own stake in the country. The trading banks in Australia alone employ about twenty thousand men and women.

There are 756,000 people in Australia who have deposits in trading banks. One person in every nine in the Commonwealth is a depositor.

Similar general principles apply to New Zealand conditions, where the trading banks employ some 3,300 men and women in their services. The shareholders in New Zealand holding shares in the trading banks in New Zealand number approximately 11,130, representing an average capital holding of £487.

4. *Statistical Information furnished.*—New Zealand bank figures are averaged and "quarterly" returns of Assets and Liabilities furnished the Treasury each quarter. In addition to this, weekly figures, including "clearings," are furnished by the Government Statistician.

5. *Note-issue.*—The Banking Act, 1908, provides that all bank-notes issued in New Zealand shall be a first charge on the assets of such bank.

At the outbreak of war in 1914 the Government enacted legislation (Banking Amendment Act, 1914) giving the Governor in Council authority to make, by Proclamation, bank-notes "legal tender" throughout New Zealand. By section 44 of the Finance Act, 1916, uniform regulations were enacted for use whilst the legal-tender position was continued. This enacted that the legal limit of note-issue of each issuing bank is made up by adding together:—

(1) The amount of all coin held:
(2) The amount of all bullion held:
(3) The amount of all public securities held:
(4) The amount of all war-loan advances made on special accounts:
(5) The amount of all soldier-settlement loan advances made on special account:
(6) The amount of all advances made on wool account.

NOTE.—Items 4, 5, and 6 are non-existent now, and therefore do not apply.

The assets enumerated above must be held in New Zealand.

"Public securities" are defined as "the public securities of the Government of New Zealand, or of the United Kingdom, or of the Commonwealth of Australia, or of any State of that Commonwealth.'

There are certain other provisions and extensions of the foregoing which the Government have power to bring into operation, but they have not been invoked.

Originally bank-notes were taxed by the Government at the rate of 7s. 6d. per cent. per annum, payable quarterly. From time to time Parliament has increased it by steps up to the present figure of £4 10s. per cent.

Further, as bank income-tax is based on an arbitrary basis, as explained later, the note-circulation also bears income-tax in addition of 8s. 9d. in the £100.

Now that the Reserve Bank of New Zealand has been created, the functions of note-issue will be taken over by that bank.

6. *Income-tax.*—Banks in New Zealand are not taxed on profits like ordinary trading companies, but on an arbitrary basis. This basis is the average for the year of their assets plus liabilities. On this total they are assumed to earn an income of £1 10s. per £100. This is the "assumed" income for taxation purposes. From this can be deducted bad debts and contributions made to staff pension funds. The net result is known as the "taxable balance," and income-tax is charged on this balance at the maximum rates.

It will thus be seen that the tax bears no relation to income, and that a bank operating in New Zealand may be working at a loss or making small profits only, yet it pays a heavy so-called "income" tax.

7. The system of banking in New Zealand is the "branch bank" one, which is the general system throughout British countries. This is in contradistinction to, say, the American system of thousands of separate banks, many with small capital resources only. The branch bank method gives greater strength to the system and better facilities to the community.

The method of making advances in New Zealand is the "overdraft" system, by which interest is charged half-yearly based on the fluctuating day-to-day balance of the debt.

8. As will be gathered from the foregoing brief review, the trading banks in New Zealand, from the time of the arrival of the Union Bank of Australia, Ltd., here in 1840, have been inseparably bound up in the progress of New Zealand, financing the old Provincial Governments, the General Government, the primary producers, and the industrialist alike, without fear or favour, realizing, as all banks should, that their interests and the prosperity of the Dominion coincide.

Mr. Harle: We have listened to various schemes and proposals put before your Committee, and we are particularly interested in those of Major Douglas, and we would ask permission to put forward a brief criticism of his proposals which we have prepared.

Chairman: Undoubtedly.

Mr. Harle: That is, dealing with his proposals; we have condensed it as much as possible. I shall read this statement—

Among the suggestions which have been submitted to the Parliamentary Committee are some by Major Douglas, which suggestions we feel we should briefly comment on, as they directly concern the banks.

So far as those suggestions concern the banks of this country, they are briefly outlined as under:—

(*a*) A limitation of bank dividends in respect of operations carried on within New Zealand to 6 per cent. per annum on the subscribed capital—the amount represented by the surplus above that figure to be applied (in the manner described by him) to reducing interest-rates.

(*b*) That the banks be deprived of the difference between the balance-sheet value and the estimated market value of bank assets, and that the amounts represented by such difference be transferred by way of gift (in the manner described by him) to the accounts of customers having overdrafts.

Both these suggestions are inherently unsound, and are in effect an unjustifiable raid on assets and reserves essential to the efficient conduct of banking business.

(*a*) The suggestion that dividends be limited to 6 per cent. per annum on the subscribed capital ignores the fact that in the case of some banks the subscribed capital represents several times the paid-up capital, while in the case of other banks subscribed capital is no greater than paid-up capital. Apart from this anomaly, which betrays a lack of knowledge by Major Douglas of the subject under discussion, the suggestion entirely fails to take into account the fact that dividends arise from the earnings of a much larger sum than the capital of banks—namely, the capital and reserve funds, which are the investment and the property of shareholders, and the reserve funds are often built up very largely from direct contributions by the shareholders in the way of premiums on new subscriptions of capital, as well as from undistributed profits. Thus, though the dividend is quoted as being at a certain rate on paid-up capital, that dividend represents the earnings of a much larger investment of shareholders' funds.

Furthermore, there is an important point, which has already been stressed by the Chairman of the Parliamentary Committee—namely, that the *market* value of bank shares is greater than the *nominal* value, so that if Major Douglas's suggestion were adopted, a shareholder who had paid a market value of £4 for a share with a nominal value of £1, would find the maximum return on his investment reduced to 1½ per cent. This would have the effect of inequitably reducing the incomes of members of the community.

In his evidence before your Committee Major Douglas referred to the Bank of England dividends as being 6 per cent., and mentioned that as a well-known precedent for the 6 per cent. maximum dividend he proposed in respect of the banks in New Zealand.

We would point out to the Committee that the Bank of England dividend rate is 12 per cent. per annum, a fact which again indicates Major Douglas's inaccurate knowledge of the matter under discussion.

(*b*) Major Douglas's suggestion that the banks be deprived of their inner reserves is inequitable in the extreme. It is a sound principle of banking to build up reserves to enable banks to cope with difficult economic conditions with unimpaired stability and to maintain and retain confidence. The effect of such wise trading can be seen by comparing the splendid record of the banks of British countries with the fate of banks of other countries which have not paid sufficient attention to making proper provision for such conditions. Major Douglas proposes to try the experiment of depleting bank reserves at the very time when the policy of maintaining adequate reserves has been abundantly justified.

On his own showing Major Douglas links part of his fantastic suggestion with his entirely unfounded and unwarranted assumption that "As things are going on at present there is no possibility whatever of the present banking system continuing for any considerable length of time—even three, four, or five years—without a complete catastrophe—complete breakdown of the present system." So he would deprive banks of an important part of their resources and bank shareholders of an important part of their income, and would make a present of the proceeds of his suggested confiscation to customers with overdrafts—many of whom are much more wealthy than many bank shareholders.

As to his assumption of a breakdown of the present system at an early date, on the way things are going at present, we would point out that there is at the present time encouraging evidence that Britain is making a decisive recovery from the effects of the depression.

In conclusion, we feel bound to say that we are convinced that the carrying-out of Major Douglas's suggestions in New Zealand would retard improvement here and do the country real damage.

[Whilst reading paragraph 4 on page 7 in connection with Major Douglas's statement that the Bank of England dividends were 6 per cent. whereas the rate was 12 per cent., the Chairman said, "12 per cent.?" and the witness replied, "Yes." Later, Mr. Harle produced a copy of the *Bankers' Almanac and Year-book, 1933–34*, and showed the Chairman the reference on page 9 in regard to dividends. This read]:—

Dividends: 10 per cent. per annum for sixteen half-years to August, 1921; 12 per cent. per annum to February, 1922; 11 per cent. per annum to August, 1922; 12 per cent. per annum for twenty-two half-years to August, 1933 (subject to income-tax). Dividends are payable April and October.

Mr. Harle: We think you will accept our comments in that form; there are many other comments that one could make about Major Douglas's fantastic schemes, but we do not feel that it is necessary to labour the question. He does not understand what he is talking about in some of his statements.

The Chairman: I feel that the associated banks have given us a very full statement and very valuable documents.

Dr. Sutch.] Now, I am just going through these questions as you have them. You say, "Broadly speaking, it may be said that the law of supply and demand determines interest-rates charged and paid by the banks." Now, there is an ample supply of credit in New Zealand, that is correct?—Yes.

Would it not be advantageous if the price of this credit were lowered to accommodate itself to demand?

Mr. Fussell: It would most certainly, and the desires of the bank are in this direction.

Dr. Sutch.] These deposit rates which you have mentioned here—they are obstacles in the way of reduction of rates at present. It could be possible to reduce interest-rates to zero and could there still be no demand for credit?—I would not say rates could be reduced to zero, but they could be reduced to a very low figure. If there was no possibility of obtaining credit the whole economic system would break down.

I have struck a situation where credit overseas was reduced to 1 per cent. and still no borrowing?—I can imagine such a situation. If the rate were at zero and the price-level were to fall more than 5 per cent. during the year, a person who had borrowed would still have to pay back more purchasing power than he had borrowed.

You mention a margin between deposit rates and advances rates—that is one way a bank makes profits, what are the other ways?—In the discounting of bills and the buying and selling of exchange and different agency business.

Do they make profits on investments?—They make profits on investments and securities.

And on the internal exchange of cheques?—Yes, broadly speaking, the internal charges cover working-expenses.

Two shillings and sixpence per £100 would be to cover working-expenses?—There is almost as much work involved in transferring the small amount as in transferring the large one.

Do advances exceed deposits?—Not at the present time.

Generally?—I should say that the policy of the banks is to have a certain ratio between advances and deposits. And I think normally the policy in New Zealand has been to have deposits slightly in excess of advances.

Dr. Sutch.] Is the income of banks not an average of 30s. per £100 per annum of the total average assets and liabilities of the bank? Does it ever average that?—I could not say exactly as to the real average, but everything points to the fact that it does not.

Why do you use the term "fictitious" income?—"Fictitious" means that it is not actual income; it is based on the assumption that the income is earned on that basis, whereas it is not, because we pay income-tax on our assets and liabilities. You do not earn income on your liabilities.

Do the banks suffer because of this taxation?—They certainly suffer at the present time.

How?—Because, for instance, they are not earning as much income as that 30s. per annum.

Who suffers ?—I should say that the banks' shareholders suffer because the dividends payable to them are not so great as they otherwise would be. The figures show that the average return on the investment at market price is quite low now; for the six banks the last dividends were equivalent to: 1927—£2 16s. 4d. per cent., £2 17s. 1d. per cent., £3 2s. per cent., £2 9s. per cent., £4 4s. 7d. per cent., and £2 11s. 3d. per cent.

So in New Zealand in good years you are taxed in the same proportion as in bad years ?—Yes.

So these poor rates are not necessarily due to taxation, they may be due to the depressed conditions of industry ?—It would be partly due to taxation, because the fact that we are paying on a greater income than actually earned absorbs part of that income. If we were an ordinary trading company we would pay a graduated scale of tax according to our business. We would get relief in a bad year.

How much tax is paid on Treasury bills borrowed by the Government to purchase sterling funds held overseas ?—The tax paid on that would be, roughly speaking, 8s. 9d. per £100 on the average assets.

Not liabilities ?—Yes.

So 17s. 6d. per £100 is what is paid in taxation. Are the Treasury bills referred to classed as overdrafts ?—They are not classed as overdrafts; they are classed as advances, but they are not included in the total advances; they are incorporated in Government securities.

And there are not corresponding deposits for these Treasury bills held against sterling funds ?—I would not say there are not corresponding deposits for these Treasury bills.

And yet the ratio between advances—including Treasury bills—and deposits has not been so greatly disturbed as one would imagine. Can you give us those figures ?

Mr. Fussell: Total overdrafts and advances, including Treasury bills, £59,000,000; and the deposits, £62,000,000.

Dr. Sutch.] What rates have the Government paid for Treasury bills over the last few years ?—I could not say, but that has been published recently—£5 8s. 9d., and later at £5 per cent.

Was there nothing higher than that previously ?—Not to my knowledge, I do not think there was anything higher than £5 8s. 9d. The Treasury could give it to you; I would have to look into it.

Is 8s. 9d. the tax on these Treasury bills ?—Yes.

Was that 5 per cent. apart from administration costs as clear profit ?—I would not say it was clear profit, because, as mentioned before, we are paying interest on deposits to the extent of 4½ per cent.

What is the objection to issuing Treasury bills against revenue with no interest charges at all ?—The paying of interest charges is caused by the stringent conditions operating at the present time.

Assuming the stringent conditions, is the issue of the Treasury bills holding up advances to industry ?—No, they are not. Any person who can provide security and show the bank that he will not lose the money—if he can prove that to the bank the money is available for him.

Dr. Sutch.] You use the expression "to preserve what the banks consider a proper volume of deposits." How is this "proper volume" determined ?

Mr. Fussell: There is no rule about the matter. If a bank had let its deposits fall very low it is obvious the difference between deposits and advances would have resulted from cheques being drawn and claims being made on the bank, and these claims have to be settled somehow.

Dr. Sutch.] At the moment, would a concerted move to reduce deposit-rates have any effect on the volume of deposits ?—I do not think so, because at the present time there are no avenues for investments.

If the deposit rates were put up would it reduce lending ?—To a certain extent, because then the banks would be unable to quote such low overdraft rates as they would otherwise.

You quote the Chairman of the associated banks, "Were overdraft-rates to be reduced without adequate adjustments in the method of taxing bank incomes, the inevitable and inescapable result would be to curtail the banks' means of assisting their customers and the community" ?—Unless we get adjustments in taxation the community are going to suffer because they cannot borrow on such attractive terms.

But you yourself said there was plenty of credit available ?—Yes. The credit is available if it were only usable by the people who might use it.

But it is not the rate of interest that worries them ?—That goes into the account because during unprofitable times if the person could hardly trade profitably with no interest at all or if it would just pay him to operate and trade with the money at no interest at all, obviously the charge of 5 per cent. interest would be just that deterrent which should prevent him from operating.

Would your extra taxation put up the overdraft-rate and discourage borrowers ?—I should say that it keeps up the overdraft-rate. That means if we were put on the same basis as other trading companies—and I speak to you entirely without prejudice, because I cannot say what the bank would do—I should say that it would be possible to reduce the interest-rate by ½ per cent. I say that entirely on my own responsibility, but it seems to me that that would enable the banks to reduce the rate by ½ per cent.

In the answer to question 2 you say that all accounts have benefited by the reduction in overdraft-rates. I took that to mean the best accounts. What about the accounts that are charged more than the minimum rate of 5 per cent.?—When that last reduction from 6 per cent. to 5 per cent. was made I understand that it was an all-round reduction. That means advances which were getting a less favourable rate than the best rate for various reasons also were reduced by that amount, 1 per cent. all round.

I notice here that the banks seem to reduce deposit-rates some months before reducing the overdraft-rates. Why is that ?—That has not always happened. It has happened sometimes, and the reason for that is this: When overdraft-rates are reduced the banks immediately stop collecting

the more favourable rate, but when fixed-deposit rates are reduced the banks go on paying to the depositors who have deposits with them at the old rate.

I understand that. I was just wondering whether overdrafts ran on similarly to deposits?—No, they do not. They come down from the day advertised.

That would explain it, of course. And when you speak of a 10s. margin between deposit and overdraft rates, does this mean that the banks, taking all charges into consideration, are losing money on this type of business?—They are losing money on that type of business, but that is in respect of the fixed deposits at 4½ per cent. that are still current.

On that type of business. Only on the fixed deposits at 4½ per cent. that are current. But on the fixed deposits at 3 per cent., and 2¾ per cent., and 2½ per cent., they are not losing business?—No.

So that on the whole the banks are profiting from this type of business?—They make a slender margin of profit on that type of business.

But there are also current accounts in which no interest is paid?—Put it this way, that if the banks fix their various charges, interest charges, bank charges, various other charges, all this is taken into account and you can rely on the competition among the banks forcing the charges down, and if we had to pay interest on all current accounts as well, you can be quite sure that the banks would not be able to have the interest-rates that they have now and pay any profits.

One other question in regard to your question 2. When the tax on the note-issue was increased the banks increased their bank charges for keeping customers' accounts?—That is so.

When the Reserve Bank takes over you will be freed from note-tax. Will you reduce similarly the charge for keeping customers' accounts?—That is a policy matter which might be *sub judice* at a later date.

Mr. Harle: While you are on that, do you consider that £1 a year is an unreasonable charge for book-keeping?

Dr Sutch: I do not know because I am not familiar with the administrative side of banking. I do realize this, that if the banks were to charge for every petty little service they do the public would be inconvenienced to a much greater extent than they are now. But that is only my private opinion.

Mr. Fussell: While on this point, Dr. Sutch, I would like to explain that so far as English banking is concerned there is no fixed charge, but every six months the various accounts are perused and if the operations have been very considerable a bank would say, "I think it is worth £3 a year or £4 or £5 5s. for keeping this account," and the charge is made according to the estimation of the quantity of work that they have done for that account. So that it might be quite possible to charge £15 15s. for keeping an account at Home.

Dr. Sutch.] Is that the reason why internal exchange is not charged between the banks in England?—I cannot answer that question. I do not know. It is possible that the competition between the banks forces that down. The banks must get a reasonable margin of profit in some way. If they do not get it in one way they are compelled to get it in another. They are trading with shareholders' funds and so forth and they are providing service to the community, and they do not make a greater margin of profit than well-run business concerns.

Mr. Ashwin.] Do the banks at Home allow interest on current accounts?—Some do and some do not. Is it the country banks, Mr. Shaw?

Mr. Shaw: Yes. Some of them do and some of them do not. It all depends on the circumstances.

Mr. Fussell: Another aspect there is that in England the usual way of granting advances is to grant a deposit account and debit a loan account. That means that if a person came to you for a loan account and placed that amount at your disposal, I think it is a sort of tradition that you would leave something in the account. You would not draw out the last penny.

Dr. Sutch.] Debit the loan account. But Major Douglas says you credit the loan account?—As far as the customer is concerned it is a debit to him. It is a debit to loan account and a credit to the customer's account.

To get back to the questionnaire again, you mention in question 3 other economic factors affecting trade conditions. What other factors have operated on the volume of advances?—I should say that briefly is the fall in the price of overseas produce.

You mentioned that before. You are talking about the tendency of interest-rates to be reflected in the volume of applications for advances?—Other things being equal, the higher the interest-rate the less tendency to increase in advances.

What are these other things?—What I mean is this, that the falling prices of overseas produce, in reducing our income here makes trade unprofitable here; and although the rate of interest on advances has fallen lower, yet advances have fallen lower also, because although it is cheaper on paper to borrow it is not cheaper on paper to trade, since you cannot say as to the result, even at the cheaper rate.

Are these high overdraft rates an indication that borrowers are willing to let the banks join in their prosperity?—Yes. It is an indication that they can borrow at that higher rate and their demand for the money is such that that higher rate can be charged and the money will be used and used at a profit.

That 7 per cent. is for a minimum overdraft rate. Does that mean that the shakier accounts would be charged 9 per cent. or 10 per cent.?—No. It is very hard to say offhand what the margin is, but I should say between 1 per cent. and 1½ per cent. above the minimum rate.

That is 8 per cent. to 8½ per cent. And stock and station agents; are they charging even higher rates?—I could not say that. I should say that the stock and station rates are about the same as the bank rates.

Even when they get their funds from the bank ?—Well, stock and station agents do not always, but in some cases they do.

The Chairman.] Are not they usually 1 per cent. more ?—Yes, I think that is probably the case.

Dr. Sutch.] So that your advance rate of 7 per cent. really fixes the advancing rate for other credit-making institutions ?—It has a bearing on it.

It does not fix it ?—It all depends on the type of business, because if the type of business were such that a bank would invest in it, the borrower has the option of going to the bank and getting it, so that there again the type of business and the other aspects affecting the borrower come into account.

And the banks compete with one another ?

Mr. Harle: Yes, intensively, within the minimum rates.

Dr. Sutch: And are the overdraft rates in New Zealand ever raised with the specific purpose of decreasing the amount of credit made available ?

Mr. Fussell: It is very hard to say whether that is the case, but looking over things it seems to me that if a certain amount of credit has been issued, on the face of it, that is profitable to the bank. But if, at the same time, it is found that the total of deposits is insufficient, it is necessary to put up the deposit rate. The necessity to put up the deposit rates to increase the deposits in relation to advances compels the banks to put up the advance rate. One rate pushes the other up.

Dr. Sutch: So that the rate is not ever put up to choke off people who want to borrow ?

Mr. Shaw: I think that that might be so if it is considered in the interests of the country that borrowing should be restricted.

Dr. Sutch.] I think so. But seeing that the individual banks are competing against one another for business they would not be inclined to take that point of view ?—I do not know. In a matter like that they would take the country's viewpoint, because the banks generally are looking a good deal further ahead than the ordinary man who comes for an overdraft.

Mr. Fussell: And then I should say for the sake of competition no individual bank would risk getting itself into an involved position.

Dr. Sutch.] That is true. But some stock and station agents have got into involved positions through competing for business ?—Yes. But that is because they have not got bankers in charge of them.

Mr. Harle: May I suggest that their difficulties have been because they have been trying to carry out a banking business without banking resources.

Dr. Sutch.] Quite probably. That is just what I wanted to get at—Question 4. Why are deposit rates raised other than to attract deposits ?

Mr. Fussell: I cannot think of any reason why they should be raised other than to attract deposits, except, of course, to retain deposits we have if the rates outside rise.

Dr. Sutch.] And if there were no competition, would the deposit rates be forced up ?—They would not be forced up if we could have the volume of deposits by paying a lesser rate. There is no reason why we should offer a greater inducement than we feel is necessary.

In question 4 you say the only limiting factor in the reduction of deposit rates is the competition of other rates ?—Yes. That is because we cannot have the volume of deposits if we do not meet that competition. If we lowered our rates, as you can see, our deposits would dwindle away.

But you have introduced another factor. You might require more deposits quite apart from competition ?—Then our rates would have to be the winning competitive rates.

So we would have to include that in the limiting factors in the answer to this question 4 ?—Do you mean the possibility that it might be necessary to increase deposits ?

Yes. Would it be a limiting factor ?—If it were necessary to increase deposits, yes, it certainly would. But that would be an indication that already the advancing had proceeded to such a degree that there were more advances than deposits, so that you would see it was about time some limitation were devised.

Mr. Harle: For instance, on the occasion that deposit rates reached 5 per cent. that was primarily caused by Government over the counter sales of stock at 5½ per cent.

Dr. Sutch.] I recognize the competitive force, but I was looking for some other force than competition. If there were no competition, would deposit rates fall to zero in any conceivable situation ?

Mr. Fussell: It seems quite conceivable that people would lodge all the deposits that the banks wanted without any inducement whatever. There would be no deposit rates. But, on the other hand, we have the competitive factor. A bank might want to compete with its neighbours. It would think to itself, "Now if I can increase my deposits by £2,000,000 I can increase my advance business."

Dr. Sutch.] Yes, but without competition, I meant ?—I should put it this way: No competition, no inducement necessary.

And in the same question 4, you talk about people possessing liquid funds but refraining from employing them. How are those liquid funds held ?—They are held to the extent of about £22,000,000 by way of deposits on current account, to the extent of about £39,000,000 by way of fixed deposits, and to the extent of about £60,000,000 or £70,000,000 by way of deposits in trading concerns, Post Office Savings-banks, and trustee savings-banks.

And what do they do with these liquid funds ?—At the present time, as you know, the total advances, including advances on Treasury bills, do not show much disparity between the total deposits.

So that they are not even lending these deposits out ?—That is another question, and I would not like to say anything about it unless that question is being dealt with.

Is the amount of legal tender issued by a bank determined by the amount of advances ?—It is not necessarily determined by the amount of advances, although there is some connection. For instance, you might say that in a country where the total advances were £40,000,000, the notes in circulation would

be rather bigger than in a smaller country with advances of only £2,000,000. The real factor is the amount of pocket-money that people are in the habit of carrying around with them, and the proportion of business that they do by way of notes in proportion to what they do by way of cheques.

So that if advances went up the note-issue would go up too?—Not necessarily. Sometimes advances have gone up and note-issue has gone down, and *vice versa*. Again, it all depends not only on the habits of the people, but on the velocity of circulation of the notes.

That is a very interesting point. Could the bank force more bank-notes into circulation?—A bank could not force more bank-notes into circulation because, for instance, take this case: If a bank gave you £1,000 in bank-notes, I am willing to guess that those would be back in some bank before the day was over.

Question 5, about the cheque-using habits of the people. If the Government stamp duty on cheques were removed, would the extension of the cheque-using habit be a benefit to the community?—I should hardly say so, because the using of notes is no trouble at all to the community and the writing-out of small cheques, of 10s. and 5s. and so forth would be just as useful to them, but they would have the trouble of writing the cheque out.

I was interested in that because in some other countries they have no stamp duty on cheques and people carry cheque-books round with them and make out a cheque for quite small amounts?—Yes. But in some other countries you might have no stamp duty and they would not use them, much as in Germany and France.

Are there any stock and station firms in New Zealand that have as large a banking business as the smallest of the trading banks?—It is impossible for me to say that, but I should think not.

Mr. Harle: In answering that question you have got to appreciate the fact that Dalgety and Co. are a very large institution in Australia as well as in New Zealand. You could tell from the balance-sheets more or less, but we have not got them here.

Mr. Fussell: I suggest that anything you would like us to look up and answer later, things that require reference, if you could give instructions for the notes to be taken we will be pleased to do that.

Dr. Sutch.] Yes, I would like that question answered. Thank you very much for your offer. Now, if the Reserve Bank is to take over the issue of notes, there will be less to distinguish these stock firms from trading banks?—No essential further distinction. Because, as you know, the issue of notes is not an essential or a fundamental banking function, so that the transfer of notes from the bank does not relieve them of the fundamental banking function.

But they will seem more similar to a stock firm now that they do not issue notes?—Yes. That is so.

Do the stock firms do a different type of banking business?—They go further than the banks do.

How so?—I should say in inspecting private properties and stock and so forth and dealing with the stock.

That is on a different part of their business. Under the Reserve Bank Act the trading banks must keep a proportion of their deposits with the Reserve Bank. Will this give a differential advantage to the stock and station agents who would not have to do it?—My own personal opinion is that it will certainly give them a differential advantage, because the banks will be operating with some of their assets which will not be interest-earning, and the stock and station agents, to the extent that they allow their deposits to be drawn by cheque can carry out that part of their business more cheaply than the banks can.

So that the system would be strengthened if you included the stock firms?—Personally, I would rather not say that, because it is a matter rather too broad, and I am speaking on behalf of the banks and, as a matter of fact, I do not know whether it has been considered.

I quite realize it is a delicate position?—I will give you my private opinion, which is that the reason why the banks are required to put this deposit with the Reserve Banks is in the direction of strengthening and consolidating the position, and I should say that what would strengthen a bank doing banking business would strengthen the position of another firm doing banking business.

So that you are going to be strengthened by having assets at the Reserve Bank?—Not the individual bank necessarily, but the whole banking structure would be strengthened.

But you will require to hold less reserve funds with the Reserve Bank than if you were an individual bank working in competition with other banks?—Not necessarily. I do not think that is the case, because, whether they have to or not, the banks hold what they consider is wise.

But surely, when the Reserve Bank gets going they will hold fewer reserves because they will be pooled in the Reserve Bank, so that it would be an advantage to a bank, if the structure is consolidated, to be in the position of having to put some of its assets in the Reserve Bank.

Mr. Harle: The difficulty in answering a question like that is that New Zealand is not a water-tight compartment so far as the banks are concerned. We have Australian interests and London interests and reserves are held in London as well as in Australia. Some banks keep a portion of reserves with the Commonwealth Bank in Australia. Under the New Zealand arrangements they also have to keep reserves here. It is a very difficult question to answer.

I quite realize that.

Mr. Fussell: Another factor occurs here, and that is that the banks might use their reserves when they are looking after them—that is, in their own business, or they might employ them in some way, and the deposits with the Reserve Bank would return them with no interest at all.

Dr. Sutch.] The right of note-issue was not any advantage to the banks was it?—I would not go so far as to say that, but at the present time we might say that the note-issues of the banks are practically, if not entirely, unprofitable.

Question 7: This is a question about the exchange business in New Zealand. Would it be beneficial to New Zealand if the banking institutions only conducted all the exchange business?—

You are asking me to answer a question which concerns the restraint of freedom of trade. My own personal view is that there is no objection to outside people operating—that there should be no compulsion to put business through a bank.

What is the procedure if a borrower wishes to deal outside the banks?—An importer?

Yes?—An importer might arrange with an exporting firm to pay over the money in England. An exporting firm might have funds in England.

That is, a New Zealand exporting firm?—A New Zealand exporting firm might have funds in England, and it might export say £1,000 worth of butter, and then an importing firm might want that £1,000 in London. It could either go to the bank and get it or go to the exporting firm and ask for it there.

Why should it go to the exporting firm rather than to the bank?—Well, the other firm might cut the rate a bit, but then there may be other matters of reciprocity of business. I do not know about that.

Is there any evidence of importers not remitting payments to England regularly in the last year?—That is answered in one of these questions.

Yes, it is; but from the point of view of your banks I wanted to know. In the banks themselves have you any evidence of that? It is question 8?—I will put it this way, that I have not examined the books myself, but I believe that there is an inducement there for importers or for the exporting firm at Home to tell the importer not to remit yet awhile.

So that it is possible that banks in New Zealand are helping importers to carry on rather than remit their payments Home?—How do you mean, helping them to carry on?

Giving them advances here?—No. I should say that would not be in accord with banking policy, to have people speculating on the exchanges.

Mr. Harle: Where the importer is working on a credit basis he can do what he likes with his own funds. The bank has no control there. It would only occur where he was owing advances to the banks.

Dr. Sutch.] So that the banks are not financing importers to avoid the payment of remittances to England?—No.

It is admitted by some competent authorities, is it not, that a lowering of the exchange-rate by even five points would create a far greater set of injustices than were alleged to have been caused by the raising of it?

Mr. Fussell: Would you say that again. I would like to think it over.

Dr. Sutch.] It is admitted by some competent authorities that a lowering of the exchange-rate by even five points would create a far greater set of injustices than were alleged to have been caused by the raising of it?—I do not think so. To agree to that you would have to agree that an upward movement in the exchange is less than 33⅓ per cent. as unjust as a downward movement, and I do not think there is any economic soundness in a view like that.

I am not talking necessarily of the economics of it?—Or the ethics?

Injustice generally.

Mr. Harle: Would it not depend on the quantity of stocks in New Zealand when the rate went up—stocks bought at the old rates?

Mr. Fussell: That is what it depends on.

Mr. Harle: Then if the importer has been living from hand to mouth, will he suffer from the reduction in the rate?

Dr. Sutch: That is only from the point of view of the importers. I was talking generally.

Would it be unwise and prejudicial to the normal trade and industry of New Zealand to give advance information of an alteration in the exchange-rate either up or down?—I consider that it would be most undesirable and contrary to banking practice; the reason being, of course, that there is always the tendency to speculate on the matter, and if people knew that the exchange-rate was going down by such and such an amount on such and such a date, importers would hold up business and refrain from importing, and exporters would tend to rush their stuff away.

So that these people who are agitating for the Government to announce what they are going to do with the exchange-rate are really trying to get the Government to do something that is harmful?—I definitely believe that it would be harmful to give advance information.

But the associated banks announce the exchange-rate in normal times?—Yes. That is announced by the associated banks.

There is an agreement between them?—Yes, that matter is always done in agreement with the banks.

Might there not be a minority of disagreement among the six banks?—There might possibly be, but I do not know of any case where that has ever happened.

It has not happened?—No. You are not referring to anything happening during any exchange controversy are you?

I was out of New Zealand when the exchange controversy went on?—But in normal times I do not know if there has been any disagreement, because the reasons would be pretty general.

If you do not segregate your figures for sterling funds held on New Zealand's account, how is it possible to say that the demand and supply of these funds fixes the rates?—Each bank would have sterling resources in London, not so far as that bank's whole business is concerned.

That includes Australian business?—Yes.

So that the Australian situation might influence the New Zealand situation and so affect our exchange-rate?—It might be possible to the extent that it might save the rate going down below par here and result in the farmer getting less than £1 sterling for his butter.

Leaving the question of the farmers aside for the moment, I am talking about whether Australian conditions affect the New Zealand exchange-rate. It is admitted that they do ?—Yes, I should say it would be impossible for New Zealand any more than any other country to adopt a policy of "splendid isolation."

You say that the exchange-rate in New Zealand is fixed in normal times by the demand for the supply of sterling funds. That is rather academic in view of the fact that we do not know what those sterling funds are and the fact that such sterling funds are influenced by Australian demands ?—With regard to this question, Australasia was one economic unit and with the exchange-rate between New Zealand and Australia at par it does not seem unreasonable that it should be so.

I was regarding New Zealand as an economic unit, of course ?—At the present time we are far more separate in that direction than we would be if the exchange-rates were the same in both countries.

So that we have not been separate in regard to exchange, Australian conditions do influence the matter ?—Speaking from memory, the exchange-rates are affected. A change in the New Zealand rates follows a change in the Australian rates.

I think I can remember an example where New Zealand went below 100 and it was influenced by Australia, and it had nothing to do with New Zealand. That could be so ?—Possibly. Generally speaking, the conditions are similar; they have been in the past, I think.

Mr. Ashwin.] When the rates started to climb to 110, before the indemnity rates came into being, would you say then that the rising of the rate in the case of New Zealand was influenced by the Australian trading position ?—My view is that the rates here were influenced.

That is my impression too.

Mr. Langstone.] If that is so, there is a further question. Why did it not follow that up when Australia went to 125 and we went to 110 ?—There are one or two conditions for that. In the first place, there was a very strong tendency in Australia for a flight of capital; in the second place, the outside rate in Australia already went up to that rate and the banks recognized that as the rate.

In Australia ?—Yes.

But not in New Zealand. We did not follow them up to 125 ?—No. The conditions in both countries were normal, and the conditions here did not follow the conditions in Australia.

To follow Dr. Sutch's question: The tendency would have been for demand to raise the rate—there was a surplus of funds; there was an overplus of New Zealand funds. Would that not be an incentive for them to get New Zealand funds for Australian purposes ?—I would not say we had an overplus of funds.

When it was 110 there was no shortage of funds in London; we were carrying good balances there ?—That is a matter that requires the dissection of the banks' books, but, speaking generally, to what extent do you think sterling funds would be available when New Zealand had to put the exchange-rate up 10 per cent ?

The balance in London according to the statistical returns with the exchange-rate of 110, before it went to 125, was £10,000,000. There would be a demand for £8,000,000 for local-body and Government needs; there would be an overplus of £2,000,000. Would there not have been a big incentive for the Australians to have used New Zealand exchanges for their own purpose ?—Their rate was already up.

I know it was ?—At that time.

That would be all the more reason why they should want New Zealand funds to keep their rate down ?—Now you are dealing with the Australian banking policy.

Dr. Sutch.] I have noticed fluctuations of sterling funds from quarter to quarter and year to year, and I have noticed no corresponding changes in the exchange-rate. Would that be due to these Australian conditions perhaps ?—The way I look at it is this: If the funds in London are such that all the funds purchased by the banks and held in their London Office can be sold at the same exchange-rate at which they were purchased there is no need to lower the exchange-rate, but if they cannot be sold at that rate there is a tendency to lower the rates because you would have funds you cannot dispose of.

Sterling funds include overseas borrowing on the part of New Zealand ?—Yes.

You say, "If an unbalanced external trading position results in a shortage or overaccumulation of London funds, it is, of course, necessary to make adjustments to correct the position." What are those adjustments ?—The adjustments are affected by conditions on both sides. For instance, if the condition of a shortage of London funds was the result of over-importing here and consequently on an increase of overdrafts above deposit-rates, it might be necessary to increase the advances rates, increase the deposit rates to restore the equilibrium here, and that might automatically have the effect of restoring the equilibrium overseas.

So that you might have to adjust the exchange-rate as well ?—You might and you might not.

I notice you say, "In normal times an increase in the exchange-rates is an indication that the supply of London funds is less than the demand." You admit, then, that the exchange-rate could fluctuate in normal times ?—Oh, yes; but not to a great extent, as the history of the case has shown. For many years past neither Australian, New Zealand, nor intercolonial exchange-rates have varied by more than a few points.

In talking of the shortage of London funds up to 1931. In December, 1931, the exchange pool was instituted. England needed short-term funds urgently for foreign withdrawals. The New Zealand Government owed England money on short-term and undertook to supply £1,000,000 a month during the period of stringency. Before the banks would agree to provide this from sterling funds, they asked the Government to give them a monopoly of the handling of sterling exchange. This was agreed to, and the banks received their monopoly, pooled the London funds, made so much available for the Government account and rationed the remainder. Is that a correct picture ?—What do you mean by rationing ?

There was a demand for credit from the importers and it was rationed out among them by the banks. Is that a correct picture?—To my knowledge there was no necessity to ration those funds.

In the beginning there might have been?—There might have been to start with. In the beginning the banks had to be prepared for any contingency in the matter, and they had to give an assurance, and in order to give that assurance they had to be safeguarded.

Mr. Harle: That would be interesting to know five years hence, because under the banks indemnity business operating at the present time it has become necessary to alter the records so that these things can be segregated, so that we will know that in a few years' time.

Dr Sutch.] It will be extremely interesting to know that?—But that information will not be available until a few years from now.

Is it a usual financial practice to ration credit?—No.

There was a possibility of all this having to be done: they did not know what the result was going to be?—No, and no one can say whether it was a possibility or not.

So that when the stringency took place, according to the orthodox canons of exchange theory, the exchange-rate should have been much higher at the end of 1931. That would have coped with the situation?—Yes, possibly, but what would the Government have said? They might not have been satisfied if the banks said when the Government asked for an assurance that the funds required should be available, "You want an assurance from us, but instead of that we suggest that you try and experiment with the exchange."

You put it all on to the Government?—I am not doing that at all. The Government constituted the regulations, because they wanted an assurance which the banks gave them under the protection of those regulations.

We will leave the exchange-rate now. In question 9, talking about the factors a banker takes into consideration in granting an overdraft: Is the tendency of the price-level to change taken into account when deciding the amount of credit that is to be granted?—Do you mean the general price-level?

The price-level of commodities in which New Zealand is interested?—I should say that no bank would be blind to the fact that the price-levels all over the world were varying, and if a person wanted to borrow money and repay the money from commodities to be sold next year the bank would be aware of the varying prices and take that into consideration in granting the overdraft.

Then since 1929 the advances in New Zealand should have gone off, fallen somewhat?—Not necessarily, because there are very many other aspects coming into the picture, such as security and so forth.

In regard to question 13, talking of the uses of reserves: Are reserves ever held or are they merely book entries?—They cannot be merely book entries because if there is a debit and the reserve is on the debit side there must be something on the credit side.

Would it be something tangible?—Yes, it is definite evidence of value.

So that if you made a profit at the end of the year and decide to put so much to reserves is that not just merely a transfer in the books?—No, that is represented in the debts due to you, cash, or in other assets. It increases those assets.

Liquid reserves. Are they held in Government stocks?—To some extent.

In realizing reserves what is the procedure?—Realizing reserves for what purpose, banks usually have a policy of maintaining their reserves, not depleting them.

Mr. Harle: Mr. Shaw has had experience of that in London he would probably be able to answer that question.

Mr. Shaw: The banks reserves are largely held in London because of the better means of investment and also the better market and the better nature of the security which is obtained, liquid security, for instance, Treasury bills, money lent to the money-market or British Government stocks.

Dr. Sutch.] New Zealand banks deal in all those does it not?—Oh, yes. A bank holds its reserves. Speaking for ourselves, our reserves in London are in what we would call gilt-edged securities which can be sold in London at a minute's notice.

So that they would be sold if you wanted cash?—Yes. If you started to sell Government securities in New Zealand to any extent it would have an immediate effect on the market, and if you wanted to call in your overdrafts it could not be done.

I am sorry if these questions appear simple, but I want to get clarity. Is it possible that the banks in New Zealand have been too cautious in accumulating reserves?

Mr. Fussell: I think that is quite impossible.

Dr. Sutch.] Quite impossible to be too cautious?—It is quite impossible that the banks have been too cautious.

New Zealand seems to have hoarded almost as much proportionately as France or the United States. What is the use of this great amount of "dead" gold New Zealand had?—Has or had?

Had from 1914 onwards, and also prior to that time?—You recognize that there is a provision that gold cannot be exported without the permission of the Minister of Finance?

But some gold was exported with his permission?—Yes.

Why have that huge amount of gold, because it was a huge amount compared with other countries?—The currency was covered pound for pound by gold.

That was the reason?—It was actually covered.

But was that the reason, that they wanted the currency covered?—I should not say so. In my opinion there would not be any real need for that, but there is this aspect that a country is never so sure of itself as when it has its notes backed by gold. Its gold reserves are its mainstay. It is an asset of value no matter what happens to other things or other values.

You have not the figures for sterling funds held by the banks in the last decade ? Are they included in the Australian operations ?—I would not like to say.

For taxation purposes must they not be segregated ?—For taxation purposes I should say that London figures would not be combined with New Zealand.

The Bank of New South Wales in a recent bulletin compared sterling funds held on two different dates. Could that be done in New Zealand ?—No, because the figures have not been segregated.

It is obvious from some of the answers to questions that there is no monopoly of credit in New Zealand ?—That is quite true. Mr. Ashwin mentioned the other day that the total mortgages in the country amounted to £200,000,000 and the total of all bank advances including mortgages is only one-fifth of that amount.

Could you tell the Committee, in regard to question 19, why it is necessary to sell securities to add to the cash holding rather than issue more notes ?—You mean print more notes and hold them in the till ?

If you want money for cash purposes ?—If you printed more notes, they would not be cash.

You would want cash ?—Yes.

You sell securities to get cash, why not print notes ?—Well, that would not give us sterling.

You would not sell securities in New Zealand to get cash in New Zealand ?—I do not know of any case where that has been necessary.

I thought it might be so in New Zealand. Why do you say, when you admit that New Zealand is on a sterling standard, that your bank paper money is inconvertible ?—I mentioned that not as a definition but as a description.

It is not a very important point and you say it is just a description of existing inconvertible bank paper money ?—Inconvertible into gold, but convertible into——

It is convertible into sterling exchange ?—It is convertible at a proportion, not pound for pound.

So it is not inconvertible ?—No, but so far as economics is concerned it is not convertible, because it is paper money which is not regarded as convertible into gold.

But you are using a sterling-exchange system ?—It would not apply there. However, that was just a description.

You are speaking of convertibility with a gold-standard country. I am speaking of convertibility with a sterling-exchange system, which is the New Zealand position. One other point. Do coins come into circulation by minting ?—As a result of the minting of coins it could be described more accurately, as the person who has the bullion would take it to the Mint and the Mint would issue the coins back to him.

Does that happen ?—Not at the present time.

They have stopped minting coins now, gold coins ?

Mr. Harle : They only issue gold to the value of 400 oz.

Dr. Sutch.] I meant gold coins.

Mr. Ashwin.] I have not many questions to ask, as Dr. Sutch has brought out some of the points I was going to mention. I was interested in the statement you made when you said you were taxed on income unearned. Is that correct at present ?—I do not know that I would put it in that form, but we are taxed on the assumption of a certain income.

What I mean to say is, do you suggest that the income on which you are taxed is greater than that which you are earning ?—Yes.

Would you say that that applied generally over a period averaging good times and bad ?—No ; as a matter of fact, I do not think it would, but the position is that the banks would rather be in the position of paying a fair rate of income-tax when they are making good profits and being relieved, just like trading firms, when there are times of stringency.

I appreciate that. Would you say that the nature of a banking business is suitable for taxation on a company basis ?—That is another matter. That is a matter of machinery. The banks are of the view that it can be done ; that is why they ask for it, and it is done in other countries. I do not know of any other country where the banks are taxed precisely on the basis they are in New Zealand.

Are you aware that the banks were originally taxed on the company basis ?—Yes.

Are you also aware that some of the banks' returns disclosed no income or very little ?—When was that ?

Somewhere about 1898 ?—I would be very much surprised to hear that they disclosed anything much at that time.

Are you also aware that the present basis of taxation was actually suggested by one of the banks in operation at that time ?—I would say that the banking conditions of to-day are not such as would make that system so equitable as the taxation on income.

I do not want to embarrass you, but I wanted to bring out the point that the bank is not the only class of business where it is necessary to have a more or less arbitrary basis of taxation ?—I understand that, but I wanted to mention that the banks felt it would be more equitable if they were taxed on the basis of their income ; that would mean that in good times they would pay more and in bad times they would pay less.

You would agree that that must be contingent on the Tax Department being able to devise a system whereby they could ensure that you do pay on the income earned in a year ?—I should say, speaking without prejudice, that it is for the Tax Department to devise an equitable system of taxation, because they are getting the benefit.

You will also admit that there is considerable difficulty in the case of tracing the domicile of the profits earned by a bank which is trading partly in the country and partly overseas ?—There are certainly some difficulties, but I do not think they are insurmountable.

You probably are aware that the matter has been considered ?—Yes, I realize that the matter has probably been under consideration before.

It has been considered on numerous occasions ?—Yes.

Hon. Mr. Downie Stewart: Last time it was taken out by the Statistician it was found that it would not make much difference one way or the other whether the banks were taxed on the normal method or on their present artificial method, because it fluctuated some years one way and in other years the other way.

Mr. Fussell: What year was that ?

Hon Mr. Downie Stewart.] 1926 or 1927 ?—It is quite possible it would be so then.

Mr. Ashwin.] The real difficulty is the Tax Department. In a banking business, so often it is almost impossible to check up on the statements. Unless they go to the extent of keeping a man at the banks they could not do it ?—I put it to you that it should not be necessary to check up on the banks' statements in this country. They have been accepted always by the Tax Department and the Government, and they have no reason to do otherwise; such is the reputation of the banks in this country.

Similar statements are accepted from private individuals, too, and companies, but behind it all the Tax Department has the means of checking up an entirely private company or individual by going to their books, and they do that periodically, so that the power they have over the companies and individuals would be lacking to some extent in the case of the banks ?—The Commissioner of Taxes can go to the banks.

Mr. Ashwin: He has the power to go, but not the means whereby to check up on the banks. I will not follow that.

Mr. Fussell: Do you mind my interrupting. Would it be possible for your Department to consider that, when times are bad, the amount that the banks were assumed to earn be taken on their assets and liabilities. Where they earned two-thirds of the previous year, they might be taxed on two-thirds of the average assets and liabilities. It would relieve banks in difficult times and enable them to pay more tax when profits were good.

Mr. Ashwin: Yes, we could quite easily do that; alter your rate of assumed income per cent., provided we could agree upon the rates ?—We could have it on the present rate on the basis of incomes earned in a certain year, and fluctuating as income fluctuates.

Hon. Mr. Downie Stewart.] Does it matter much so long as you pass it on ?—The necessity for passing it on means higher rates than the banks desire to charge.

Mr. Ashwin: Mr. Harle, I think, mentioned that in Britain they follow a different banking procedure in regard to advances than in New Zealand—that is to say, they keep two accounts, a current account and a loan account, and when a man applied for an overdraft, say, of £1,000 they debited his loan account and credited the £1,000 to his current account ?

Mr. Harle: That is called the cash credit system.

Mr. Ashwin.] Well, that of course would reflect in the bank's total figures; the total aggregate volume of purchasing-power available ?—If they were taxed on a liability basis such as we are, it would hit them very hard.

I am speaking not from the point of view of taxation, but from the point of view of information disclosed by bank returns. Their returns disclose the total of deposits that can be borrowed upon at any time; that is not the case in New Zealand ?—You would require to know the limit. In granting an overdraft in New Zealand the borrower is granted a limit up to which he may overdraw. It is conceivable, and it is a fact, that he does not draw all at one time. He draws his daily requirements, so that the margin between that limit and his drawings is his undrawn drawing-power.

That is the point I wish to make. It comes down to this, that the total purchasing-power available to the community in New Zealand in good times is the amount of free deposits as disclosed by the bank in their returns plus the undrawn portion of the overdraft up to the limits fixed ?—That is put very well.

Another statement arising out of your discussion with Dr. Sutch: You said if people took their money away outside the banks, the banks would lose deposits ?

Mr. Fussell: Yes.

Mr. Ashwin.] How would that come about ?—For instance, say a bank had £1,000,000 advances and another £1,000,000 deposits, and the money derived from that was spent in such a way that it eventually found its way by being deposited in one of the other savings-banks or in another bank.

Are you speaking from the point of view of individual banks ?—I meant that if the person who had a claim on the bank did not want a deposit but wanted its value, the bank could not provide it for him unless it gave him gold in a gold-standard country, or gave him notes, but he certainly would not want to hold that form of value. That extra advance, if it were not in conformity with the amount of his deposits, would mean that the bank had that debt somewhere. When a cheque is drawn, that cheque is a claim on the bank. The negotiation passes that claim, but it does not extinguish that claim.

That is not my point. You mention here that it is necessary for the banks to offer deposit rates to compete effectively with the Post Office Savings-bank and the Public Trust. First of all, I will suggest to you that the class of money in the Post Office Savings-bank is different from that normally in a trading bank ?—What do you mean by "the class of money" ?

I mean that the class of money that goes into the Savings-bank is not commercial funds ?—No, I quite agree with you there. It is usually funds that people wish to put by and do not intend to use as a circulating medium at the present time.

Then you see, does not that itself discount any competition between the Post Office Savings-bank and the banks ?—No, I should say that the fixed deposits, the deposits on which the banks pay

interest, come into the same particular class as the deposits in the Savings-bank—namely, money that people do not wish to use at the present time.

They are a different type of funds. Would you suggest that the clerk or the working-man wanting to save money would go to a trading bank ?

Mr. Harle: We have numerous deposits of varying sums, down to the sum of £5 each.

Mr. Fussell: When putting the rate up, the bank does not necessarily want to attract deposits from a savings-bank; more often than not it is to stop deposits drifting away from the bank. I should say that a person getting 2 per cent. on fixed deposit in the bank, if he found he could get 3 per cent. outside, would go outside the banks.

Mr. Ashwin.] I would like to follow through the transaction of deposits drifting away from the banks. If £100,000 on free deposits are transferred to the Savings-bank, what happens ? Is it not that your ordinary deposits will go down by £100,000 and your Government deposits would go up by £100,000 ?—That is the case, but take the case of one bank. It would not help one bank to know that Government deposits in another bank went up.

I am speaking from the banks' point of view collectively; I realize your difficulty in treating the banks individually. The total volume of your deposits is the same, but a portion is Government deposits instead of ordinary deposits. If that £100,000 which has gone into the Savings-bank is invested in Government securities, and we will say the amount is used to make a progress payment on the Wellington Railway-station, and the contractor lodges the cheque for collection, is not the net effect then that the Government deposit of £100,000 is extinguished, but the ordinary deposit has gone back to the original figure ?—Not necessarily, that contractor would probably be paying for materials at home.

I do not wish to introduce a complication. I am referring more to the internal position.

Mr. Harle: On an isolated transaction that would be the position.

Mr. Ashwin: Then your volume of ordinary deposits is left intact by that money going to the Savings-bank ?

Mr. Fussell: I am not sure that that is the case; it would undoubtedly be possible for the total Savings-bank deposits to be greater than the bank deposits.

Mr. Ashwin.] Oh, yes, that could come about ?—You mean that the sum could be paid out a dozen times.

The notes could. The point I wish to bring out is that a deposit in the Savings-bank is not part of the currency. It is called a deposit, but it is a different class of deposit and actually when there is a transfer from a bank deposit to the Savings-bank and it has gone through the channel I have referred to, your volume of deposits is not affected, assuming that the amount is spent internally ?—Assuming also that the transactions go back through the banks.

Well, they must ?—You consider that all of them must go back ?

Yes, one way or another. If they go back as a deposit or as a partial or whole liquidation of an advance ?—Even although there are outside firms who may not have deposits with the bank who accept deposits ?

There is a cheque drawn to pay that £100,000; that cheque is put here against that deposit ?—Yes, and it wipes that deposit out.

In doing so, it either increases some one else's deposit or wipes out an overdraft to that extent ?—Yes.

So that actually, though there has been this transfer of deposit, when the transaction is completed, your situation is really not affected, and the net position is that there is a certain asset over here as a backing for Government securities which are held against Post Office Savings-bank deposits ?—I look at it from the actual practical way; when deposits are in fact lower in proportion to advances, banks feel it is unsafe; they raise the rate and that restores that balance. Whatever the cause is, the effect of adjusting rates is that of bringing up deposits to the required level. It has the effect of restoring the balance. Sometimes you notice in the past advances have exceeded deposits. Deposit rates have gone up and the result is the swing has been round the other way, and the way the banks want it. The actual effect is that, if you increase the rate, you restore the required balance.

But where do these deposits come from ?—It is very difficult to say offhand where all these deposits——

Come back to this: How can the volume of your deposits be increased ? I suggest in only two ways; either as a result of external trade when the exports exceed the imports ?—And of course that is just part of our business.

Secondly, by an increase in advances ?—Yes, but it would not apply in the present case to the extent that it would be increasing advances; that would increase both sides *pari passu*, and would not restore the balance between the two. If advances are more than £5,000,000 more than deposits and the banks increase the deposit rate, you will find that the ratio between the two is restored.

That goes further back; what brings your advances to the position in excess of your deposits ?—Apparently it may be the reduction in advances rates, but then you notice that deposits go up also.

I suggest that your advances normally get ahead of your deposits only as a reflection of adverse trade conditions ?—Yes, and the Government's payments overseas and various other payments overseas.

I am including that, as the result of adverse commitments overseas ?—I would not say "only," but they have their effect; internal things have their effect too.

The only other way would be for the bank to go out and sell securities. If you go out and sell Government securities, that would decrease your deposits, would it not ?—Yes, it certainly would have that effect, and it would increase advances of people with overdrawn accounts.

That is not a normal transaction, but normally it seems to me that the only way in which you could arrive at a situation where you have an excess of advances over deposits is the reflection of an unbalanced external position ?—I will agree that this is the major factor, but would not say that this is the only one.

Apropos of that, you mentioned that at the present time the ratio of advances to deposits has fallen ; is not that due to the fact that we have a large surplus on our external position ?—Taking all advances ; you are including the Government ?

Well, not necessarily ?—I would not go so far as to say the ratio has fallen if we include the Government. Including Treasury bills, the ratio is not far from normal at the present time. Treasury bills have made up the extra that otherwise would exist between overdrafts and deposits.

Only when you are counting Treasury bills as advances ; I was assuming Treasury bills as securities ?—That is just the way you look at it. The bankers look upon discounts as part of their advances, and Treasury bills are discounts, as well as securities. Treasury bills are homogeneous ; they are advances and security.

Taking that view, of course, the amount is equal ; I suppose you have the security on one side and the advance on the other ?—No, because we do not put the security into the balance-sheet. For instance, if you had a farm valued at £20,000, and borrowed £100, giving the farm as security we would not own the security and would not put that on the balance-sheet. We will leave the Government out of it. Where the position overseas affected that difference, the conditions that cause a surplus of funds in England are the same set of conditions that cause the maladjustment here ; both are effects and not causes.

Would it not be that the condition which led to us having a large balance externally would be the condition that brought about the other condition. As the result of the trade position, you have got disparity between advances ?—Yes, both are effects from certain causes.

With regard to fixed-deposit rates ; you say that advances business is not remunerative ; of course you have also your free deposits ; what is your average deposit-rate ?—That would be a very difficult matter to work out and I have not the information here. We would have to take into account the expiry dates of all individual deposits and the volume of deposits at different periods, and different unexpired currencies.

But at any given date, it would be possible to assess the average rate ?—Yes, it would be possible. It is mathematically possible to do so. The majority of the deposits are for twenty-four months, so that the average rate would be far nearer the maximum rate than it would be the minimum.

Are not the banks at the present time somewhat embarrassed by the amount of fixed deposits ?—You are asking me to tell you what they feel about it ?

After all, you are a business concern ; when your fixed deposits rise at the expense of your free deposits, the banks have to pay more interest. Would you not prefer to have more free deposits ?—To put it on a human basis, we would far rather have the free deposits for nothing than have to pay for them.

That is really the point of my question ?—It is quite true that the tendency has been for a greater proportion to be held on fixed deposit than on free deposit at the present time.

To what do you attribute this abnormal rise in fixed deposits ?—I should say to a very large extent it is due to lack of avenues of satisfactory investments or profitable investments, and people regard it more important to have their money on a gilt-edged basis, definitely safe and secure and to have a very moderate interest on that, even to the extent of moving over from the free deposits to a fixed deposit. People who would not have bothered to do so in prosperous times, do so now to catch that extra 2½ per cent. or 3 per cent.

Do not you think it would be a benefit to the country to lower your fixed-deposit rates with the idea of driving the people to make a more active use of their money ?—Personally, I do not believe that could be done. We have to see that we get our share of deposits to keep the ratio of deposits. I think it is desirable to lower the rates, or to enable interest-rates to be lowered. If the outside competitors, including the Government Departments, would be willing to reduce the rate, I think you would find that there would be no difficulty in the banks doing so.

I do not see that they can in the ordinary course take the deposits away from you ?—From the actual facts of the case, you will see that the deposits do go away from us at times, otherwise the ratio would not alter. You have mentioned that the cause is overseas, but the fact is there whatever the cause, and we have to adapt ourselves to the effect. I quite agree with your working-basis of the thing.

I think it is indicated in one of your replies to Dr. Sutch that in the past it has been the traditional policy of the banks to keep stable rates of exchange, year in, year out, and to bring about any necessary adjustments to the trading position by other means ?—I would not put it quite in that way. The *de facto* position was that England, Australia, and New Zealand had a paper currency represented by parity with gold and internationally by approximate parity which would be represented round about the gold points, and charging that rate of exchange did not cause any such maladjustment in the London funds position as would prevent the banks from selling the exchange bought at par at a rate on the same basis. The forces which would call for an alteration in the exchange-rate did not arise.

To take a concrete example : I think your telegraph rate on London stood at about 17s. 6d. for about ten years prior to 1914. In that period there were some quite considerable fluctuations in our external trading position. You did not find it necessary to alter the rate to adjust that ?—No ; I should say that to the extent that there is a fluctuation in external conditions, it would result from forces emanating internally, and the maladjustment emanating internally, if there was such maladjustment, would be corrected internally.

If the banks thought there was going to be an excess of imports, would not your line of action then be to cancel the unexhausted overdrafts on imports?—Oh, no; the banks have not adopted the policy of calling in advances that are on good security.

I was not referring to that at the moment. If you thought any time there was going to be too many imports, instead of first making an alteration in the exchange-rate, would you not set about it by first of all cancelling the unexhausted overdraft authorities of imports?—Do you mean to the extent that a man may have an overdraft arranged but had not drawn to the full amount?

Yes?—No; if the security is satisfactory the arrangement stands; they do not depart from the arrangement, though of course that is subject to the general principle that bank advances are repayable on demand. It is a safeguard, but you do not find in practice that this is exercised.

Then your answer is to the effect that it is not the practice of the banks to be, shall we say, liberal on the one hand and somewhat stringent on the other in the matter of advances as a factor to adjust any swing of the trade situation they can see?—I should say not. The position usually has been that the people who cause the maladjustment can be induced to stop by fixing interest-rates in accordance with the demand. If the interest-rate goes up, those who have an effective demand can still have their advances; the others will cease causing a situation of maladjustment which is not an advantage to any country.

The overplus of imports must be pressure on your London funds; if you do not interfere with the exchange-rate for long periods, how do you direct those funds?

Mr. Shaw: The fluctuation, if it is only a matter of a couple of pounds, is not enough to regulate anything, either to increase or restrict. It is rather different when you come to the question of 125 per cent.; that is quite definitely a deterrent, but not when the old exchange-rate used to be something under £1. If there was a change—it might be 10s.—that was not sufficient to act as a deterrent, though it possibly may have reflected a certain amount of strain on London funds. I think that the banks would of necessity (and have in the past to my knowledge) restrict, say, credits with the view of preventing too many imports. It is more or less done in connection with a man's own position, as Mr. Fussell said. It is the proper banking practice to put pressure on in those particular cases, otherwise you might run right out of London funds.

Mr. Ashwin.] Exactly; that is the point. I was trying to get at the method.

Mr. Fussell: You mentioned a shortage of London funds arising from increase in imports. The practice for many years in New Zealand has been for an almost constant stream of London borrowing on account of this country to cause a stream of London funds to be made available, so that increases in imports would not be the strain on London funds that they would otherwise be. This was a young and developing country and there was plenty of scope for using borrowed money, and that enabled us to import more than we otherwise would have done without pressure or interference with the exchange-rate.

Mr. Ashwin.] Quite so, but apart from that, this is going to put the total amount of imports up by the amount of the loan, but apart from that the system is likely to get out of balance. It did in 1920 or 1921, and I was endeavouring to ascertain what method the bank used to check any actual overimportation or any threatened importation. Preferably they should act when the excess is threatened?—In 1921 the advances were greater than the deposits. Also in 1921, the deposits being lower, deposit rates were put up, and on the same date, to preserve a balance, the advance rates were put up. The result was that shortly afterwards—two years afterwards—the deposits were in excess of the advances.

The effect of that must have been that putting up your advance rate must have discouraged your imports?—To the extent that it was so, if it was so. The main thing we had in view was to restore that balance in New Zealand, because we considered it bad to have that maladjustment. In correcting that, the very people who were causing it were deterred. If the banks had said, instead of correcting the position gradually by operating the supply of and demand for credit, we will do it indirectly by altering the exchange-rate, the effect would be that it would not necessarily fall on the people causing the maladjustment. It would be a transfer of wealth from one section of the community to another section, and would be inequitable. To the extent that any maladjustment would cause a lowering of the exchange-rate at a time when we are on a par with sterling it would mean some sort of adjustment by way of gold movements or other such movements.

Mr. Lye.] I am not going to criticize the administration of the banks or go into technical sides of banking or currency, because I am not an expert, but I wish to elicit a certain amount of information on questions of public interest. First, I would like to ask Mr. Fussell if he considers the banking and monetary system of to-day fairly satisfactory, sound, or is there room for appreciable improvement in the methods employed?—To what extent do you mean "methods employed"? I consider improvements on the lines I have mentioned such as reduction of the cost of credit might be made, but I do not see there is any lack of credit available for sound purposes. I would like to see that credit cheaper.

The statement is being freely made throughout the country that to-day there is a great shortage of credit and currency.

Mr. Fussell: No shortage of credit is suggested, but if a person has nothing to give, nothing in demand in any shape or form he cannot get credit; if you have no goods to express in money you cannot get the money.

Mr. Lye.] If the banking system is the cause of our troubles, bringing about a lack of purchasing-power, will you agree that it becomes a first public duty of a person, if he has a solution to advance, to advance it for the purpose of examination?—That is undoubtedly so, but you are arguing on the assumption that our troubles are caused by the banking system.

And the banks would welcome any suggestions ?—How do you mean ?

In a section of the public mind there is a suspicion that the banks are the enemy of the people in this country and therefore if there is any doubt the banks would naturally welcome an examination into some of the proposed remedies ?—I should say so, providing those with unsound remedies did not sway others into accepting them.

I would like to clear up another matter : Is there not need to have at any time or all of the time credit or currency in circulation equal to the value of the goods produced ?—Decidedly not ; it is decidedly wrong because it ignores the velocity of circulation.

In asking Major Douglas to explain the importance of the velocity of circulation of credit and currency, he attached no importance to it : could you briefly give us your viewpoints of the part played by the velocity of circulation ?—It is well known that 1s. can purchase £1 worth of goods if it circulates twenty times. Major Douglas's idea is a decided fallacy.

Can you give an explanation of the frequently made statement in public—it also appears in the press—that banks create and destroy credit at no cost. I would like a definition if I can get it of what this costless credit is ?—Credit is the use of wealth that is made available to one person by another, and the banks do not create credit, in the sense that they make something out of nothing. Credit is on a tangible basis. For instance, if a man goes to a bank and gets an overdraft, that credit is the basis of the value that he has.

Does the ratio of deposits really influence the position as to the amount of credit available ? I am just asking a simple question and trying to get a simple answer which any one would understand ?—The *de facto* position is that when deposits are not in sufficient volume the balance is restored by increasing interest-rates all round. That has always had the effect of restoring the balance.

Has it the tendency to restrict credit ?—It has that tendency.

It is frequently stated that every bank loan creates a deposit. Accordingly, is it true that it at the same time creates a debt against some asset the borrower has ?—I understand that is true. A classical example is that of the Hon. Reginald McKenna who said that every bank loan creates a deposit, but my own view is that when a loan is granted the customer's account is credited with the amount of that loan.

What is the ordinary practice ?—In New Zealand we grant accommodation by way of overdraft that enables a man to pay interest only on the amount of indebtedness from day to day ; it is not correct in New Zealand to say that an overdraft creates a deposit, but it does create a debit—it always does that. It is not a deposit for this reason : if a man gets an overdraft and draws a cheque for £100 and pays it into an account that is not in credit it does not affect the deposit at all.

Do you know of any method by which purchasing-power could be made available to people who have no security ?—I know of no way at all—there is no way of getting something for nothing. The printing of credit notes would not meet the position. That would not be possible unless there was security or assets. The mere printing of the notes would be no good unless the people had assets which would be expressed in the form of goods—unless there were goods or services to be offered in exchange for these notes it would not meet the position.

I presume you will agree that there is to-day a lack of purchasing-power ?—I would not say that. The real difficulty is the lack of confidence. In New Zealand at the present time there are free deposits of £70,000,000, but the people who have this money cannot be induced to purchase things with it.

That answers in part only the question I have asked. Are there not really a number of factors which have been responsible for the falling-off of the purchasing-power not only in New Zealand, but in other parts of the world ? This falling-off in purchasing-power : do you consider it has been due in part to any failure of the banking system ?—No, I do not consider it so. I wish to say that the troubles at the present time are not monetary and cannot be restored by monetary measures. Various economic forces are responsible ; personally, I do not think the monetary system has anything to do with it ; and if these things which cause the trouble were righted the monetary system would reflect that improvement.

Would you say that the burden of war debts, Britain reverting to the gold standard, and the hoarding of gold are a number of factors responsible for this fall in prices—the setting-up of a process of deflation—and the consequent fall in prices ?—I consider that the war debts in conjunction with the attempt to restore the gold standard were part of the cause, but the main part is the fact of the impossibility of satisfying the huge commitments with security which did not exist.

I presume that you are aware of the fact that this Committee of Inquiry to go into monetary matters was set up as the outcome of a general demand for an inquiry into the monetary system ?

Mr. Fussell : I am aware of that.

Mr. Lye.] Would you say that the only real proposals for monetary reform that appear to have caught on to the public imagination are the Douglas proposals ?—I would not say that the Douglas proposals are the only ones.

To any great extent I mean ?—I should say that the Douglas proposals have more discussion than anything else.

Would you say that there appear to be two schools of thought in connection with banking and currency—say the " Douglas " school and that of the present banking system—which may be described as the orthodox and unorthodox methods of currency ?—What I should call the orthodox and unorthodox.

You would say that is a fair statement ?—In my opinion.

Now, I presume that behind any system of banking and currency the idea is really to promote and facilitate the exchange of goods and services, is that right ?—That is right.

And that money is only required to a limited extent. Really the thing that we want to bring about is the free exchange of goods and services, and the question of greater volume of money ?—That is limited to a certain extent in the exchange of goods and services.

That is so, that is really money either in the form of metallic money or paper currency in circulation ?—That is correct, goods pay for goods.

There has been a demand for the establishment of a National Credit Board or National Credit Authority. I put it to you, would it be possible if the State actually controlled the banking and currency of the Dominion—that would not in any way enable the National Credit Board or authority to issue credits except on the usual established sound practice of advances against securities ?—I would not go so far as to say that. Even when the Government issues credit, they are in the position of compelling people to accept the evidence of that credit in payments for debts and so forth, as happened in France, and the banks have not that ability; Governments can force loans (but that money must pass on a certain charge), and they can impose fines and so forth where people refuse to do so; but to the extent that credit is soundly issued by a Credit Board it would not enable more credit to be issued than there was a real basis for.

Witness: Behind the issue of any credit there must be more funds, and the establishment of a National Credit Authority or Board would not permit of the indiscriminate issue of credit unless there was adequate security or assets behind the issue of that credit.

Mr. Lye.] You would say the establishment of a National Credit Board should not permit, and it would not be likely to permit this? The question that has arisen and been discussed in New Zealand from time to time is the question that there must be a reform in our banking methods in this country which would allow the payment of interest on current accounts of credit on a daily balance, which I understand is the practice in Great Britain ?

Mr. Fussell: Yes, that could be done; it is not unworkable to do so; it would add to the running-costs and overhead expenses and to preserve that margin that is necessary the banks would be compelled to increase those charges. In Britain, on the other hand, the banks have very large operations and they have the advantage of their short term money-market, and the bank could pay a small rate of interest on a balance deposit account and would have the advantage on the other hand of using any surplus cash they might have—even for one night—on the London market. The banks in New Zealand have not that facility; if they had surplus cash for one day they would not be able to employ it.

Mr. Lye.] It is argued that if a person has a credit on a current account in a bank in New Zealand the bank has the use of that money; immediately that same person gets an overdraft he has got to start paying interest on all he has overdrawn. Is not the difference between the banking practice in New Zealand and that in operation in Great Britain this: If we wanted an overdraft for £1,000 in Great Britain I get that credit placed in my account and whether I use it or otherwise, the bank having established that credit, I have to pay for it ?—Pay the interest on the full amount of overdraft. If you have a balance in your credit account of £1,000 or £500 or £200 you still pay the interest on the £1,000. In New Zealand the position is that you are only charged the bank-overdraft rate on the amount actually overdrawn.

Mr. Fussell: If you reduce the amount of overdraft by £100 one day you would be relieved of that interest on that £100 for that day.

Mr. Lye.] Did you say definitely to a member of the Committee that the banks in Great Britain did charge an annual fee for the keeping of current accounts ?—That is the case.

Mr. Fussell: I have a memo. here, which has been written after conversation with an English banker:—

> "Regarding charges: These are also made up by means of arrangement with the customer where, for example, the account is a heavy one the charges are consequently considerable. Ordinarily, however, there is no negotiation between the banker and the customer unless the latter complains of the charges which are debited automatically."

Mr. Lye.] Following up the line of thought that I have been pursuing, do you say that the volume of business for the banks in New Zealand is not sufficient to warrant the issue of current accounts free of cost and the abolition of the internal exchange-rate that is charged on cheques—what is the reason—for instance, I may have a bank account in London and go to Edinburgh and draw on the bank in London and pay no exchange ?—Yes, you could do so; that is the result of the large scale of operations which I mentioned before. It is also due to the fact that the banks may distribute their running costs in different ways and if we gave cheques free of exchange within New Zealand then we would have to collect that amount in some other way.

It has been stated from time to time that it is quite possible—and some people go so far as to say it is a desirable way—to have a banking, credit, and currency system entirely independent of Great Britain and our currency and credit independent of sterling: have you any comments to make on that claim which has been made frequently ?—You may have a different coin from sterling, but it would have some basis or relation to sterling; that has been explained before. What we do in our trade with Britain is to send so many bales of wool, pounds of butter, and so on, and we ask in return for so many tons of pig iron or anything else, and were we to have a different self-contained system here we would still have to provide goods to enable us to buy goods from England.

Would you say that, seeing New Zealand is an exporting country, our economic welfare must always be largely determined by conditions governing Great Britain and the rest of the world ?—I should certainly say so. There is another theory that has been advanced—and it is quite possible—to base our financial system on production, and not on any metallic basis at all.

Mr. Fussell: Do you mean in that case it would have no relation to any metallic standard ?

Mr. Lye: Yes, that is the claim made.

Mr. Lye.] How would you arrive at any stability ?—I am not in a position to say.

I am asking you for your comments on the claim made ?—I do not consider it would make for stability if you did base it on production. It is the demand for production that is the deciding factor—the effect of demand for our production.

Captain Rushworth.] Can you give us your definition of inflation and deflation ?—Not necessarily in technical terms. My own view is that inflation takes place when the volume of money is, in relation to its velocity of circulation, is increased in proportion to the volume of goods and their velocity of circulation. That means that there is more money to do the work than there was before. I would say that that would result, other things being equal, in prices rising, and that it would be entirely a monetary effect, purely from increasing the volume of money. And deflation is just conversely. If we decrease the money in circulation without decreasing the volume in relation to the velocity of circulation of goods, although you can decrease the money in circulation and increase the velocity of circulation and that would enable the same amount of money, by travelling faster, to do the same amount of work, and the tendency would be not to affect prices, and therefore to avoid deflation.

Could you, by increasing velocity of money, pay off debts to the bank ?—I do not think that would depend entirely on the velocity of circulation, because the payment of debts to the bank is just one movement.

This question of inflation and deflation, could it be expressed that a state of inflation exists when you have a general rise in the price-level and a state of deflation exists when you have a general fall in the price-level ?—Not necessarily.

Then I did not quite understand your definition of the terms inflation and deflation ?—In what way do you mean ?

What is a state of inflation ?—What I mean is this, that if there is an increase in the price-level it might be due to an increased demand in certain directions.

But a general increase in the price-level ; an increase in the general price-level—that is, over all commodities ?—It is very difficult to make a general statement about it because in New Zealand if prices increased here and at the same time the prices we received for overseas goods increased it would not necessarily be a state of inflation at all.

Then how would you decide whether a country had adopted a policy of inflation or not ?—Normally speaking, for a very long time currencies have been related to gold, and an indication of the extent to which a currency has been depreciated, which is the converse of inflation, is the extent to which the currency is depreciated in terms of gold.

Then if we found a mountain of solid gold in this country, that would not result in a state of inflation ?—It would not result in a state of inflation, but it would decrease the value of gold in proportion to the demand for it.

In proportion to the goods ?—In proportion to the goods.

Involving an increase in the price-level ?—Yes.

So that a state of inflation is an increase in the general price-level ?—Not necessarily. An increase in the general price-level can be a state of inflation.

Yes. But can you have a state of inflation without a general increase in the price-level ?—Yes, you can.

Could you give me an illustration ?—If the volume of goods decreases.

Well, if the volume of goods decreased and the volume of money remained constant, surely you would have an increase in the price-level would you not ?—Would you say that again.

If the volume of money remains constant and the velocity and the quantum of goods diminishes you would have a state of inflation ?—It all depends to what extent the volume of money was in circulation.

We give that in. We will put it this way : If the volume of money in circulation remains constant and the quantum of goods in circulation falls you have a state of inflation. Is that right ?—It might be considered so.

Would you consider it so ?—That is a question that wants thinking out.

It seems simple enough ?—What I mean is, I am looking upon gold as having an intrinsic commodity value, and the way I was approaching inflation and deflation was as regards the paper currency issuing the titles to purchasing-power without increasing the work it was to do.

Yes. You see why it is so necessary to have a clear understanding as to what we mean by the word inflation, because otherwise we shall be stumbling over it later on ?—Yes, that is right.

Is it not a fact that the term inflation is applicable to a general rise in the price-level ?—No. As I mentioned before I do not consider so. You might consider so.

I want your opinion ?—I would not regard it as inflation if the supply of gold increased in relation to the supply of goods, and the currency based on the gold increased to that same amount, because all that it means then is that the volume of money to do the same amount of work is more and the money has an intrinsic value. But what I mean by inflation is that if the quantity of paper money is increased and the work it has to do is not increased, I look upon that as inflation because the reason why that sort of thing is done usually is for some other authority or some one to get the difference—get the margin, and reduce the real burden of debts payable.

May I put it, then, that you personally make no equation between money and goods, but only between various forms of money and gold ?—No. As regards inflation, it is a term I understand as referring to depreciation of the paper money in respect of gold and a rise in prices on account of a greater increase of the gold supply available. I would not consider that inflation at all, although it might be considered so.

There has been no increase in the general price-level, I am told, in Egypt and Sweden, but in neither cases are the moneys of those countries related to gold. Would you say that there is a definite state

of inflation there ?—No. I cannot see how you would say that they are not related to gold, because of their purchasing-power in comparison with the purchasing-power of gold, there would be a relation there.

So that the meaning you attach to the term " inflation " really is the relationship of money in its various forms to gold. Is that it ?—That is the way I am understanding it in this particular case.

No relationship to the price-level ?—I do not say it has no relation to the price-level. What I am saying is that a change in the price-level could take place without its being inflation.

That is to say, inflation might or might not take place irrespective of the price-level ?—No. I would not say that. What I say is that all increases in price-level are not necessarily inflation.

Then how would you decide that a state of inflation has arisen ?—In gold countries, in countries whose currencies are linked to gold, by the relation of the paper currency to the gold.

And in other countries, countries not linked to gold, how would you arrive at it ?—You mean in countries like Egypt and so forth ?

Never mind ; any country not linked to gold. How would you arrive at the state of inflation ?—Well, considering between two points of time, if, at a certain time, the price-level was at such-and-such an amount and the volume of goods and so forth were such-and-such a quantity, and then there was just the monetary change without the relation of the goods changing, a state of inflation or reflation might exist between them. Why I use " reflation " is that we may be merely returning to a previous basis which was considered as normal.

Of course, the terms " inflation " or " deflation " or " reflation," if there is such a word, are relative ?—Yes. That is why I mentioned gold, because I regard it as being relative to something or some commodity.

So that you personally would be quite satisfied that if there were a general rise in the price-level a state of inflation might not exist ?—It may not exist.

Here in New Zealand ?—For instance, if we return to the price-levels and the incomes and the volume of goods and services that we had before, when both Britain and New Zealand were on the gold standard, we would be very much more prosperous than we are to-day, and we would be paying higher prices than we are to-day, but I would not say that a state of inflation existed then.

So that if we as a Committee here had any proposals put before us which involved a general rise in the price-level, it would be quite wrong for us to suggest that that necessarily meant going into a state of inflation ?—In my view, a sound basis of returning to the price-levels that have existed before would not necessarily be inflation as compared with the parities and standards that existed before the depression.

We are taking the position as it is now ?—Well, you must compare it with something. You must relate it to something.

We are relating it to the present situation. Supposing a proposal were put before us involving a general rise in the price-level as from now, would the Committee be wrong in suggesting that that would necessarily involve a state of inflation from now ?—Yes. I consider there is a distinction between inflation and reflation.

What is the difference ?—I consider that reflation is returning to a basis that was formerly considered as normal, and that inflation would be, as I have described, the depreciation of the currency in respect of its original purchasing-power.

But supposing your previous state was abnormal and that you are back to normal now. If you go from the normal to the abnormal would you call that inflation and not reflation ?—Not necessarily, because " re " means back again, and if you are not returning to anything it would not be inflation.

It would be back to the abnormal in the case suggested ?—Well, that would be re-inflation.

Well, it would be justifiable, would it ?—Not necessarily.

Well, I will let that go for the moment. I am satisfied with the answers so far. Do the banks operating here in New Zealand act as trading concerns for profits ?—They do.

For the benefit of the shareholders ?—It is for the benefit of the shareholders and also for the benefit of the community, because banks are what may be called quasi-public bodies.

Yes. That has been mentioned once or twice this morning, that the banks, on occasion, operate in the interests of the community as a whole. What I want to ask you is, what happens when the interests of the community as a whole and the interests of the shareholders are in conflict ?—I do not consider that they would come into conflict.

No. But what would happen if they did ?—Well, the community interests would have sway. For instance, it would be to the interests of the shareholders at the present time to increase the overdraft rate.

Yes. But that is not my point. My point is, when the interests of the shareholders and the interests of the community as a whole are in conflict ?—I am wanting to understand you, and if you will explain how the interests of the community as a whole can conflict with the interests of a very large body of them drawn from all classes of society and from all grades of wealth, I might be able to do something. But the thing is that I cannot see that they do conflict.

Is there any way in which, in the event of such a conflict, the interests of the community could be made paramount ?—In cases of national emergency the policy of banks is directly concerned with national interests, but still, at the same time, those interests, I affirm, are the shareholders' interests also. The shareholders are a part of the community and not of any section of the community or any party in the community, so I consider that the body of shareholders are a representative body of the community.

Well, surely they are a section of the community. They must of necessity be ?—Yes. But I mean that no party or divided section. For instance, you would not say that their interests were exporting as distinct from importing, or that they had any political colour at all or any religious colour.

You remember what my question was. It was, in the event of the interests of the community as a whole and the shareholders' interests being in conflict, is there any means by which the interests of the community can be made paramount?—Well, until I can consider that the interests of the community are different from the interests of the shareholders, I do not see how I can answer you. The interests of the shareholders are the same as the interests of the community and they are both paramount.

I will let it go at that. Do the banks actually lend the money that is deposited with them?—The exact answer to that, in my opinion, is that in respect of a large part of their deposits they may lend some of their deposits. The actual money paid in may be lent out again. For instance, if you paid in some coins to the credit of your account those very coins might be lent out, but if you paid a cheque into your account, that very cheque would not be lent out, and I would like to refer to the fact that according to law money deposited with a banker ceases to be the money of the depositor and becomes the money of the banker, who is under an obligation to repay the depositor a similar sum. Now, the bank lends money to those who borrow from them. The net position is this, that they borrow money and they lend money, and that they cannot lend money unless they borrow money except under certain limitations.

What do the banks do with the money that is deposited with them. Will you trace out the actual process?—If sums are deposited with bankers they record that they have an obligation to the person who deposited that money to the extent of that amount.

What obligation?—They become liable to repay to the depositor the same sum that he paid to them. That means that if a depositor deposited a cheque for £100 that depositor has the right to draw a cheque for £100 on the bank.

What does it cost the bank to do that?—That goes into the question of overhead expenses, to provide the facilities for doing that, a roof over their head and so forth. I could not give you the exact figures or anything like that, but they go into the running-expenses of the concern.

I am satisfied of that. Following this question of deposits again, if the money is paid into the bank on a twenty-four months' fixed deposit, what does the bank do with that money?—That money becomes part of the bank's money resources and it is against these money resources that the bank advances money on loan.

Do you suggest that the bank's power to make advances is limited by the amount of the deposits?—Generally speaking, that is the case. The Right Hon. Reginald McKenna said what has often been quoted, that the banks can create money and so forth. He was referring to the fact that they could advance money and later on in the same book he said traders often assume that the banks can issue loans to as great an extent as they like, but this is not so. The banks can only lend to the extent of their cash resources. That is a statement made by the Right Hon. Reginald McKenna.

There is a little confusion still on the subject of these deposits. Do you say definitely that the bank's power here in New Zealand to lend money is limited by the amount of money that is deposited with them?—Not necessarily limited by the exact amount of deposits, because banks have other resources.

Do they lend any of the deposits?—As I said before, my view of the case is that the banks lend against their deposits, and I mentioned that they may lend part of the actual material paid in, but they do not in the case of cheques, of course.

Will you trace it through. A man pays in a cheque for £2,000 on fixed deposit. That is entered up in the ledger somewhere, is not it?—That is so.

Is there any corresponding entry on the other side that that £2,000 is lent to John Smith, or anybody else?—As far as the bank is concerned that is a debit from the bank to the depositor, and as far as the depositor is concerned it is a credit that is owed to him by the bank.

You have no corresponding entry in any book to show that that £2,000 is lent out to anybody else. Is that right?—In book-keeping the debit is "To cash received."

But the point I want is this: Is there any book kept by the bank in which that entry of £2,000 is shown as being lent out to somebody else?—That particular £2,000?

Yes.—There is no entry to show that that particular £2,000 has been lent to any one else, but the amount of that entry is covered by entries on the other side by way of loans.

You do not suggest that the banks do really lend their deposits?—My own personal view is that they lend against their deposits. They lend from the bank's funds and those funds are built up by the deposits.

You give the impression of fencing with the question. Can you answer it definitely. I want to make this quite clear?—I quite understand that.

The witness is giving me the impression that he is fencing with the question. Do the banks, or do they not, limit their powers to make advances by the amount of the deposits?—Yes, they do.

So that this statement that you have submitted to the Committee is not quite correct?—It is correct. What I mean is that the banks desire to preserve a certain ratio of deposits to advances.

Why?—It is ordinary banking prudence.

But why? Why do they desire to maintain that ratio?—Because if they overlent or overtraded and they did not have what they considered a sound and safe ratio of deposits to advances, their position would not be secure.

Why would their position not be secure?—Because there would be claims against them which would be required to be satisfied in some way, and if the way in which those claims were required to be satisfied were not acceptable to the persons having those claims by way of having a deposit with the bank, the bank would have to find other means of doing so.

You do not agree with the authorities that state that advances create deposits?—I have not said anything one way or the other, but I will say this, that some of the money drawn from the

bank by way of loan finds its way into banks by way of deposit, and no sound system can be devised whereby a person who drew a cheque on an overdrawn account was prohibited from paying it in to a credit account.

What proportion of advances finds its way into the bank as deposits ?—I could not give those figures.

You know that before that Commission held in London it was given in evidence that of the money transactions recorded by the banks in one year 0·7 of 1 per cent. was represented by currency, the remainder being by credit instruments of various kinds. Would that be something like the proportion here ?—I am not in a position to say that.

You say that the proportion of currency—— ?—Currency to banking transactions ?

Notes and coin—— ?—Notes and coin to banking transactions ?

Yes ?—Well, it is not possible to say what the proportion is here, but the thing is that the banking transactions by way of cheque is the volume and the velocity. That means that the note can circulate a thousand times and yet it only appears as one note-issue, but a cheque is recorded each time it passes.

We will deal with the question of velocity a little later. The point at issue at the moment is still this same question of deposits. Can you tell me how money comes into existence in the first instance ?—That has already been replied to.

In part. Would you mind elaborating a little. So far as metallic money is concerned, we know that comes into existence through the operation of the Royal Mint. When money was entirely metallic, all the money in existence originated at the Royal Mint. Is that right ?—Or at some mint. By minting, yes.

So far as Great Britain is concerned it is the Royal Mint ?—Yes.

There is only one mint, the Royal Mint ?—That is so.

With the development of the monetary system the metallic money has become a very small proportion of our total money ?—That is the case.

Our total money, in Professor Walker's definition, the one you have adopted, consists very largely, almost entirely, of credit instruments of one form or another. Is that right ?—That is the case.

Those credit instruments we commonly corrupt into the word "credit." We talk of the credit structure and so forth. Now, the amount of credit that is issued by the banks and takes the form of credit instruments of various kinds is based in some way upon the currency, that is the cash reserves of the bank. Can you give me any idea as to the proportion ?—Are you referring to banking in New Zealand ?

Yes ?—I should say in New Zealand it is round about 20 per cent.

In Great Britain they found it quite safe to assume from ten to twelve times of credit to the English reserves they held; do you think it would be more like five or six ?—What do I think would be more like five or six ?

The amount of credit; the total volume of credit instruments that the bank can issue that has a relationship to their cash reserves. Is that right ?—Yes.

Because that may be used to draw on cash. About what proportion ?—In New Zealand ? I have said I think it is round about 20 per cent. in New Zealand, but the system is not quite the same.

I know that. The banks here can quite safely issue credit beyond the limits of their cash reserves. They do in fact do so ?—What do you mean by "the limits of their cash reserves" ?

You have a total volume of currency, notes, and coin; you can issue credit beyond the limit of that currency ?—You say we have currency, notes, and coins; do you refer to the notes in the tills of the bank as being coin ?

No, legal tender ?—Legal tender in the banks ?

I am using the term "cash" in the same sense that it was used in the Act passed by the British Parliament in 1819 when the Bank of England was authorized to use cash payments; cash in the ordinary accepted sense of the term covering all forms of currency. The banks here operate on a certain volume of currency; that currency is limited by certain other things which I will touch upon presently, but they are able to issue credit over and above the limits of their cash reserves ?—Do you include notes that are not in circulation which are held in the banks as cash reserves ?

Yes. You consider them as cash reserves ?—That is not correct, because notes held in a bank are merely pieces of paper and not entered on the bank's books at all. They are not assets or liabilities; they are only liabilities of the bank while they are in circulation; and when they are in the bank's hands, if they are all destroyed, it would not make any difference beyond the necessity of printing more.

What is the limit of the credit that the banks here may go ?—I cannot say anything as being the limit to the credit that the banks may go. It would be in accordance with their views of what may be soundly and safely given on the security which is the basis for that credit and the bank' cash resources or funds.

What is that "cash resources" you are talking about ?—The actual metallic money and the reserves.

What reserves ?—General banking reserves.

What reserves—coin ?—Including coin and securities.

But the securities are not legal tender; you do not call those cash ?—There seems to be some confusion here in regard to legal tender, but the banks do not hold legal tender.

You said cash; I am trying to get a definition of cash ?—Cash resources are the funds representing amounts deposited by cash depositors.

What are they—are they notes?—No, they are obligations on the part of the bank; a debt on the part of the bank and a credit on the part of the customer.

When you talk of obligations, do you mean us to understand cash?—Not necessarily. From the point of view of the depositor, the depositor regards his deposit as cash.

You are the banker; you talk as if you can issue credit against your cash reserves?—No, I said resources. What I mean is against such resources as the deposits. They can issue advances against the deposits.

The amount of credit you can issue has no relationship to your note-issue?—In New Zealand there is no definite relation, but there is a connection between the amount of notes issued (and it is not a rigid one) and the amount of credit, but Sir Otto Niemeyer said that currency depends on credit. You may or may not increase the amount of notes in circulation but it depends, as I said this morning, on the habits of the people. If they wish to have more notes in circulation than they have at present, they can do so without necessarily increasing the amount of credit.

When you make an advance on overdraft to an individual, just exactly what do you do?—First, you enable the man to turn the value he has such as land——

No, what do you do? I mean the mechanism?—First, see whether the security is adequate, whether the present and prospective value is adequate, whether the manner of using that money is likely to be such that the money will be repaid. That is necessary. Then we give the person who is arranging to borrow the money from us a claim on the bank to that extent.

Yes, what do you do?—In the case of books we record that that man may draw on the bank to the extent of the amount of the loan.

What do you do? Do you do any more than write up a credit entry for him in your books?—We do not write up a credit entry in the books, but we give him the right to draw upon us.

You must make some note of it. In your system you must keep books?—You do not rely on memory; it is recorded in some way.

You make a note of the fact that he may draw up to a certain figure?—Yes.

Now that is written in the books; when he draws on that, he draws a cheque, and that may be in one of two forms, either to pay to the order of some one or to pay bearer. If it is to pay bearer, you as a banker have to be prepared to meet that in cash?—That is the case.

So that, when you write up an overdraft, you must have at the bank cash reserves because there may be a draw on cash. What would happen if you granted an overdraft for an amount, the man drew a cheque for cash, and you could not meet it?—That position does not arise where banks are constituted like they are at present, because, in the first place, it is not convenient for people to do all these large transactions by way of notes. If it were convenient and necessary for them to do so, we would have a slightly different banking system, as, for instance, in Germany and France, where the cheque system is not nearly so current as in New Zealand, and therefore we find there that notes in circulation represent a far greater proportion to cheques in circulation. Each country's banking system is in accordance with the habits of the country to that extent.

But at the same time whenever an overdraft is arranged for, there is always the possibility of some portion of it being a draw on cash, is that right?—There is always a possibility of some proportion of it being asked for in the form of cash, that is paper money or bank-notes?

You must be prepared to meet that in notes, if the necessity should arise?—Yes.

On the other hand, the cheque that is not a bearer cheque but is payable to order; what happens to that? That is eventually paid into the banking system and it becomes a deposit?—It may become a deposit or it may reduce an overdraft.

Yes, when it is so paid in, what exactly happens?—The customer by drawing a cheque exercises a claim he has on the bank. By paying it into a credit account, he transfers its claim on the bank.

What has the bank done so far?—The bank has enabled the person to use his own credit and has given that person a claim on the bank which the person has transferred to some one else or the bank, and so the person who drew the cheque forfeits his claim on the bank and transfers it to some one else, so the bank on the one hand has a claim on this person, and on the other hand has a claim against itself. There is a debit and a credit in the bank's books.

So that what the bank has done is some clerical work, some book-keeping?—That is the clerical procedure.

That is all right. There are one or two other points. The question of velocity. You indicated that the question of velocity is a very important one, and you illustrated it by certain articles you had on the table there?—That is so.

Whilst you were doing so a similar illustration occurred to me. Perhaps you would tell me whether it follows your line of reasoning. Two men together have 13s.; one has 6s. and the other 7s. They go into partnership, and with 12s. they buy a dozen bottles of beer. They then go out in a boat. One has 1s. left. After a while out in this boat they decide it is a pretty warm day, and the man with the 1s. says, "I will buy a bottle of this beer," and hands over the 1s. to the other man. He drinks the bottle of beer. The other man says, "I will have a go, too," and hands the 1s. back again, and so on until the whole twelve bottles of beer are consumed. That is the maximum velocity of money in that case. Trade is booming, but the net result is only 1s.?—The net result is that 12s. of business has been done by that 1s. changing hands.

Are you satisfied with that illustration as the working of velocity?—It is an illustration that 1s. can do the work of 12s. by changing hands twelve times instead of 12s. only changing hands once. Instead of having just the 1s. they each had 6s.; each would take his own bottles; both would finish up with six bottles and 6s. That is velocity of circulation.

Talking of the way money comes into existence and into circulation: under the existing monetary system coin still comes into existence through the operations of the Royal Mint?—That is so; you mean token coins, do you not?

I mean the ordinary silver and copper coins ?—Quite right.

Notes come into existence in a different way altogether. I put it to you that the banks are licensed to issue notes ?—That is so ; they are empowered by statute to do so.

Yes, and they have a monopoly ?—Yes, they have a monopoly of actual note-issue, but not of credit issue.

I am talking about the notes. If they have a monopoly of the note-issue, the credit instruments that the banks issue are connected with the note-issue ; they are greater than but are connected with the note-issue ?—They bear a relation to the note-issue to the extent that some of these credit instruments may be transformed into notes at will.

Have not the banks the monopoly of the issue of these credit instruments based on the note-issue ?—I do not say that the issue of the credit instruments is based on the note-issue. The note-issue has a duty to perform and credit instruments have a duty to perform, and some other system regarding the issue of notes would be necessary if this was not in existence.

Could the banks under the present system issue those credit instruments if they did not have the right of note-issue ?—There would have to be some right of note-issue or some statutory provision. When the Reserve Bank is in operation the bank must continue to issue those credits, but will not have this right of note-issue.

There must be some right of note-issue to enable the banks to issue the credit ?—In the case of a country where such credit is convertible into notes there must naturally be the notes.

If there is a monopoly of the note-issue, it follows that you have a monopoly of the credit issue too ?—Not necessarily. I do not see that ; other outside firms do not have the monopoly of issuing notes, but they can demand notes and can get them.

You say outside firms have the power to give credit ?—That is so.

Can they do that in the first place ? Must they not in the first instance obtain credit from the banks ?—Not necessarily. The total credit issued by the banks is £42,000,000, and the total amount of credit is well over £200,000,000.

Under what circumstances could a firm or individual in New Zealand give a credit, issue credit instruments, legal instruments, unless he had a credit with the banking institutions ?—If I bought a piano from you and I gave you an I.O.U. or promissory note, you would be issuing credit for the amount. You would enable me to exercise purchasing-power by means of a piece of paper without actually having money. You have increased the amount of credit. You have used my credit and the purchase takes place, but the settlement of the debt takes place later.

But I, as the owner of the piano, must have had a credit with the bank to get the piano in the first instance ?—On, no. We will put it this way : One person in every nine is a depositor, and one person in every nine has an overdraft. One in every four and a half has a bank account. Would you say one in every four and a half would have a piano ?

No ; it is only something to build up this credit on, surely ?—Not necessarily, because a credit may be based on real assets. I think the direction of that is the assumption that the banks have a monopoly of the real assets in the country, but that is not the case at all.

I think you misunderstand me ; I am still operating on Professor Walker's definition of money ?— Are you not talking about credit instruments ?

Yes.—Do you consider that Walker's definition of money includes instruments ? Would you mind reading it ?

Yes ; it is your own wording. I take it as being correct : " That which passes freely from hand to hand throughout the community, in final discharge of debts and full payment for goods, being accepted equally without reference to the character or credit of the person who offers it, and without the intention of the person who uses it to consume it, or enjoy it, or apply it to any other use than, in turn, to tender it to others in discharge of debts or payment of commodities " ?

Mr. Fussell : That means universal acceptability. " Without reference to the credit of the holder " ; I do not think you would accept a cheque without reference to the person issuing it.

Captain Rushworth.] A time payment agreement does not come within that definition ?—Cheques and credit instruments would not come within that definition. Unless guaranteed cheques, I take it ? Guaranteed cheques would. A guaranteed cheque would be a piece of money in the same way to all intents and purposes as a bank-note, but the proportion of that to the total amount of cheque currency would be negligible.

The great majority of credit instruments would be bills of various kinds ?—Sykes' definition of currency, " synonymous with money in its broader sense, and contains the two subdivisions of the coinage and the paper circulation—that is, bills, notes, cheques, postal orders, and similar forms of money ; they are regarded as not being money but currency."

They are not money in Walker's definition, quite obviously, but keeping within Walker's definition, do you not agree that the only parties licensed to issue money in New Zealand are the banks ?—Certainly not, because in accordance with Walker's definition, Treasury notes, Bradbury's, are money, and I should say that the banks have not the monopoly of issuing Bradbury's.

Mr. Fussell : Excluding Bradbury's, you are still including gold coins ?

Captain Rushworth.] No, I am satisfied with that. So far as Treasury is concerned, of course, the Treasury has not the legal right to issue notes in New Zealand, and we have no Royal Mint here to manufacture gold coins. In fact, they do not circulate. So that we come down to the practical result that, in the situation to-day, the banks operating in New Zealand have the monopoly of the issue of money ?—No, because the banks do not issue the coinage.

No ; I am sorry. I gave you that loophole ; excluding silver and copper coinage, the banks have the monopoly ?—The banks have a monopoly of issuing money to the extent that money includes only bank-notes at the present time.

Those credit instruments are based on bank-notes ?—No, I do not say that. I say that the circulation of bank-notes bears a relation to, but not a fixed relation to, the amount of credit, but there is no very fixed relation because the supply of bank-notes all depends on the needs of the community. They can go up when credit comes down, and they can come down when credit goes up. At a given day, say, a race day, the circulation would be very much higher and next day it is lower again.

Excluding gold coins, which do not circulate in the country, excluding silver and copper which do circulate, excluding any powers of issuing Treasury notes which may be issued, but are not, is there no power or authority in New Zealand which has the authority to issue money in Professor Walker's definition other than the banks ?—No.

It is right to say that they have a monopoly ?—The banks have a monopoly of the issue of money to the extent limited by you.

Limits are established by Parliament in that notes can be issued against security of coin in gold and bullion and public securities ?—That is so.

Public securities being defined as Government securities held either here or in London or Australia. Will you tell me what happens when a loan is floated in London ?—You mean a national loan borrowed by the country ?

We will say a loan of £10,000,000 for the purpose of providing hydro-electric machinery in New Zealand ?—My conception of the normal happening is for the amount to be added to London funds and money does not pass between the two countries, but goods pass, and if it is for the purpose of purchasing hydro-electric machinery, those funds in London would be used to pay for that machinery, and the machinery would come out. The amount would have been paid into the funds and taken out by the shipment of goods, so the net result is we have borrowed that hydro-electric machinery, and must pay for it by the shipment of goods.

Let us trace it a little more carefully ; go backward and then go forwards. When a £10,000,000 loan is applied for in London, that £10,000,000 is money, it is monetized, and it is spent in Great Britain ?—That is so.

Directly or indirectly, that is spent in wages, is it not ?—Do you mean the full amount ?

Yes, directly or indirectly ?—I do not say so. I do not say that the only cost in purchasing goods is wages.

I said directly or indirectly. It is not quite clear perhaps. A professional man receiving part of that £10,000,000 would spend it, would he not ?—Yes, I should say so.

If you trace it right back, you will find that wages are in it somewhere ; ultimately the whole £10,000,000 goes in wages ?—No, I would not say that.

Shall we say for the payment of services ?—For the payment of goods or services.

Right ; what are those goods and services in the ultimate ? They are such things as food, clothing, and shelter ?—Suchlike things.

In fact, even the service. If you take a stage further back, you will come to the same thing. The point I want to make is that that food, clothing, and shelter that are purchased with that loan-money have already been brought into existence. They must have been. So that, if the loan had not been floated, those goods (food, clothing, shelter, &c.) would not have been purchased. There would have been no money for them, would there ?—I cannot quite see that.

If the £10,000,000 is spent in providing food, clothing, and shelter in Great Britain, the food, clothing, and shelter having already been provided the failure to float that loan would have rendered those goods unsaleable ?—No, because the demand would have existed elsewhere. I should say that in connection with hydro-electricity the order goes in and the machinery is made ; no one goes and puts a tremendous amount of hydro-electric machinery on the market in the hope of selling it.

I do not think you have got my point. What I am trying to get at is that £10,000,000 is spent in Great Britain ; it is spent there and is utilized by the recipients to provide food, clothing, and shelter and suchlike things. If the £10,000,000 had not been floated that money would not have been in existence ; those things would have been already produced, they would have been surplus to requirements ?—But you say that they have already been produced ; you say the food, clothing, shelter, and so forth has already been paid for.

It is already brought into existence ; it is there. It is there waiting to be purchased and the £10,000,000 loan to New Zealand enables them to be purchased. Is that actually what happens ?—The way I look at it is that the amount of production is increased to the extent that our demand is an increased demand.

Possibly. Quite obviously the men engaged upon the work of manufacturing that hydro-electric machinery must have had food, clothing, and shelter while they were working on it ?—Yes.

The food, clothing, and shelter must have been produced first ; it must be there ?—Yes, I quite agree with you there.

So that the £10,000,000 loan is spent in the consumption of food, clothing, and shelter, which had been already produced ?—In the direct result I consider that it reimburses those who have provided that food, clothing, and shelter.

It reimburses the people ?—They would not get reimbursed if they could not sell the goods.

Having got that far, the people were reimbursed with that money for providing food, clothing, and shelter, and they very properly received payment for it. What do they do with that ?—The thing is that it depends on their financial arrangements. It might be that we are getting a little involved, but we will take the case of a man manufacturing machinery where he borrowed money, created a debt, to enable him to pay for these services ; when he sells his services he can repay that debt.

Yes, that is the point I wanted, that money then goes into the liquidation of the debt and is cancelled out of existence ?—We will put it this way, the money came into existence and the net amount of money was nil because the debt was minus the £10,000,000 and the cash was plus the £10,000,000.

And when the money had done its duty it cancelled out of existence?—Yes, and relieved the securities of debt; they were free of debt.

Now to go forward; the hydro-electric machinery comes out here and in due course interest and sinking fund on that sum, £10,000,000 has to be paid by New Zealand. New Zealand sends to London butter, meat, cheese, wool, honey, and fruit, in order to obtain sterling money with which to liquidate that debt. Is that right?—Yes.

But the money that came into existence with the debt has been cancelled. Would you agree with this: That New Zealand can only possibly pay that debt—could only obtain the sterling—if a loan to somebody else was floated?—New Zealand could obtain the sterling.

Only if money was created for the purpose of a loan to some one else?—Not necessarily. It seems very simple to me. I am looking at it from the goods side. We get the machinery out and we sent the goods over and the goods are sold.

Yes, how are they sold, where is the money, where does it come from?—The money is the purchasing-power in Great Britain, the demand.

We are talking of money, where does it come from?—It is not necessarily purchased by money.

It must be purchased by money if we are going to get money to pay that debt?—We might not have money to pay that. We must keep to the definition we were referring to and I am not ruling out of my conception that the staff may be paid for by credit instruments which are not money.

But surely credit instruments fall within Professor Walker's definition?—I consider they do not.

Do you exclude sterling from this definition?—Not sterling funds.

We are talking of sterling now. The money is borrowed as sterling whereby to repay that debt in sterling. Do you exclude sterling from this definition?—I do not exclude sterling funds, but I do exclude sterling expressed in the form of a cheque drawn for a certain amount of sterling.

However, that is immaterial?—I do not think it is.

You cannot draw a cheque against money that does not exist, can you?—You cannot draw a cheque against anything that does not exist.

Look at this thing further, when this £10,000,000, as far as the banks funds are concerned, is cancelled out there is still a debit to the New Zealand Government by way of debts on the London market. Although the funds, as far as the banks are concerned, have been used, still that debt is on the London market and when the goods finally go over to pay for that machinery what they do is to liquidate that debt which was against the New Zealand Government?—Yes.

But how do they liquidate it?—They can only liquidate it by obtaining sterling.

And that sterling is paid over to liquidate the debt?—Yes.

Where does the sterling come from?—Sterling comes from the price paid for the exports.

Where does it come from; where does the factory come from?—From the real resources of Britain.

But the real resources of Britain are not money?—They are not money.

We are talking of money; where does money come from?—We are back again to the same trouble; I am not talking about money in the sense of bank-notes.

My question is in relation to money to the extent that money, distinct from credit instruments, is used to pay that debt, and that cannot be until money goes over. We will come back to this in a moment. I will now ask you to tell me what happens in regard to floating a loan in New Zealand. The Government floats a bond issue here in New Zealand and it is taken up by the banks, how does the bank pay for it?—Do you mean that the banks buy that bond issue?

Yes?—It comes to this, that the banks hold the Government security and the Government owes the banks the amount of money involved. The banks enable the Government to draw cheques for that amount, and the net result is pretty much the same in effect as the present Treasury bill issue. The banks hold Government securities and the Government has the use of the spending-power.

How do the banks pay for the bond issue?—Again that comes from the banks. Lending-power is based upon the national credit—that is, the credit of the Government. It must have a basis and then, on the other hand, it is the banks funds.

What is to prevent the banks manufacturing the money themselves at no cost to themselves, drawing a cheque on themselves and paying the Government that way for the bond issue?—The thing is that by paying the Government a cheque they give the Government claims on the bank so there is a debit as well as a credit.

There is nothing to prevent them doing that, is there?—You mean to say there is nothing to prevent the bank merely giving the Government a cheque?

Not necessarily a cheque, it need not even be that?—They would have to give them some evidence of the claim.

The bank may write to the Government and say "we have written up a credit of £400,000 for the State Advances Office and we have taken over this bond issue"?—I do not think so. You mean to say that the Government would hand over the bonds before it received payment and say we may want to draw up to that amount?

It could not be done?—No, because if the Government wanted that they would say, "Here are Government securities; they are ours; we do not forfeit the title to them, but you can have them as security; and if we want to draw against them we will." And they would make arrangements with the bank to that effect, and those bonds would rank as a mortgage, not rank as the banks assets at all.

I think you had better let your colleague, Mr. Shaw, answer this question. I am dealing with an actual case that happened. The Bank of New Zealand took up the whole issue of rural bonds of £400,000. How did the Bank of New Zealand pay for that £400,000?

Mr. Shaw: Credited the Government Account.

Captain Rushworth.] They credited the Government Account. They may have written to the Superintendent of the State Advances Office saying he could write cheques on it, something of that sort ?—Nothing like that.

Just writing up a credit entry in the books ?—Really it seems we are making a terrible big song over a very small transaction, because as far as we are concerned when we purchased the rural-advances bonds we simply credited the Government's Account which gave them the right to draw on that account.

Yes, and you thereby created £400,000 of money—that is right, obviously ? I want to go further with this. Having created that £400,000 of additional money——

Hon. Mr. Downie Stewart: You are taking it for granted that it was created; they may have used their own resources.

Captain Rushworth.] I am inviting the question. Do you wish to add anything to what you have said ?—I simply said it had been credited to the Government's Account and the bank took the rural bonds into its securities.

Was that money in existence before ?—Well, really, I must say I do not understand you. As far as we are concerned in the practical way the Government Account was credited by that amount and we got the rural advances bonds and we held them as security.

In the books of your bank when you credited the Government with £400,000 did you debit any other account ?—We took it into the investments.

Did you debit any other account ?—Yes, certainly, we took it into investments. If we credited Government Account we must have a contra.

From what account did you transfer that £400,000 ?—It was merely a book entry to investments.

Did you transfer it ?—Certainly.

What account did you transfer it from ?—If we credit the Government Account we get certain securities and we put them into Investments Account. Is that not all there is to it ?

No, because I suggest, and I am giving you every opportunity to contest it, that that was a creation of new money. Do you say that that was not a creation of new money ?—From the Government's standpoint ?

No, from the bank's standpoint ?—Well, it is just in the same category. The Government issue a loan, instead of issuing it to the public they issue it to the bank.

But the Government have not taken power to make money—to monetize the bonds ?—I do not understand you at all.

The bank has the power to monetize these bonds. Did they transfer existing money to the credit of the Government or did they manufacture new money for the credit of the Government ?—I must say the question is too abstract. I cannot answer it.

I am dealing with an actual case ?—I am dealing with our actual business, and such a thing does not occur as far as we are concerned.

May I take it that you decline to answer ?—I decline to answer, it is too abstract for me.

I do not want to go off this leaving you in an awkward position. I give you another opportunity of saying, if you wish to say so, that the money in question was transferred from some other account, and I suggest that if that is the case that you might enable the Committee to have a look at the books to see what kind of transfer was made if it was a transfer of existing money ?

Mr. Fussell: Perhaps I could say something on the abstract side.

Captain Rushworth.] I am dealing with the £400,000 worth of bonds that were taken up by the Bank of New Zealand some years ago ?—We will put it this way: that the banks are legally enabled to issue money or currency or, we will say, money and notes against, amongst other things, Government securities. When they have Government securities they have the legal backing for the issue of that money.

That is quite right. What I was doing was trying to get at the facts of the case, as to what happened ?—I quite understand.

Because in my opinion, and I think you will agree, that was an addition of £400,000 to the money in this Dominion, and what I suggest to you is that to a very microscopical extent that was a kind of inflation—an addition to the money circulating in the Dominion, and at the moment there was no corresponding increase in goods ?—I am not *au fait* with that transaction, as it was in another bank. I would prefer not to say, seeing that it was in connection with another bank.

There are all sorts of things that could arise in connection with that ?—I do not know the nature or purpose of the bond issue, so I am only speaking generally.

I am satisfied with the answers so far as I have gone. While I am on this question, are you familiar with the Guernsey Market Hall ?—I have a little knowledge on the subject. I have read some particulars about it and I heard what was said here the other day, but I would not like to say anything definite about it.

We had it mentioned here and it is a matter of interest and I would like your opinion. The Governor, De Lisle Brock, at that time manufactured and issued £5,500 of new money in order to pay the wages and purchase the material for this Market Hall. There is no evidence as to what the effect of that was on the price-level. We can assume that either the general price-level rose because of the increase in money and no increase in consumable goods, or we can assume that there was increased effort on the part of the people resulting in an increased volume of consumable goods equating the new additional money. The Market Hall was built and the first suggestion is that the people had paid for it. They had paid for it either by increased prices for goods generally or by increased effort. Is anything wrong so far ?—That seems reasonable to me.

Then subsequently the authorities let out stalls in the Market Hall for which they charged a rental and that rent had to be payable in this particular scrip that Brock had issued. The stall-holders charged the rent into the price of the goods they sold and so recovered from the public. That

means the public paid a second time for the Hall, do you agree with that?—It might be correct to say they paid twice over because they might have paid the amount expressed in those notes twice over, but the second time they paid it over in those notes the purchasing-power of the number of notes would be less, so the real amount they paid would not be double, but it is quite possible that they paid more for the Hall than it was worth. What I mean by that is that probably the sacrifices of the people, if they sacrificed—we are talking about a nebulous thing now—would have been less if a loan had been borrowed outside and goods generally sent to the other country in exchange for the goods and services that came in.

Supposing they had been satisfied with the first operation. They put the £5,500 into general circulation, erected the Market Hall and left it at that, let the stall-holders have the stalls free of charge. What would have been the result, would it have been good, bad, or indifferent?—It would have been good, bad, or indifferent according to the circumstances. I am not very anxious to talk about the thing concerning which experts seem to be in some doubt and under some speculation, but if the amount of money in circulation was sufficient at the time, before this extra was issued, and if there was no return to the former amount of currency and circulation, no alteration in the velocity of circulation, no increase in the quantity of goods or services or satisfactions, I should say that the extra amount of money would be redundant and the people would be paying for the Hall, especially people with debts owing to them and so forth. They would be getting back less purchasing-power than that which they had borrowed and to that extent they would be paying for the Hall.

So far as the value of your opinion is concerned, I can assure you that as the accredited representative of the six banks operating in New Zealand your words carry a great deal of weight?—It was for that reason that I would rather not say much about a thing concerning which very few people seem to have an accurate opinion.

It is of particular value, because the next point I wish to suggest to you is that the banks, having a monopoly of the creation of money here in New Zealand—I want to ask you how the banks put that money into circulation?—In the first place I do not consider that the banks create money. I look upon creating as to make something out of nothing. For instance, if banks issue money and that money is in circulation that money is a liability of the banks.

Yes, we will say then that the banks issue money?—Yes, that will do.

If the banks issue money where do they obtain it to issue?—There, again, we are back to the bank's resources. A bank with no assets at all would, I consider, not be in a position to issue money, although if it had Government fiat or authority it might be able to express by way of issuing notes the purchasing-power that exists in the security, the exchange value of the security.

But security is not money you see, is it?—No, nor are cheques.

I know, we all know, that a great deal of money is intangible and in the correct technical sense it cannot be manufactured; it cannot be made. An intangible thing cannot be made, and yet, for the purposes of clarity, it is a convenient word to use, to manufacture or to make money. We understand that, but if you prefer some other word we will try and think of one. Originators, shall we say the originators of money?—Issuers of currency.

It is more than currency?—Currency is the wider term, the more generic term.

Currency usually means legal tender?—No.

Dr. Sutch: Not at all.

Captain Rushworth.] I am not talking in expert terms; I am talking in the terms of the circles in which I move?—All right, it means whatever you understand by it, but in accordance with this definition currency is the wider term and includes the whole issue, bills, postal orders, and cheques, and so forth, so would you mind using the word "currency."

That would be rather complicated because I have never heard bills called currency before?—If they are current.

However, that is immaterial for the moment. We will stick to the general term "money" still using Walker's definition?—That means we leave out of account cheque currency?

If you like. We will still stick to Professor Walker's definition and previously you agreed that the banks have a monopoly of the issuing of that money. Now, will you tell me how the banks put that money into circulation?—And we are using Walker's definition, therefore we do not include the drawing of cheques on banks. I am not trying to make it difficult, but I must clarify my terms.

You have it before you; it is on page 13 of your own statement. How do the banks put that money into circulation?—First, I will explain what I mean by that. Money, as defined by Walker, is coins, token coins, and bank-notes; we will not include Treasury notes because there are none, just bank-notes and coinage.

And credit?—No. Only legal tender and coinage is money, otherwise it is not in accordance with this definition that it is being accepted without reference to the character or credit of the person who offers it and without reference to the intention of the person who uses it. The credit of the person who draws a cheque is a vital factor.

Keeping your own definition in mind, can you tell me how the banks put money into circulation. May I assist you by saying that, excluding the comparatively small amount that they spent in wages, salaries, purchase of furniture, and suchlike things, the only way in which a bank can put money into circulation is by a loan. Is that right?—I want to clarify that. You are referring to bank-notes now, legal tender?

Bank money?—That is legal-tender notes—legal-tender notes in accordance with this definition. I am doing this to enable me to help you. If I tell you something I am not clear about, it will not be helping you.

Can the banks put their own bank money into circulation in any way other than by loan?—They can allow a person to withdraw a cheque from a deposit account, and he can cash a cheque drawn on a deposit account.

Yes, we already have it that the deposits are the results of loans ?—To some extent.

We are only getting a stage further back. In the olden days a bank did not put money into circulation as a loan. In other words, do you know of any case where the banks have given money away ?—No, except of course by way of donations.

So it is only done as a loan ?—By meeting a claim on the bank.

But the claim originates in a loan ?—No. I will say a great deal of the claims originate in loans.

Those that do not originate in loans, how do they originate ?—A person may have metallic money, such as gold and so forth, and he may deposit that with his banker.

Metal, such as gold. Do you mean minted or otherwise ?—Minted.

Not otherwise ?—I am not referring to otherwise.

I am referring to the time when bullion could be used. We are talking of to-day here in New Zealand. May I put it this way: Is there any money in circulation in New Zealand that did not originate from the banks as a loan ?—I consider so.

Tell me cases ?—Looking on the circulation of notes as a fund, there has been in circulation in New Zealand a continuous supply of notes. Part of that proportion of note-issue was issued against gold. Gold may have been paid into the bank prior to the war. Gold and notes have constantly been in circulation since.

You mean the banks purchased the gold with the notes ?—In the sense that money deposited with a bank becomes the bank's money, notes may have been issued against gold.

You are referring to the bullion gold that was purchased by the banks, as described by Mr. Falconer Larkworthy. He was the one to start it. Is that what you are referring to ?—When a bank either gives notes or credit in exchange for bullion it gives the person who sold the bullion a claim on the bank.

For what ?—To the extent of the value of that bullion at that time, except of course that we would have to explain the usual way by which it is done. Bullion is shipped home to England and the banks would pay a proportion out at the time it was lodged and the balance later, depending on the market price realized.

So that you put that forward as an issue of money by the banks, and I think it is quite legitimate. That money is issued by the banks in the purchase of gold bullion which is not in the shape of a loan ?—Money may be, but not necessarily.

I think that is quite correct. I should have included that in my exceptions, but it did not occur to me. So that the banks by the purchase of bullion ——?—Give other people claims on the banks.

That is not the point, I know that; but the banks—by the purchase of bullion, by the payment of wages and salaries, and so forth, and by the payment for furniture—put money into permanent circulation ?—I would not say permanent circulation.

Is it not ?—No, not necessarily.

We exclude taxation for the moment. So far as the banks are concerned they have no further lien on that money ?—How do you mean they have no further lien on that money ? The holders of the money have a lien on the bank.

They have a lien on the general community, surely ?—The holders of the money have a claim on the bank.

Money has been defined as that which passes from hand to hand through the community, but the money that is handed to the individual for the bullion is a claim upon the rest of the community, surely ?—It is a claim upon the bank.

But what can a bank give me if I sell bullion to the bank and obtain pound-notes in exchange and I go along to the bank with a pound-note, what can the bank give me for the pound-note ?—Under the present law the bank can give you either a credit on its books, or sterling in London, or it can give you notes.

What is sterling in London, another note ?—Yes, we will put it that way.

So that my claim against the bank if I hold a note is for another note, is that right ?—Your claim against the bank is for purchasing-power.

But surely my claim against the bank is for another note, nothing more ?—It is for what the note represents.

When I accept a note I do so because I want my teeth seen to or some bread, food, clothing, and shelter; can the banks supply that ?—Yes, the claim you have against the bank can give you food, clothing, and shelter.

It is the community that render services, not the bank ?

Mr. Fussell: No, the bank renders the service enabling the people to turn the service and the property into a form in which it passes from hand to hand.

Captain Rushworth.] So if this good sound bank were not in existence we would all die ?—Not necessarily.

Excluding the money that is issued by the banks in the purchase of bullion and in the purchase of furniure, payment of wages, salary, and suchlike the great bulk of the money issued goes into circulation as a loan ?—I should prefer to say a large proportion.

A very large proportion ?—I prefer to say a large proportion. It is a matter of going into books in dealing with such a large organization, and speaking for several banks we cannot say too much verbally; it means looking up records.

Can you suggest any other exceptions ? I will make a note of these: the payment for bullion, the payment for furniture, payments in the case of salaries and wages for staff, payments for rates, taxes, and payments for buildings I presume—are there any other exceptions you can think of where banks put money into circulation other than by loan—for instance, they pay dividends ? Dividends too ?—I think that is right.

Any other ?—I cannot think of any.

If you do think of any we could add them. It is really a very important matter. You admit a large proportion of the money goes into circulation as a loan, that is right, is it not ?—As loans which are claims on banks.

Immediately ?—Without qualification the figures might give the impression that I did not wish to convey.

You wish to make qualifications ?—The point is that the large bulk of that money goes into circulation as a loan and as a liability it has to be repaid.

Mr. Fussell: That is correct.

Captain Rushworth.] The loan has to be repaid, but whenever the loan is repaid it cancels out a debt ?—That is true.

The money that is issued from the bank with the exceptions we have enumerated goes out as a loan and has to be repaid ?

Mr. Fussell: By the banks as well as to the banks ?

Captain Rushworth: By the banks is true enough.

The banks are issuing authorities and cancelling authorities ?

Mr. Fussell: Yes. The loans have to be repaid by the banks as well as to them.

Captain Rushworth.] Of course, if the banks do not repay the loans made to them by the depositors, the debtors to the bank could not repay the money advanced to them, could they ?—I would not say that those who pay the banks always get the funds from the bank deposits.

In what way ?—There are other deposits.

If a man is called up to reduce or repay his overdraft, is there a source from which he can get any money ?—He might get it from selling his produce. He might ship it overseas.

A depositor has to buy it ?—Not necessarily, a person with an overdraft might buy it.

An overdraft becomes a deposit does it not ?—An overdraft *may* become a deposit.

In the last hundred years a change has come over the situation in that the bulk of our money system has become a debt system, whereas previously it was not so; when the money was entirely metallic the possessors of the bullion took that to the Royal Mint. It was minted free of charge and handed to them, and they put that money into circulation; as the coins became worn they were sent back to the Royal Mint, reminted free of charge, and again put into circulation. That metallic money was in permanent circulation, is that right ?

Mr. Fussell: When would you consider the debt system came into existence ?

Captain Rushworth: With the change from the metallic system.

Mr. Fussell: You mean over five hundred years ago ?

Captain Rushworth: Anything from then, it really originated from 1844.

Dr. Sutch: The Phœnicians had debts and paper money.

Captain Rushworth: I know that.

Captain Rushworth.] The money that was existing when the money was entirely metallic was in permanent circulation, is that right ?—That is so.

It was not repayable to the issuing authority ?—What do you mean by the issuing authority.

The issuing authority is the Royal Mint ?—The Royal Mint does not give value, the Mint changes the form of the gold.

Can you tell us why should the Mint be repaid for that ? Had the gold the value before it was minted ?—It had the value before it was minted.

The intrinsic value and the extrinsic value ?—What do you mean by that ?

The additional value given it by minting. Was there any additional value given to it ?—The additional utility is that it is more easily passed from hand to hand and ranks as a certain quantity of gold.

The fact remains that that token was in permanent circulation though ?—Not necessarily, I have heard a tremendous amount about fireplaces and socks.

Temporarily suspended ?—Yes.

It is not taken out of circulation ?—Yes.

Cancelled ?—Yes, taken out of circulation, not cancelled.

There is a difference between the operation of that metallic money and the operation of the present system, where moneys are issued by the banks as loans and are called in and cancelled. I submit it to you that cases where proper safeguards were not made to enable claims on banks to be met have resulted in tremendous calamities in some countries ?

Mr. Fussell: Would you allow me to ask you whether you consider it is an undesirable thing that the currency of money should be cancelled ?

Captain Rushworth.] If I was an expert witness I would probably hedge on that question. The fact that I want to get quite clearly is, if it is so, does the bulk of our monetary system come into existence as a loan and become a debt—a money debt. It is true that those debts can create good assets. The point I wish to ask you, Is it not a fact that the money that is created against the value of those assets may be cancelled prematurely, it may be cancelled before the assets are worn out ?—Yes, the thing is, when they are cancelled before the assets are worn they relieve those assets of any debt.

Yes, that may be, but the money is withdrawn from circulation ?—And liberates a security which may be used as a basis of fresh currency.

If everybody in New Zealand could get out of debt it would be a good thing, would it; if we were to free all assets in New Zealand from debt it would be a good thing from your point of view ?—It would be a good thing.

If everybody paid off debts would there be any money left ?—That is hard to say ; you would have to collect the amount of debts with the amount of money in circulation and the amount of deposits in various forms.

If all the loans were paid off, the great bulk of our money would cease to exist ?—Yes.

And that money would have been applied in freeing properties in debt or persons indebted ; there would be no money ?—How, but there would, there would still be left the money that the bank possessed to buy bullion with, that is about all. What I should say, roughly speaking, the amount of money still in circulation would probably remain in circulation and those people who owed money to banks would not have to pay the banks.

Why ?—Because you say debts are paid when they owed money.

You are visualizing a case of debts repaid ?—If this did happen, those who had owed money to the banks would not have to pay it and the banks would have no claims owing to them for that reason. On the other hand, since the financial obligations to their depositors are debts, necessarily your visualization includes the elimination of all deposits.

If we were all free of debt the banks would have no loans out, would they ?—No. They would have no loans out ; all the money would be remaining in circulation.

Only for this situation New Zealand would be practically devoid of all money. Do you think that money can exist freely without debt ?—Would you mind if I read a portion from a summary by McLeod which would make the subject of money and debt clearer. That gives the view by that economist that there must be debt money. Even in the old times when there was only coin in circulation there must still have been debts, because the coin must have been borrowed from some one else.

Quite so.

Mr. Fussell : So that you do not eliminate debt by having an entirely metallic currency.

Captain Rushworth.] We talk about debt between the community and the issuing authority ; in this case it is a debt between the community and the banking system. You said this morning that in your opinion the monetary causes were not at the root of the world depression or the trouble here in New Zealand, was that so ?—I consider that is so.

You suggested that it was lack of confidence that was the real trouble ; do you really think that it is lack of confidence ?—It is lack of confidence on the part of potential spenders who could spend and do not spend.

Who are they ? Are they here in New Zealand ?—In New Zealand there are £70,000,000 on demand deposit ; those who could spend this do not ; if they do not the result is that the total amount of deposits is larger than the total amount of advances—this would be on account of lack of confidence largely—lack of demand as a result of lack of confidence that the money is not actually spent.

Do you think that there is still the amount of money that there was, say, four years ago ?—I would have to compare figures to see if there is the same volume of money ; at the present time there is a very large volume of money.

The Minister of Finance told us in the House the taxable returns show that the national income has dropped from £150,000,000 to £90,000,000 a year, a difference of £60,000,000 a year ?—That is the total income, not the volume of money.

I know that, which rather suggests that lack of confidence is hardly the explanation ?—Lack of confidence is largely the explanation ; people who can spend do not, the conditions at present overseas and the fall in prices for our products that we export and the fact that more bales of wool and more pounds of butter are necessary to pay for a given quantity of goods from overseas are reasons for our decreased prosperity in New Zealand.

Who are these wicked people who have caused such a lot of trouble through their losing confidence here in New Zealand ; are they the ones that have put their money on deposits ?—I would not call any people wicked who have put their money on deposit and thereby caused the trouble.

If the depression is caused by lack of confidence, surely those who are suffering from that lack of confidence have caused the depression ?—I should say that persons or sets of individuals who cause lack of confidence would be responsible. The lack of confidence is the effect, not the cause.

That is better ; I agree. I thought that you said the cause of depression was the lack of confidence. It was the effect of the depression ?—Yes, the effect. [Mr. Fussell illustrated how an immediate cause might at the same time be an effect of a prior cause.]

You do not suggest then that lack of confidence is the cause of the trouble ; it is one of the instruments ?—Lack of confidence immediately causes the trouble, but the lack of confidence is caused by something else.

Lack of confidence has had the effect of encouraging people to place on fixed deposit in the banks moneys that they would otherwise have made available for investment in industry ?—I should say the fact that people in general feel that by investing their moneys in production or other activities they would not make a profit—they would make losses.

You said, I understand, that there are no avenues for investments ?—Did I say " no " avenues ; few are satisfactory avenues, there are some.

I know what you mean ; I fully agree there are no avenues for investment just now ?—I would not go so far as to say that ; the investment in the Reserve Bank shares was a very welcome one.

When you talk of lack of confidence you mean really lack of confidence of people to put their money into industry, but they have confidence in the banks absolutely ?—I should say that the people have confidence in the banks, which is well merited by the banks.

They have confidence in the banks because it is the only safe investment at the present time ?—I would not say the only safe investment. They have confidence in the banks because the banks are confidence-worthy, and they are trustworthy, and they conduct their business on sound lines ; they make provision for bad years as well as good years.

I do not know much about horse-racing, but you know it is said if you are going to back a horse the best way is through the stable ?—I really could not say ; I have never put a bet through a stable.

Would not the same suggestion apply here ; people who are nervously seeking an investment are inclined to put their money into shares in the bank or deposits in the bank rather than risk it in any industry ?—It is not a question of the distinction between bank and industry ; the person who puts his money into bank shares feels he will not lose his money.

Do you think that is a bad thing for the community or for industry ?—I think that the circumstances which drive people not to employ their money are part of the cause of the present depression and to that extent they are undesirable.

Putting money on fixed deposit the money is not available for industry ?—The fixed deposits enable the banks to grant claims to assist industry. The net result is that, instead of people who do not want to use the money keeping it in their pockets they put it in the bank and the bank makes the money available to people who do want to use it.

What happens to the money these people put on fixed deposit ; do the banks lend that money out to invest it in industry ?—The banks do not so much invest in industry ; they advance money for the enabling of the conduct of industry ; they have clients, and these people lodge deposits with the banks. The money represented by these deposits becomes the bankers' money, then the bankers lend the money out to people who require it on private security, and that money is used to conduct industry.

Your statement is that this money put on deposit is directly or indirectly used from the banks in industry ?—Indirectly it is the basis of the money advanced.

Well, if that is the case—I am not accepting it—if that is the case, then where is the harm in any people putting their money on fixed deposit—it ultimately finds its way to industry ?—The trouble is there is not the effective demand for the money for industry.

You mean the money is not being used ?—Money is not being used for industry at the present time.

What is it being used for ?—Advances have fallen to £30,000,000 ; deposits are up to £50,000,000. The difference is made up in Treasury bills, so that, instead of being used in industry, it is being used as a loan to the Government.

So that the money that the people would normally invest in industry is being put on fixed deposit thereby handicapping industry ?—No. They have money on fixed deposit and instead of the money being used for industry for which it is available it is being used in other ways.

What other ways ?—Treasury bills and loans to the Government.

What does the Government do with Treasury bills ; do not they pay the Public Service ?—I am referring largely to the Treasury bills in connection with existing indemnities, purchase of sterling.

In any event the Treasury bills are negotiated with the bank to meet urgent claims in industry—that is the case is it not ?—Not necessarily.

That money comes into circulation, surely ?—No.

Mr. Ashwin: I may say that the money advanced to the Government by way of Treasury bills—the Government owes the banks for the Treasury bills here, and the Government has balances in London for the amount.

Captain Rushworth.] We are talking about people with fixed deposits on the banks here in New Zealand. You said that these fixed deposits are used to finance the Government on Treasury bills and that the Government has got that money in London, is that the suggestion ?—No.

Mr. Ashwin.] Perhaps I could explain that ; there are two classes of transactions for which the Treasury bills are issued. One of them Captain Rushworth referred to. One might probably be described as deficiency bills or bills in anticipation of revenue. The corresponding credit derived from this is spent in New Zealand. The other class of bill is abnormal, and is caused where Treasury bills are handed over in New Zealand in exchange for the surplus credits in London ?—That is so.

The position in regard to those bills is simply that the banks hold the bills in New Zealand and we hold the money in London ?—That is as far as it has gone.

Captain Rushworth.] The point that I was dealing with was the use of the depositors' money, either that the depositors' money is used for the purpose of industry or it must be lying in the bank—that is what I was wanting to get at. The suggestion that depositors' money is used for the purpose of financing Treasury bills surely cannot be seriously advanced ?—The banks' discounting of Treasury bills to the Government.

They do not use depositors' money for that purpose surely ?—The discounting of the bills is a part of the total advance ; total advances are made against deposits.

Do you tell me, before you can grant an advance you have to go and look at your deposit account and see whether you have enough ?—I would not say that ; I say the banks ultimately require a certain relation between the total advances and the total deposits.

You are not able to tell us why ?—It is immaterial at the moment.

You are not suggesting that before the banks can make an advance to the Government they have to consider their deposits to see if there is enough there ?—When the banks make advances to the Government the Treasury bills rank as Government securities.

Mr. Fussell: These Treasury bills arise indirectly out of money the banks have already had paid to them.

Captain Rushworth.] Yes. But is there any physical difficulty to the banks creating and lending to the Government £100,000,000 if the Government were prepared to give them public securities for that amount ?—No. They could do that.

They could do that. They do not have to consider their deposits before considering the question ?—On Government securities they could issue to the Government.

So that they do not lend their depositors' money to the Government ?—They lend against it.

Do they lend their depositors' money to the Government ?—I have mentioned before that I do not consider that the banks actually lend what the depositors paid in.

And so we are coming back to the money that these depositors, through lack of confidence, have put on deposit. Now what happens to that ?—On fixed deposit ?

Yes, on fixed deposit. I have driven you off the suggestion that that money has been invested in Government bonds or Treasury bills. Now one of two things remains ?—I was never on the suggestion that that money was invested in Treasury bills.

There remains the possibility that that money lies dormant in the bank, or is used by the bank directly or indirectly in investments in industry. Which is it ?—The money is not lying dormant in the banks. The thing is that the deposits on the one hand, including those fixed deposits, are claims that the banks owe.

But what do the banks do with them ? Will they hold them ?—They represent banking resources.

But what do the banks do with them. I am not talking about what they represent. What do the banks do with them ?—The banks use them as a basis for trading.

Yes, but what do they do with them ?—What do you mean ?

Do those pounds sterling or pounds New Zealand lie dormant in the bank ?—No. They do not lie dormant because they perform a service.

You suggested that those funds are withdrawn from industry. That was your suggestion ?—No. What I mean is that, as far as the individuals are concerned who deposited the money, they are investing their money in deposits rather than investing it in industry.

Now those deposits, are they still invested in industry through the bank ?—Part of them are.

If they are not, they must be lying dormant. Is that so ?—No; the deposits do not lie dormant.

Well, if they are not dormant they must be used in industry ?—They form the basis of claims which the banks have on others.

But whilst they are forming the basis for claims on others, do you suggest they are lying dormant ?—No, I do not suggest that they are lying dormant.

Well, what are they doing ?—Forming the basis of trade claims.

They are book entries, are they not ?—The amount of the deposits is entered in the books.

Is there anything more tangible ?—Do you mean, are there any assets behind those deposits ?

No.—Do you mean, Can you go into a bank and take out a handful of them ?

No. If I sell shares in the Bank of New Zealand realizing £2,000, I come along and pay the cheque in to you, into your bank, and put it on fixed deposit. What happens to the £2,000 ?—That £2,000 represents a claim you have on the bank.

Yes, I know what it represents. I should know a photograph of it if I saw it, and all that sort of thing. But what happens to the £2,000 ? What does it do ? I have parted with the use of £2,000. I have handed it in to you. What are you going to do with it ?—It is credited to your account there, and the bank owes you a claim.

Yes, but what do you do with it ?—For instance, if you owed somebody something, what would you do with it ?

Yes, but what do you do with that £2,000 ? Do you put it in the vault ? Do you keep it dormant in the bank ready to pay me, or do you use it in industry directly or indirectly ?—It is used for the bank's business as a basis for the other side of the balance-sheet.

Very well, we will not pursue that any further. I cannot get any further with it anyhow. You said this morning that the cause of the depression is largely non-monetary. Do you really suggest that ?—Yes. It does not originate in monetary causes, because if conditions of trade returned to what they were before, the monetary position would not retard, but would reflect it.

Would you go so far as to say that there is no monetary cause to the depression ?—To the extent that economic conditions are reflected in the monetary matters, there is some monetary reflex. For instance, no one will deny that the war debts have some basis, but that was not a monetary cause in the first place. It was a political cause.

Would you go so far as to say that there is no monetary cause to the world-wide depression ?—What do you mean by that, because if you mean whether it is due to banks and money, I should say there is no cause there at all.

May I make a distinction here. I think there should be a very clear distinction between banks and banking functions and between the manufacture and issue of money. In my opinion the difference in function is clear and distinct. I have nothing but admiration for the way in which the banking companies of this Dominion carry out their purely banking functions. That is not my point. I have no criticism to offer in regard to the way in which the banks carry out their banking functions. My criticisms are all directed towards the monetary sytem. In old times the control of the monetary system was the prime function of the Government. It is the very essence of sovereignty to control the monetary system, to manufacture, to issue, and to cancel money. That is not a banking function, and my questions are directed towards showing the difference between the two functions. Now, the question of the monetary system as such is: Do you think the world depression is caused by circumstances other than monetary ?—Yes, I consider so.

Such as ?—For instance, anybody having goods or services which other people effectively desired would not find that there would be any obstacle to his having the money for them if he wishes to exchange them for money.

You think that it is due to the inherent wickedness of human nature or some cause non-monetary that is behind the depression ?—I consider so.

You disagree with the authorities on the subject?—Not necessarily. Do all authorities consider otherwise?

Here is a matter I would like to put before you. This is Professor Keynes in his "Essays in Persuasion," page 364. "In quite a few years, in our own lifetimes, I mean, we may be able to perform all the operations of agriculture, mining, and manufacture with a quarter of the human effort to which we have been accustomed." Do you not think that opens up a vista of possibilities?—It may open up a vista of possibilities, and it may throw some light as to the causes of the unemployment and so forth. I should not say that this change in the economic organization was a monetary one.

Would you consider this suggestion that, owing to the discoveries of science and the harnessing of power, gradually industries are generating less and less purchasing-power?—No. I should not say that.

You think that the discoveries of science and the harnessing of power do not act as labour-saving devices?—Yes. They require less and less man-power. That means that a man's services are not required.

If less man-power is required there would be less wages, would there not?—Yes, and these are economic and industrial causes that you are referring to, and probably they are the result of the dislocation at the present time and the fact that very many people are not needed.

If we could devise a machine to perform all the operations of a certain industry without the intervention of human aid at all, that machine would generate no purchasing-power at all, obviously? No, I would not say that; because the thing is that people must have a claim on the goods that they produce.

No; I am talking about the industry generating the purchasing-power. If you had a machine to perform all the operations of an industry, quite obviously it would generate no purchasing-power, because there would be no wages. Is that right?—No. I do not agree with that.

Well, what purchasing-power would be generated simultaneously by such a machine?—The exchange value of commodities for commodities produced by that machine.

That is relying upon the purchasing-power generated by some other industries. That industry itself would not generate the purchasing-power, would it?—It would. It generates the purchasing-power for the goods that are produced by that machine. They have purchasing-power for the goods that are produced by other machines.

Are not you confusing purchasing-power with exchange value? The product would have an exchange value. By purchasing-power we mean money within the definition of Professor Walker. I put it clearly that such a machine would not generate money sufficient to purchase the product of that industry?—That machine would not generate money because it is not the function of a machine to generate money, but I do not wish my remark to be associated with the statement that the machine does not generate purchasing-power. If it generates, we will say, boots, and then you have a pair of those boots and you wanted something produced by another machine, and those boots had that exchange value, you could pass the boots over and you could get something for them and the purchasing-power of those boots would be what enabled you to get the other, whether it was 5 lb. of butter or whatever it was.

Let us take it a step further, and just for the purpose of illustration exaggerate. Supposing we had a machine or a series of machines that performed all the activities of all industries, the only necessity being for one man to press a button to start the thing going, the rest of humanity would have to sit down apparently and die of starvation?—No. Because if this machine produced everything and demanded no payment for it and just put those goods forward, I do not think the machine would refuse to allow people to collect those goods.

How could it be distributed in such circumstances, with no purchasing-power available?—That is a matter of organization of a Utopia, and I cannot extemporize the organization of a Utopia. But I should say if the goods were there the people would get them.

I am trying to get you to say that they would have to be given away?—If you did not feel inclined to go to the machine and get the goods, you might say that you would perform some service. You are not imagining that the machine would perform all services?

Yes?—That means it would post letters for me?

Yes?—In that case, I would say to the machine, "If you can post the letters for me you can hand me over the goods."

The goods would have to be given away?—Yes. The machine would certainly give you the goods if it was so obliging as to post letters for you.

You know that the British Ambassador in Berlin has stated fairly recently that in his opinion the present crisis is a money crisis. You do not agree with that?—It is a crisis that has a relation to money. But did he say that it was money that caused the crisis?

Yes—He said that money caused the crisis?

Yes—I did not even understand him as saying so.

I merely put it to you, you do not agree with that?—No. The crisis is reflected in money matters, but it was not the money that started the crisis.

Professor Keynes, again, writing about Mr. Winston Churchill when he was Chancellor of the Exchequer in 1925. Acting on the advice of his experts, he caused the British monetary system to be returned to the gold base, and Professor Keynes says, "Why did he do such a silly thing? Partly perhaps because he has no instinctive judgment to prevent him from making mistakes, partly because, lacking this instinctive judgment, he was deafened by the clamourous voices of conventional finance, and most of all because he was greatly misled by his experts." Do you agree with that?—Well, he speculated on several causes that might have actuated a person in his actions. I have no comment whatever to make on that.

And since the public always understands particular causes better than general causes, the depression will be attributed to the industrial disputes which accompany it, to the Dawes Scheme, to China, to the inevitable consequences of the Great War, to tariffs, to high taxation, to anything in the world except the general monetary policy which has set the whole thing going. You do not agree with that?—That is his opinion.

You do not agree with it?—Not in its entirety.

In any part of it?—I consider that any changes in the monetary system or monetary policy arose out of other causes.

He does not refer to any change. He says anything will be put up, except the general monetary policy, which has set the whole thing going, whether it is a change or not. You do not agree with it. That is the point I wish to make?—I do not ally myself to the statement in its entirety. I do not mean to say that is an incorrect statement, because he has made no statement. He has said that anything else will be put up. But then he is going one step further back and implying, without saying, that it is monetary. But behind that monetary there are other causes which come into it.

In fact, you do what he suggests. You put up some other cause other than the monetary policy?—Yes. For instance, the war debts would have a very large effect on it.

You apparently come within his definition of one of those who will say those things?—I do not accept the comment. I would not say it was precisely accurate, because I have only mentioned the monetary. I think that what the economist Robertson said probably expresses my views: "No tinkering with counters will take us very far towards the discovery of an industrial system which shall supply both adequate incentives to those who venture and plan and peace of mind to those who sweat and endure."

Mr. McKenna has been referred to. I think you referred to him, the Right Hon. Reginald McKenna, Chairman of the Midland Bank. I am very interested in his speech that he delivered to the shareholders of the Midland Bank on the 24th September: "The average citizen will not like to be told that the banks do create and destroy money, and by these means direct the policy of Government and thereby hold in the hollow of their hands the destiny of the nation." You do not accept that?—No. Because he was using "create" in a sense in which I do not understand it. If he meant that the banks create money out of nothing he was simply wrong. But I do not think he meant that.

There are implications here far more serious. I put it to you that they are clearly far more serious than the mere making and destruction of money. He goes on to say, "and by this means direct the policy of the Government and thereby hold in the hollow of their hands the destiny of the nations." Pretty strong, you know. Do you agree with them?—I consider that that does not apply in New Zealand, and I interpret what he says as that a wise Government will accept wise financial advice.

Financial advice in the interests of the shareholders?—In the interests of the country. For instance, if a Government said, "Shall we do what Germany did?" the banker would say, "No; and if I can help it you will not get unlimited money with no provision at all for cancellation of the money and the debts against it."

I want to mention Keynes again, because he says that monetary policy is capable of determining our price-level and our destiny is in our own hands in regard to this question of price-level. Do you agree or do you think that monetary policy can determine price-levels?—Monetary policy, as influenced by Governments, has determined price-levels to the extent that in Germany, as a result of monetary policy—unwise monetary policy, that is as distinct from the policy of such banks as the Bank of New Zealand—the German mark became less in value than the original mark by a million times a million, and the present reich mark represents a thousand times a million marks.

That was a very substantial increase in the general price-level in Germany?—Yes.

How was that brought about, that increase in the price-level?—By the constant issue of money without corresponding increase in goods.

So we come to my definition of inflation, increase in the price-level?—Not necessarily. The price-level increased because the inflation was there.

The increase took place in the price-level you say because of the terrific increase in the volume of money that the German Government put into circulation without a corresponding increase in the volume of goods. Those are your words, or to that effect, I think?—Yes. Without supplying the increase in goods, the Government simply issued the money to pay its own debts.

If there had been a corresponding increase in the volume of goods, the price-level would not have gone up I suppose?—That depends upon the effective demand for the goods, because if the goods had been created—for instance, if there were pounds of butter to that extent—you can see that the price-level would not go up or it would not have been set where it was, because there would be a glut of goods.

And if the price-level can be raised by monetary policy I presume it can be lowered by monetary policy too, by the reverse process?—Yes.

Is there any other way in which the price-level can be raised other than by monetary policy?—Yes. The price-level can be raised by alterations in the supply of certain limited goods. For instance, the failure of wheat harvests in one country may increase the price of wheat, but that would not be a result of monetary policy.

If the money were reduced correspondingly, would that have any effect?—Not necessarily, because for some commodities the price does not bear an exact ratio to the amount of money.

Monetary policy will cause an increase in the price-level, as you stated in Germany it did?—It can. Unwise monetary policy can cause an unwise increase.

And monetary policy, I presume, by the reverse process, can also produce a fall in the price-level ?—Yes. Wise monetary policy could cause a wise fall in the price-level, if necessary, and an unwise monetary policy could cause an unwise fall.

We can leave the adjectives out. Whether it is wise or unwise, monetary policy can cause a rise in the price-level and it can also cause a fall in the price-level ?—That is so.

One of the characteristics of the world depression is a general fall in price-levels, it it not ?—That is so.

So much so that several countries have adopted as a national policy the ideal of bringing about a rise in the price-level ?—Yes, that is so.

They are seeking to do so by monetary policy ?—Yes, that is so.

The United States is a case in point. Now, would it not appear correct that there is a connection between the world depression and the fall in the price-level ?—There is a connection between the two.

Do you suggest that it is the depression that has caused the fall in the price-level, or the fall in the price-level that has caused the depression ?—I should say they were inter-related effects of the causes of the depression.

You do not think with those authorities who state that it is definitely the monetary policy that has been adopted that has caused first the fall in the price-level and thereby the world depression ?—I do not consider that any monetary policy was the cause of the world depression. Personally, I consider that to a large extent the present depression is a long-dated result of repercussions arising from war conditions and the reactions therefrom.

You do not agree with those authorities who ascribe the depression to monetary causes ?—Not entirely, because a great deal depends on the meaning, and if they mean that the monetary matter is the be-all and end-all and the initiation and the cause of it, I do not agree.

What is the originating cause of the world depression, and our depression here ?—So many theories and so forth have been produced about that that I do not feel inclined at present to extemporize an explanation of the matter.

You are satisfied that the monetary policy plays no part in the matter ?—I do not say that the monetary policy plays no part; I would say a small part. The difficulties at the present time are not monetary.

Has it played a small part in causing the world depression ?—No, I do not consider so.

Not even a small part ?—No.

No part at all ?—I do not think that any part at all originated just in monetary matters.

We are talking of the originating cause. In the originating cause, monetary policy, you say, played not even a small part ?—Not even a small part, so far as you look upon it as an originating cause.

You say definitely that is the opinion of the banks operating here in New Zealand ?—No; in my own private opinion.

I see; you are not speaking on behalf of the banks ?—No, that is my own private opinion.

Do you agree with the idea that there is definitely a shortage of purchasing-power ?—I have already mentioned that there is a large supply of purchasing-power which is not being used.

There is in circulation insufficient purchasing-power; may I put it that way ?—Insufficient for what cause ?

To purchase the output of industry ?—What do you mean by that "in circulation" ? You do not refer to money that is lodged with banks and savings-banks. Do you mean in current circulation. That depends a large amount on the velocity of circulation. Do you mean to say you ask me whether the amount of money in circulation represents a sum which is equal to the value or the price of all the goods produced ?

Enough to purchase the output of the industries ?—There is enough money to purchase the output of the industries if it changes hands frequently enough. One shilling could purchase all the things in the world if you gave it long enough, and it went fast enough.

Could it ?—One shilling changing hands a sufficient number of times could represent a sum which would represent the cost of the goods.

Could it be the cost of goods ? Could it purchase all farms and factories that are financed by loans ? Could 1s., however fast it circulated, purchase such projects ?—That would largely depend on where it circulated. It would have to circulate between people who had goods to sell to each other. If you had two sets of people on either side with a certain amount of goods to exchange for a certain amount of goods, it could be done by a system of barter or the passing backwards or forwards of a coin.

When you introduce the subject of debt into it, does not that alter the case, cause money to move in two dimensions ?—What do you mean "in two dimensions" ?

If I might suggest this, the first dimension being the course that the money takes from the time it is issued as a loan by the bank until the time it gets back to the bank as a repayment. That period, long or short, is a period in which the money sets up a second dimension. It moves in a second dimension. What operations are going on all the time ? Loans are being repaid all the time and deposits are being reduced and increased all the time, so the general funds of both sides may stay the same or greatly increase over a period of years. In particular, some money comes into circulation as a loan. Taking that into consideration this is a new factor that destroys the idea of barter.

Mr. Fussell: But do you mean to say the new idea destroys the idea of barter ? Do you say in the last resort goods are not exchanged for goods and services ?

Captain Rushworth.] No; goods are exchanged for money, and the issuing authority has a loan on the goods ?—How can you estimate they have a loan when the money is a claim ?

Because the issuing authority insists upon a repayment of the loan on a shorter or longer period ?—Not necessarily, if all the notes are in circulation.

Take all loans issued for financing farms and so forth. They come originally from the banks; it does not matter about the subsidiary channels. That being the case, the farms and factories producing products must of necessity sell for money, because they have to meet the demands of banks for money. That is so, is it not?—To a certain extent.

Can a farmer or a manufacturer, operating on loan-moneys, effect an exchange by barter?—It all depends on the arrangement made. If he had promised not to do so, he would not. In certain circumstances that may be possible. Supposing you had a farm and had an overdraft and yet you wanted to exchange a horse for a couple of cows. You could exchange them by the system of barter, but if you had already charged the horse, spent part of that horse by borrowing money on him, you could not expect to be able to do so. You cannot eat your cake and have it.

That is just the point I have put in. In the present circumstances it cannot be done. Any one operating on debt money cannot go in for barter because some part of his product must be used to obtain money to repay his debt?—I would not make that general statement, because the only circumstance I refer to is that he could not use or get something else for some part of his property for which he already had got something.

Do you agree, if a producer is operating on loan-moneys, he must of necessity sell part at least or his product for money, because the banks are not willing to accept wheat or chairs or boots in repayment for debts. That being the case—being under the necessity of selling part at least of his property for money—he cannot go in for barter?—The net result of it is barter. The net result is that he wants goods and things to live with, house, clothing, &c., and he produces goods.

The point I make is that he must use part of his product to obtain money with which to meet his obligations to the bank. The amount of goods, the volume of goods, he has to give to get a certain quantum of money depends very largely on the monetary policy of the issuing authority.

Mr. Fussell: What do you mean; as it changes the price-levels?

Captain Rushworth.] Yes; if the monetary policy of the issuing authority is to cause an increase in the price-level, quite obviously he has to give less product for a set sum of money. If the monetary policy of the issuing authority is in a contrary direction, he has to give a greater volume of goods for the same amount of money?—Yes.

So that the monetary policy of the issuing authority determines the volume of product that he must give to obtain the money with which to meet his obligations to the issuing authority?—Do you mean for the price-levels, taking from the time he got the loan until he repaid it?

Yes, when he got the loan?—We will say that if the monetary policy should have been such as to alter the price-level in the meantime, it would have the effect of benefiting some people.

Who would it benefit?—If the price-level rises, I should say it would benefit people who have obligations fixed in terms of money.

And if it fell?—It would be to the detriment of people who had obligations fixed in terms of money, because they had supplied a certain amount of money as purchasing-power.

A rise in the price-level benefits debtors, and a fall in the price-level benefits creditors?—That is an economic fact.

THURSDAY, 8TH MARCH, 1934.

Captain Rushworth.] Have you seen this cable from London which appears in the *Dominion* this morning—will you read that [paper passed to Mr. Fussell].

> "The *Daily Herald's* city editor says that, 'despite official denials, the city believes that, although it is possibly only temporary, a stabilization agreement between the pound and dollar has been reached after discussions between the Bank of England, the Bank of France, and the Federal Reserve Bank of New York.' There has been no direct participation by the Governments. It was suggested that the stabilization was made at a level entailing a heavy sacrifice by British industry and one completely unjustified by economic considerations."

Mr. Fussell: That report contains a conjecture as to the position.

Captain Rushworth: The statement is that this arrangement has been made—that is one statement, the next statement is that the Governments have not participated, and the third is "entailing a great sacrifice to British industry."

Mr. Fussell: Is your statement that the Government has not participated a complete statement of what is in the cable?

Captain Rushworth.] I am merely asking you to answer if you had seen the cable?—The Government has not participated directly.

Mr. Clinkard: Can we discuss the assumptions in Great Britain at the present time?

The Chairman: I think Captain Rushworth is entitled to put the question and get an answer.

Mr. Langstone: Yes, with a statement made in a reputable newspaper like the *Dominion*.

Mr. Fussell: All I can say in the first place is, it is a statement of what the *Daily Herald* says, "the city thinks"; in the second place what is reported by the *Daily Herald* is officially denied; and in the third place, although that report says that the Government does not participate directly, the implication is that the Governments are participating but indirectly, and it is not said that the agreement has been made. It is suggested that the stabilization was made at a level entailing heavy sacrifice to British industry, so at the present time this thing is too incomplete for me to make a statement thereon.

Captain Rushworth.] Your comments are useful; I was not inviting comments. History will decide, of course, what the result will be, if any result. I was merely asking whether you had seen the cable?—The answer is in the affirmative.

The reason I asked the question was because of the world-wide impression that the power of sovereignty has passed from Governments to banks. You do not admit that, I think?—I do not admit that in that form.

Yesterday you made some references to mortgages; there is a point that requires clearing up; you said that the total mortgages registered are valued at £200,000,000?—No, I did not mention registered; I referred to £200,000,000 quoted by the Treasury official.

£200,000,000—that is the total mortgages?—Yes.

Are not a number of these mortgages duplicated so far as money is concerned?—What do you mean by that?

One mortgage will be granted on property, then there would be a second mortgage and so forth on the same property?—You would not call it duplicating because the second mortgage would not be for the same amount as the first. It might be two different persons altogether. The first mortgage might be for £100, the second for £100—two separate mortgages on the same property.

It is the total we are dealing with, not the individual mortgages. We are dealing with the money represented by the mortgages?—We are dealing with the amount of the money.

The point I am dealing with is the money represented by those mortgages—that is the question I want to put to you—where the money originates?—The money originates in the value of the land. I would like to point out if you are referring to money in the sense indicated by Walker you exclude currency in the form of a cheque, and I do not see that the question has much application, because who can tell how money is used in respect of mortgages.

You used the expression yesterday to this effect that the banks only issue so-much money and there was so-much more used in mortgages suggests that there was money in existence that did not originate from the banks?—Not at all, I suggested debts in existence not due to the banks.

Do these debts in so far as they represent money—the money that causes the debts—originate from the bank?—I should not say that money causes debts.

Could you have debts without money?—Yes, certainly.

Expressed in terms of money?—Expressed in terms of currency. Currency not necessarily money.

Can you have a form of currency not money?—That has already been answered in the banks' statement. If you read those words of Walker's and that other statement by Sykes you will see the difference made between money and currency—their definitions.

You do not want to answer the question?—I have answered the question.

I will put it to you again. You say there are forms of currency that are not money, will you give me one?—According to the definitions that were given by us a cheque is not necessarily money.

Is it currency?—A cheque may be currency. That is in accordance with the standard definition.

So far as this money is concerned that is mentioned on the mortgage debts: Where does that money originate?—Are you referring to the purchasing-power?

The money referred to in the mortgage: Where does that come from?—On our definition it is not necessarily money.

Where does the debt originate? Each mortgage proclaims the fact that some money is due by the mortgagor to the mortgagee?—That is so.

Where does that money originate?—That money originates in a claim of the mortgagee on the mortgagor.

How does it come into existence?—It is lent by the mortgagor to the mortgagee.

Where does the mortgagor get it from?—Do you mean the mortgagee?

Where does the money originate?—The money is lent by the mortgagee to the mortgagor.

Where does the mortgagee get it from?—The mortgagee would get it from his savings.

Where does he get his savings?—As claims on the various resources.

He receives the money from somebody else?—Any one who receives money receives it from some one else.

I want to take it right back from where that money comes from—where does the mortgagee get his money from? I want you to answer that?—But I have given the answer in the questionnaire. I gave you various cases of origins of money.

Where does the mortgagee who lends to the mortgagor get his money from?—He gets it from his own resources.

Do you mean he makes it himself?—No, he might get it from various resources.

Cannot you tell me where he gets the money from?—He may get some of it from a bank if he has a deposit.

Supposing no deposit?—If he has no deposit in the bank he may have a deposit elsewhere.

Such as where?—He may have borrowed it from some one who has a deposit from some other firm.

Carry it back as long as you like, as far as you can take—I want to get to the root of the thing—how comes the money into existence in the first instance. Where does it come from; does the mortgagee make money himself?—No, he does not make the money.

Who does?—Money is not made as such at all; the money is an evidence of value possessed by somebody.

How is the money brought into existence, who by?—It all depends what you mean by money, whether you mean a cheque.

No, I mean the money—the money that the mortgagee lends to the mortgagor, whatever form, tangible or intangible, that money comes into existence at some time. Who brings it into existence?—It never becomes money at all, it merely remains currency. If the mortgagee gives the mortgagor the right to write a cheque on the bank, then he is the transferee to the mortgagor of a claim which he already had on the bank.

You mean that the money originated with the bank?—The bank is not the origination of the money, because the bank is the place where the claim already existed and it represents the transfer of the money.

Do you suggest that money can be in existence ?—Money can be in existence when it does not originate from the bank.

Give me an instance ?—Gold coins.

Do they not originate from the banks ?—No. You would not call money held by the Bank in New Zealand, imported here for consumption, as having originated in the Bank in New Zealand. Take gold coins, they originate from the Royal Mint.

Are there any other forms of money that originate from places other than the bank ?—If you want a list of the different forms of money——

No, I do not want a list. I want an illustration only, any money that originates from some source other than the banks—you gave me gold coin ; I accept that, is there any other ?—If you say money, you must mean bank-notes.

No. I am going on Walker's definition ?—That is not necessarily any connection at all with the total mortgages.

That may be, but I ask you if money originates from any source other than the banks—you have given me gold coins—are there any others ?—Money does not originate in a bank because you can always go further back. If you see that a bank is issuing money in the form of notes you can go further back.

Would you say that the money goes through the banks ?—To a large extent money goes through a bank, but it is not created by a bank out of nothing.

You say it does not originate with the bank, but goes through the bank ?—The originations go further back than the banks.

Let me get this right. You gave me gold coins ?—We have traversed all this before.

I know, but we are still at a loose end in regard to these mortgages. I am sorry, but I am determined to get there ?—I suggest that if you want the information, you want a considered reply. I suggest you put your question in writing and you will get a considered reply.

I am not satisfied with that, because I know by experience that endeavouring to get a reply by letter you can spend a whole year and still be fencing at the end of it ?—Are you suggesting that if you asked the banks a direct question that they would not give you a direct answer ?

Why do you not give me that answer now ?—You are asking me to put on behalf of all the banks a reply to your question without looking up or making any reference.

I did not realize that, I am sorry, you cannot answer it now ?—I am not prepared to answer it.

The Chairman : It is understood that you are prepared to answer that question if it is submitted in writing. I think that can be accepted. I think there was a similar arrangement in connection with a question by Dr. Sutch.

Captain Rushworth.] I accept that, Mr. Chairman. The question of income-tax has been raised ; the bank pays a peculiar form of tax : 1½ per cent. on the assets and liabilities of the bank as declared by the banks' auditor, is that right ?—Yes, that is correct, based on the average assets and liabilities for four quarters of the year, subject of course to the bad debts written off—income and tax-free securities.

You have left out the provision for the superannuation funds to staff ?—That is included also.

You suggest that it might be good for the banks, particularly at the present time, if they paid income-tax in the ordinary way ?—I say that the banks have suggested that.

If that were done they would have to submit returns and have their books inspected by the authorities just the same as other trading authorities ?—I understand that the tax authorities have the right to inspect them now.

The returns would have to disclose reserves would they not ?—I am not aware of the requirements of the Tax Department on the matter, but the suggestion of the banks is on a broad basis that they pay tax on the income earned.

To arrive at the income earned it naturally follows that the reserves would have to be declared, would they not ?—If income is taken to reserves they would have to pay tax.

The income would not be taken into reserves until after it became income ?—Quite so.

But the reserves would have to be declared ?—Do you mean the amount accruing towards the reserves ?

No, when the reserves have to be declared in the income-tax returns ?—If the Income-tax Department requires it ; you could ask the Treasury about that.

That would be the ordinary requirement in the usual form ?—I am not suggesting the banks would be on any other basis than that of an ordinary trading department. I cannot speak for the Income-tax Department.

If the Income-tax Department required it the information regarding reserves would have to be disclosed ?—I should say so.

At the present time that is not necessary ; there is no necessity to mention reserves in the income-tax return ?—The ordinary balance-sheet of the banks indicates that provision has been made for this, that, and the other reserves, the amount is not stated, is that right ?—That is correct.

Have you studied Sir Basil P. Blackett's book " Planned Money " ?—Yes.

[From cover-sheet—read by Captain Rushworth] :—

> " Sir Basil Blackett has had a distinguished career both as a public servant and in business. He rendered brilliant service in the Treasury during the war, and from 1917–19 was Treasury representative in the United States of America and Canada. From 1919–22 he was Controller of Finance at the Treasury and represented Great Britain on the Financial Committee of the League of Nations. For more than five years up to 1928 he was the Finance Member of the Government of India, the Indian Chancellor of the Exchequer. In that capacity he was responsible for six budgets and his work in India is widely recognized as an outstanding achievement. On his return to this country he became a director of the Bank of England."

You will accept Sir Basil Blackett as an eminent authority ?—He may be so.

Do you think so ?—I think so.

I only know of the enormous number of copies of his book that have been sold. I shall read you an extract from a paragraph on page 9 :—

[Captain Rushworth quoted from Sir Basil Blackett's book " Planned Money "] :—

> " . . . Yet to wait till effective steps can be taken by international action would result in mere futility. Action, whether political or economic, must be taken within the area within which political conditions permit of its being effective. This dilemma between the claims of nationalism and of internationalism is responsible for a considerable part of the feeling of frustrated effort in the modern world. . . ."

The argument there, Mr. Fussell, is that monetary systems must first be tackled inside the political area. Can you accept that ?—I should say that each country should keep its own house in order so that it is able to co-operate with other countries when necessary and to the extent necessary.

In that connection, Mr. Fussell, there are two rival policies so far as monetary systems are concerned. There is the national policy or the internal price-level policy, and there is the exchange policy which is the international policy. Which policy have the banks here been following ?—The banks' own policy regarding exchanges has already been pointed out in the questionnaire. I should prefer to give you a considered reply on that matter. You are asking me questions of bank policy, and I submit to you that when speaking on behalf of six banking organizations it is not possible for any one officer of whatever standing in the bank to speak on their behalf without discussion among the banks.

I am sorry I put it that way. I was not really asking you to discuss banking policy ?—It is a matter of policy. I suggest that you will get a reply from the banks if you submit the question to them.

The question is, Which policy has been followed ? Have the banks been following the exchange policy or the internal price-level policy ? I know what they have been doing—they have been following the exchange policy—but I wanted you to say which one. I shall be very glad to have it in writing after my question has been considered. To continue, some few years ago a man bought a farm for £6,000. He paid £4,000 down, the remainder being on mortgage. To-day at a conservative valuation that farm is only worth the amount of the mortgage—£2,000. Can you tell me where the £4,000 belonging to that man has gone ?—I should say at £6,000 the farm might not have been estimated at its true value. That might have been the value which the seller had induced the buyer to consider the farm worth. The value of the farm on an ordinary basis would be what the farm could earn, and what it would earn would depend on the prices it could obtain for its produce overseas.

Would it be correct to say that that £4,000 no longer exists ?—When that £4,000 was paid it was a claim by somebody on somebody else and whether that £4,000 exists depends on whether the claims were honoured.

If it exists it must have been transferred to somebody ?—That is so.

Can you suggest whether that somebody would be in this Dominion ?—It might not be so.

Would that be the case in other similar circumstances ?—It might have been, and it might not have been.

Would the fall in the value of the farm necessarily mean an increase in value of something else in this Dominion ?—Not necessarily.

Would it in any case ?—Not to my mind. The fall in the value of any individual farm would not necessarily mean the rise in value of anything else though it might be measured in the comparative value of something else. I submit that all farms have not fallen to that extent.

But all farms have fallen to some extent ?—I would not go so far as to say that. Some farms may have increased in value. It depends on how they have been improved.

Do you know of any property which has improved ?—Not any specific property.

Bank shares ?—Bank shares are now less than they were then.

Then bank shares have fallen in value ?—Yes, on the market.

Is it not a fact that every other security has fallen in value ?—I would not go so far as that.

It would be exceptional ?—I should say the general trend is downwards.

What has happened to the money that those securities represented ?—It is a question of values expressed in money.

That money had an existence in bank-books at one time. Where has the money gone ? Has it been cancelled out of existence ?—To the extent that money ceases to exist as money, that means evidence of purchasing-power ceases to exist as evidence of purchasing-power. That releases a debt, but does not destroy purchasing-power.

You think that the purchasing-power of the Dominion remains the same as before ?—Not necessarily, because the purchasing-power of the Dominion depends on the exchange value of the goods we can send away, and the exchange value has fallen.

But the amount of money is less ?—An increase or decrease in the amount of money does not necessarily bear any relation to the increase of purchasing-power. I will read a brief extract out of a statement made by the General Manager of the Commercial Bank of Australia.

On what occasion ?—It was a public statement made in Australia recently. " Most proposals for currency reform are based on the fallacy that money is wealth, a fallacy which leads to the erroneous conclusion that to increase the amount of money will proportionately increase the amount of wealth with consequent benefit to every one in the community."

That is your answer ?—I am referring to an authority who indicates that money as such is not wealth, but evidence of purchasing-power, and that a quantity of it is not necessarily an indication of the amount of wealth.

Nothing has happened to that particular farm I mentioned as an illustration. If anything it has improved in real value ?—What do you mean by "real value."

That it supports human life. It has increased in its capacity to support human life ?—Has it increased the exchange value of that output ?

You are now bringing money in ?—Is the product of that farm exchangeable for a greater quantity or a lesser quantity of goods from overseas ? I submit that the product of that farm is exchangeable for a lesser quantity of goods from overseas.

Why exchangeable for lesser quantity of goods from overseas ?—Because those who have goods overseas are not willing to exchange the same quantity of goods as previously for the same quantity of produce from the farm.

Has not the price of goods overseas fallen correspondingly ?—The price of goods has fallen to a considerable extent.

Is it not that they have fallen to at least as much ?—I would not say that.

Cotton has fallen much more than either butter or cheese or wool here. On the average you will find that the general fall in the price-level has been fairly even, so that if it were only a case of exchange you would be just about the same. If that is the case, there would be no difference ?—In that case how is it that although we are producing more we are getting less.

I suggest that a large increased volume is required to meet the debt charges. Is that not a material fact ?—The debt charges are a material fact.

Surely there is a fall in price because of the increased volume required to meet the debt charges ?—That is correct.

This is applicable not only to the nations, but to the individual farmers. The individual farmer has his debt charges to meet and he cannot exchange the whole of his products. He first of all has to set aside an increased volume of his products to meet his debt charges ?—That is so.

Leaving a less volume exchangeable for overseas products ?—Yes.

So that the money question comes in very largely ?—The money question certainly does come in.

There is a group of picture-shows here in New Zealand. The valuation a year or two ago was £1,500,000. They had an overdraft at the bank and the bank is now realizing. The bank is acting as mortgagees in possession. The sum advanced in overdraft by the bank was substantially less than the million and a half at which the properties were valued. Can you tell us what has happened to the money in that case ?—You are discussing the customers of some particular bank, are you not ?

Yes. For obvious reasons I cannot mention names. But I suggest, Mr. Fussell, that this is just another case where a large sum of money has been cancelled out of existence ?—When money is cancelled out of existence it releases a debt to the same extent.

True ?—You are not referring to any loss the banks might make ?

No. All I am thinking of are the poor fellows that have lost their money—the people who paid the cost of those picture-shows and now have nothing. Their money has been taken from them. Where has it gone to ? Is it not true that it has been cancelled out of existence ?—When the money was paid over by them they did not have the money, and the property for which they paid has decreased in value.

What have they lost ?—They have lost material.

They have lost the control of the property ?—If they paid money for certain materials or certain buildings and then that building ceased to have the value they paid for it, they lost the material or the building. Is that equitable and just do you think ?—It is a very difficult question to ask me. It is not due to monetary causes.

There are many cases throughout the Dominion like that, you will agree ?—Yes, quite likely.

People who have lost what they previously owned because of what is called the policy of deflation, which is operating all round the world ?—You are looking at this as from the monetary side.

Yes ?—Last night Mr. Harle read something which indicated that the conditions existing at the present time are not due to monetary causes, and to clarify the position I will read a little more.

First of all I want this point dealt with—that there are a large number of people in this Dominion who have lost through this policy of deflation—they have lost their homes, their farms, their properties ?—I may say that that is not the result of monetary matters, and therefore it is not a matter on which I can speak on behalf of the banks.

Is it not that they have lost those properties because they have no money ?—Certainly not. If you paid £100 for a building and that building lost its value, would you say you lost the value of that building because you had no money ? You cannot spend money and still have it.

Why did the bank, referring to this group of picture-shows, take over possession ?—As to the precise reason why the bank took over possession I cannot say. But if a bank takes possession it is a fact that the bank gave the people who borrowed money claims on the bank to a certain amount, and those claims must be met some time. Where claims are given and not met you have a most involved condition resulting in hardship.

The control of the whole premises and ownership are transferred from the original owner to the bank ?—In that particular case in settlement of a debt.

I suggest that that in essence has been operating all over the Dominion ?—No. I should say it has not been in operation to a great extent at all.

What about the indirect actions of the bank—the State Advances Office, the Public Trustee—who obtain their moneys from the banks, and who eject people from their houses because they cannot pay the mortgagee's interest ?—That is a matter for the Government Departments.

But the Government Departments obtain their money from the banks, do they not ?—Yes. They can obtain evidence of purchasing-power from the banks. But to indicate that the present

conditions are not due to monetary causes and therefore that the discussion does not impinge on the bank, I would read as follows :—

> " Section 208 of the Macmillan report says, ' It seems to us equally clear that the economic difficulties of the post-war decade are primarily due, not to any wanton misbehaviour on the part of the monetary factors themselves, but to unusually large and rapid changes on the part of what are rightly described as non-monetary phenomena, these non-monetary factors again themselves producing monetary changes. In particular, war and post war non-monetary causes led to the great and unwanted flow of gold to the United States from which such vital consequences have ensued. For example, in the foregoing summary of events we have attributed great importance (i) to the unusual instability in the demand for capital resulting from the losses and interruptions consequent on the war ; (ii) to the changes in the established relationships between debtor and creditor countries consequent on the war debts ; (iii) to the rapidity of technical changes in manufacture and agriculture ; (iv) to the shifting character of demand resulting in a want of balance between the demand and supply of services as against manufactured products, of new types of manufacture as against old, and of manufacture as a whole as against agriculture ; (v) to the rigidity of wage-rates ; (vi) to the growth of tariffs ; (vii) to the embarrassments of Budgets ; and (viii) to violent changes in speculative activity in New York and elsewhere."

In so far as I have studied the question I agree with those points, but believe them to be effects. If we start off by realizing the powerful part that money plays in our internal order, would it not be possible for all those things to eventuate through a defect in the monetary system ?—The point is, and I have nothing further to say, that the decision of the Macmillan report is that this confusion has not resulted from monetary causes but from non-monetary causes.

You accept the Macmillan report ?—I accept it as an indication that the present conditions do not arise out of monetary causes.

In the same report we find that by granting loans, allowing money to be drawn by an overdraft or on securities, the bank creates money. I am quoting this as an authority which you yourself quote. You cannot accept one part and not another. If you wish to make reservations here I will exercise the same right ?—I do not wish to make reservations. With regard to the point that the banks create money, I wish to say that the banks make nothing out of nothing.

The " Encyclopædia Brittanica " says the banks create credit out of nothing ?—I consider that that is a loose phrase.

Possibly. Do you know of that very interesting law case *The Bank of Portugal* v. *The Waterlow Company of London ?* The judgment was very interesting. There is a majority and minority decision in that appeal. Lord Justice Scrutton remarked that the bank was under no obligation to replace the forgeries by anything else than their own notes ?—Is not the Bank of Portugal a State bank ?

Yes ?—Then the State issue the money.

I mentioned this case as a matter of interest. I think you would get a lot of interest out of studying the judgment because it did occur to me at one time that the best way of investigating the monetary system would be to have a judicial inquiry presided over by Lord Justice Scrutton. In the event of such a judicial inquiry being asked for with evidence given on oath and so forth, would the associated banks, do you think, be likely to co-operate in advancing such a request ?—That could be easily ascertained by asking them.

Would you make a note of it and let me have a reply in writing ?—Yes.

During the war a man, whom we shall call Mr. A, in the Waikato had a freehold farm, unencumbered in any way. He was assessed by the Government and directed to take up £10,000 worth of war bonds. He had no money and arrangements were made for him to have an overdraft at the bank. We will assume that the bonds carried interest at the rate of 5 per cent. The overdraft rate of interest was also 5 per cent., and the bank accepted the bonds as collateral security against the overdraft. Did that farmer lose anything ? The bonds and the overdraft were conterminous ?—On the face of it, it does not seem that he lost anything. If the debt was equal to the credit and the interest paid out was equal to the interest received, on the face of it I should say he lost nothing.

Yet his frozen asset was his farm, free and unencumbered ?—In this case the bonds would have no relation to the farm, because the farm was not mortgaged.

But the farm was assessed at £10,000. That was its Government valuation for the bond purposes ?—The farm in that case might have been used as an indication of the measure of the quantity of bonds this man should take up. But I would like to ask Mr. Ashwin if it was in line with the procedure at that time.

Mr. Ashwin : There was an arrangement made with the banks whereby they would make advances to people to enable them to take up war bonds and collateral, with that was an arrangement whereby the banks were given the right to issue notes against an advance for that purpose.

Captain Rushworth.] Will you agree, Mr. Fussell, that the farmer lost nothing ?—It seems to me to point that way.

There was a frozen asset there in the farm and that was monetized in the interest of the nation ?—What instrument or security was taken over the farm ?

I did not mean that. I suggest that the frozen asset was monetized in the interest of the nation ?—No. The State may have monetized or got an advance against its own credit. In that case it seems to me that the State supplied the security, but did not hand over that particular farm. If the State gave a bond it was the bond as such to redeem that amount.

There was £10,000 more in the Dominion and a £10,000 debt against it ?—The owner of the property lost nothing. It would be the same as if the Government issued Treasury bills.

It would be possible by adopting similar means to monetize a great variety of frozen assets, would it not ?—The Government would be able to obtain credit, but of course not to an unlimited extent.

Surely the Government could do the same thing—and they did do the same thing—in regard to a great number of frozen assets—unmonetized assets ?—I should like to know what you mean by "frozen assets." If that farmer had a farm against which he could get an advance it would not be a frozen asset. It would be an asset. I would not call it a liquid asset, but money could be obtained against it. What I define as a frozen asset is something which cannot be realized on at the time for its value at that time.

What asset would you describe it as ?—As a farm I would say it is an asset of landed property.

It would be in the same category as any other asset upon which money could be raised or created ?—Taking my definition of "create"—that is, making something out of nothing—I would not admit that money could be created against it.

Take the Macmillan definition ?—The Macmillan definition to mean that the money was not issued against nothing, but against something ?

In the case in point the money was created, was it not ?—The money would not be made out of nothing at all.

When the banks received those bonds as collateral security did they not hand over anything in exchange for them ?—They would hand over the claim on them by way of entitling the person to draw a cheque on them.

They handed over money ?—That is a difficulty again. If they handed over a cheque they did not hand over money, but the title to the money.

They paid for those bonds by means of money in some form or other. Why dodge the question ?—I wanted to be sure that I am not asked to say anything about money as excluding cheques. That is why I said a considered reply would be best. If I were writing it down I would say that when money is used cheques are excluded, but when currency is used cheques are included.

You understood my question—that that £10,000 was additional money to what had been in existence before ?—It was evidence of the title to that money, but in the act of spending it, it was in the form of currency.

That is beside the point. £10,000 more money came into existence as the result of that transaction ?—If you are using money in the broad sense to include the issue of a cheque.

I am talking of the subsequent operations. The cheque was subsequent to the creation of the money ?—Not necessarily. You mean that if a bank grants a person an overdraft the money is created for it ?

Is that not so ?—No. If you went to the bank to arrange for an overdraft of £100 all the bank says is, "If you exercise a claim on us to the extent of £100 we will admit that claim."

We are not talking about that, but of a case where the Government has deposited £10,000 with the bank for this Mr. A. One of two things happen, either the bank pays or does not pay for those bonds ?—It all depends on whether the bank purchased them. They would hold them as security against a claim for £10,000. When that claim is exercised it is a claim on the bank by the person making it.

It is a claim on the bank for £10,000 of money ?—Yes, in the broad sense.

And that money had no previous existence, or comes into existence that way. That is all beside the point. The real point is that in this instance an asset that was termed frozen was lying there and was being monetized in the interests of the Dominion ?—I do not admit that to monetize all assets would be in the interests of the Dominion.

I am not suggesting that either. I am suggesting that in this particular case this asset was monetized in the interests of the Dominion ?—I do not admit that that particular farm had any instrument or security over it. I consider the farm was unencumbered.

I agree there was no instrument over it. That is quite correct. Yet there was a connection between the volume of the money and the farm, because the value of the farm measured the volume of the money ?—The farm is used as an indication of the economic standing of the person and the idea at the time was that persons who were comparatively well-to-do would take more by way of war bonds than those who had nothing.

So that if a bank had reserves—that is, assets in the same shape and form as this particular farm—it would be quite legitimate to monetize that asset in the interests of the nation without confiscating anything from the banks or their shareholders ?—You mean it would be quite sound for the Government to say, "How much are those reserves ? Therefore, will the bank purchase from us bonds to that amount ?" That is, if the Government said "those reserves of yours are worth £10,000," that would mean that the Government would be exerting its credit with the bank to the extent of that £10,000 in the same way as they do now when the banks discount Treasury bills for them. The same operation would be quite legitimate if made applicable to the banks. The point I wish to make clear is that—as was done during the war—it would be possible to monetize the banks' reserves without confiscating anything from the banks or their shareholders.

You have seen Major Douglas's proposals ?—Yes.

You know that what he suggested was the monetizing of the banks' reserves without confiscating anything from the banks. That was quite clearly demonstrated during the course of his examination ?—No. I consider that it would be a confiscation. The banks have given their reply to that. The banks would be forcibly placed in the position of having assets taken from them to such an extent that they would not have the capacity to earn the profits they were entitled to.

You are forgetting the case of Mr. A., of the Waikato, whose farm was monetized ?—In that case would the Government propose to give the bank bonds to the extent that they have reduced the overdraft ?

We have not got as far as that yet. We have just got as far as Major Douglas's proposals. The Government has not considered it. But the question arises as to whether Major Douglas did intend taking anything away from the banks or their shareholders, or whether he intended monetizing those reserves in any way without any confiscation ensuing ?—Has he not made that clear ? Then I suggest that he should do so, because on the face of it his suggestion appears to be confiscation of bank assets. I think Major Douglas should clarify the position.

Captain Rushworth : I had the advantage of hearing part of the evidence and it seemed clear to me that his proposals did not involve confiscation, but it is evident that the banks take the contrary view ?—That is the case.

Hon. Mr. Downie Stewart : The Major said he was going to rob the robbers.

Captain Rushworth : That was not in relation to this particular proposal ?

Hon. Mr. Downie Stewart : Yes.

Mr. Fussell : Major Douglas quoted an old Spanish proverb which stated that he who robbed the robbers gained a hundred years' remission.

Captain Rushworth.] The rejoinder that the banks have submitted to Major Douglas's proposals exhibit a considerable degree of annoyance apparently. I suppose that is the cause of it—I mean the suggestion of confiscation ?—I should say if they were annoyed they would be justified in being annoyed.

I suppose other people who had their assets confiscated would probably experience a similar kind of annoyance ?—I would not like to speak on their behalf.

Do you know that wherever Major Douglas has been addressing meetings both here and in Australia, immediately afterwards an expensive advertisement has appeared in the newspapers ?—I have seen it.

Can you tell me from your own knowledge that the banks are not responsible for that ?—I can tell you from my own knowledge that I know nothing whatever where those things come from or how they are put in. You can take that as a definite and honourable statement from me.

I put my question in that way in the hope that you would be able to answer clearly ?—Since I do not know I cannot say anything.

Do you know that when this Committee laid down its procedure it was decided that anybody who had anything to advance in the way of monetary reform would have to proceed as plaintiff *v.* defendant ?—Is that laid down ?

The Chairman : I do not think that that was laid down by the Committee. I think somebody did mention it.

Captain Rushworth : Very well. Major Douglas rightly or wrongly apparently formed the opinion that this Committee was not prepared to consider the present monetary situation——

The Chairman : I think it was all cleared up in the correspondence if you will refer to it. Major Douglas was told that the present monetary system would come under discussion and be considered.

Captain Rushworth.] Do you know anything of Major Douglas's famous theory ?—I know something of it.

You know that, generally speaking, he propounded some years ago a theory alleging certain defects in the monetary system ?—I understand that for a considerable number of years he has been engaged on a theory which has been named the Douglas theory.

Not a system ?—It is a suggestion of a system I should say.

You do not know what the theory is ?—I have a general idea of what its intention is.

There seems to be a design to accuse Douglas of having invented a "system." I suggest to you as a student that all he has propounded is a theory ?—It seems to me that that is the case, but he may have outlined a suggested system. I should not say that it would be any condemnation of him that he had propounded a theory.

You know he has had to leave the Dominion owing to fixed engagements ? Did you know the fixed engagements he had were with Governments and Legislatures in the United States and in Canada ?—No.

And that one of the most pressing reasons was that he had been urged to call on President Roosevelt as soon as possible at Washington ?—I note the information.

Do you know that the British Rotary has issued a booklet indicating that they are convinced of the truth of Douglas's theory ?—Is that so ?

And that the Southhampton Chamber of Commerce and the London Chamber of Commerce also ? I am merely putting these to you because I want to suggest to you that if that theory is right, and it seems to have been accepted by intelligent people in every civilized country, then anything that suggests that Douglas is either a lunatic or a knave is to be deprecated. Do you agree ?—I agree that if his system is right he is entitled to express his views, and I should say that in any British country he would be entitled to express his views even if they were wrong. Personally I would not label a fellow-man as a knave or a lunatic.

You would not suggest that in the case of Major Douglas ?—That is not a fair question. I have no reason to consider that his bona fides and his belief in his own system are simulated.

Have you seen suggestions in the press to the effect that he charged money for admission to his lectures ?—I have seen references to it.

Do you know it is quite untrue ?—No. I do not know that is untrue. I know that money was paid for admission. Whether he got it was another matter.

The Chairman : Surely, Captain Rushworth, this does not affect the Committee ? I think it is unfair to put these questions.

Captain Rushworth : If you rule them out——

The Chairman : I must rule them out. I think it has gone far enough.

Captain Rushworth: Very well, I accept your ruling. There is only one other question I have to ask: Now that the Reserve Bank is established, the function of creating, issuing, and cancelling money is transferred from the associated banks to the Reserve Bank?—The function of issuing notes will be transferred from the trading banks to the Reserve Bank in accordance with ordinary reserve-bank practice.

That is, the notes form the basis really of the other non-tangible money that the banks deal with?—You consider that the notes form the basis of the other non-tangible currency that is issued through the banks.

We will not argue that. I did not mean that the notes themselves are the basis. I was quoting Sir Otto Niemeyer. Very well, we will take it that the manufacture and issue of notes is now transferred from the associated banks to the Reserve Bank?—There again I must say what I mean. The manufacture of the notes is not the function of the Reserve Bank. The Reserve Bank issues the notes and they are manufactured elsewhere for issue by the Reserve Bank of New Zealand.

In that respect that function has been transferred now?—That note-issuing function is being transferred to the Reserve Bank.

And the Reserve Bank is a private corporation?—With Government representation on the Board—the three State Directors and the Governor will be appointed in the first instance by the Governor-General in Council and the Deputy Governor and the other representatives will then be appointed. The State, I should say, would have some connection with the establishment of the Reserve Bank.

That opens up another question. I had intended to leave it at that, but the State representation on the Reserve Bank is in the minority is it not?—It is as set down in the Act.

Yes, a minority, whereas before the State had a majority of the Directors on the directorate of the Bank of New Zealand?—That is so.

So that the change in that respect is from the Government having a majority on the directorate to the Government having a minority. I did not wish to pursue that but you opened up the subject by volunteering that information.

Mr. Ashwin: The position of the Bank of New Zealand is not affected by the Reserve Bank legislation.

Captain Rushworth: I think I can only say now that I compliment the witness on the dogged fight he has put up. I think it is only right to say that the banks have no need to be ashamed of their representatives?—We very much appreciate that remark.

Hon. Mr. Downie Stewart.] I have only one or two questions to ask, Mr. Fussell. Captain Rushworth referred to the world-wide, or widespread, belief that the power of sovereignty had passed from the Government to the banks. He asked a question in that connection?—Yes.

Would you consider it consistent with that belief—that is to say, that the power of sovereignty has passed to the banks—if the Government is able repeatedly to pass banking legislation controlling and effecting the banks?—I should consider it quite inconsistent. The banks in this country and in practically all, if not all, countries are circumscribed in their operations by banking statutes and banking laws.

Would it not be contrary to that belief when we know that the Government recently took over the gold from the banks at a price at parity against the wishes of the bank?—That is an indication that the sovereignty does not rest with the banks and the sovereigns do not rest with the banks.

And the fact that the Government put up the exchange-rate against the protest and express wishes of the banks, that would be further evidence that the sovereignty still rests with Parliament and the Government?—That it a further indication.

And the instance quoted by Captain Rushworth of a settler in the Waikato being compelled to subscribe to the war loan, would that also be evidence of Government sovereignty?—That is a further expression of that sovereignty.

If further evidence was wanted, the fact that the Government, without consulting the banks, increased taxation by a note-tax and otherwise would be clear evidence that the sovereignty still rests with Parliament?—That is so.

When you were asked whether the banks would co-operate in a judicial inquiry into the monetary system, it is a fact is it not that whether they agreed to co-operate or not Parliament has the power to enforce the inquiry on them?—Yes, I understand that is the case.

So that there would be no need to ask for their co-operation?—If *suaviter in modo* failed, the Government could be *fortiter in re.*

Broadly speaking, your contention is, as I read your statement, that the New Zealand banks have stood up to the depression as well as any banks in the world?—I should say so, certainly.

You will agree that experience has shown that one of the worst evils the country can suffer from is weak banks or banks that are liable to become insolvent?—That would be a major calamity.

It is a fact, too, that ever since the depression in the early "nineties" the New Zealand banks have realized the absolute necessity of having large reserves to meet any depression?—Yes, they have learnt that.

They have learned the necessity for keeping those reserves. They have got those reserves, and the present position is justification of that policy?—Yes.

A great deal of discussion has taken place as to whether the banks create money or only issue money and so on. Speaking as a practical banker, I understand your view to be that the banks cannot create or issue credit or money without reference to their resources?—That is the case; they cannot soundly do so.

And it is correct to say that they cannot effectively create money unless there is a demand for it?—That also is the case because if there was no demand for it they could not pass it on.

You have had various passages quoted to you. Do you know a recent book by Mr. Cole, the Labour economist at Home ?—I have read parts of it.

He says in the course of it, " Bankers cannot effectively create money unless there is a demand for it, and the business demand under capitalism might arise only from the expectation of being able to use it at a profit." That is in accordance with your view ?—Yes, quite in accordance with my view.

Now, I think you said that what regulates your power to expand credit, the central regulative factor, is the state of the London funds. As those expand so your power to expand or contract credit in New Zealand expands or contracts ?—It has a bearing on it. If we have a large supply of London funds it means that there are funds there available for purchasing goods to be obtained and sold in New Zealand. Those funds represent resources, and as part of the banks' resources they have their part to play in enabling the bank to issue credit or currency.

So that if the Government borrowed very freely from the banks here, would the course of events not be that, as more money went into circulation, the demand on your London funds would increase and thus affect the power of the importers to buy imports. That would be so ?—It would have a double effect. The increase in money in New Zealand for currency in New Zealand would stimulate the demand for London funds and the fact that there was an increased supply in New Zealand might result in the depreciation of that money, especially if there was an overissue, and in both cases the extra demand for the London funds and the depreciation in comparison with sterling would be an indication that the exchange-rates might go up.

I notice in an article written by Mr. Ashwin some time ago on the New Zealand currency he says that the deposits and advances which constitute the credit system of the Dominion are predominantly governed by the rise and fall in London balances. This domination of our monetary system by London would be, I think, practically inevitable in any case, but it has been rendered definite and complete by the exchange policy adopted by the banks. I am only asking this broad point, that the main features of our banking and monetary policy do depend upon economic circumstances leading us to trade so heavily with Britain and our banking system has to follow suit ?—Those economic circumstances have a very big bearing on the case when we sell a very large proportion of our goods overseas.

So that there are definite limits on the banks as to the amount to which they can create credit or expand it ?—That is so—that is, sound expansion of credit.

If it were possible to create credit or money without limitation, then no bank could ever close its doors ?—No, and every one would be wanting to be opening banks.

Mr. Langstone: They are not allowed.

Hon. Mr. Downie Stewart: Yes, they are.

Captain Rushworth: There is a special charter required.

Hon. Mr. Downie Stewart: Some one got it while I was in office.

Captain Rushworth: Did it ever start ?

Hon. Mr. Downie Stewart: No, but that was not our fault; it was provided for. No one is prevented from starting a bank if he puts forward reasonable security.

However, if it were a fact that the banks could issue credit without limit none of these thousands of banks that failed in America need have failed ?—That is the case.

So that though it has been put to you that the banks have an unlimited power to create and issue credit or money, that is not in accordance with your views ?—I should say that would be incorrect.

The point was put to you just now as to what was called monetizing frozen assets in regard to the farmer in the Waikato. I understood your answer to be that if that process went on and money was issued with respect to all assets that are regarded as frozen you would very quickly reach a stage of inflation ?—Most certainly.

You would really be repeating the experiment by the French Government ?—And that experiment arose out of what is known as " Lawism," and there is a small passage which I have here with me indicating the essence of it.

I should like to hear it. That would be a natural logical sequel ?—That would be the natural logical sequence.

If you pursued a policy of monetizing all these assets ?—That is the case. I mentioned to Captain Rushworth that I had here a book, McLeod, on Law's theory of paper money, but I did not read it out. It says Law's theory was, " Any goods that have the qualities necessary in money may be made money equal to their value. Five ounces of gold is equal in value to £20, and may be made money to that value; an acre of land, rented at two bolls of victual, the victual at £8, and land at twenty year's purchase, is equal to £20, and may be made money equal to that value, for it has all the qualities necessary in money." That is the end of the quotation, and then the book gives the economist McLeod's comment on that: " In this sentence is concentrated the whole essence of that eternal delusion, so specious and plausible, and so fatal, which we designate as 'Lawism.' It is, indeed, nothing but the stupendous fallacy that money represents commodities, and that paper currency may be based upon commodities. This delusion is deeply prevalent in the public mind at the present day, and probably there are few persons, except those who have studied the true philosophical principles of political economy, whose views are not deeply tainted with this infection. No man who does not thoroughly understand the great fundamental doctrine established by Turgot and others, that money does not represent commodities, can ever have sound ideas on this subject. Money does not represent commodities at all, but only debt, or services due, which have not yet received their equivalent in commodities. Now, the views of Law are much more extensively prevalent than is generally supposed. All those who think that there is any necessary connection between the quantity of money in a country and

the quantity of commodities in it are influenced by them. Take the case of a private individual. Is there any necessary relation between the quantity of money he retains and the quantity of commodities he purchases? The quantity of money he has is just the quantity of debt—of services due to him—which he has not yet parted with for something else."

In point of fact, as far as the resources are concerned, the banks in New Zealand have at all times had ample funds to finance any industry that could show it could earn a profit?—Yes, that is the case, and at the present time they are very willing to do so.

So there is no difficulty from a monetary point of view in industry being pushed forward if it can earn a profit?—Not the slightest difficulty.

I would like to know whether you agree with the view expressed by Cole in an article recently in the *New Statesman*. He says, "Despite the assertions of the monetary reformers, there is under capitalism no persistent shortage of purchasing-power in relation either to the volume of goods on the market or to the productive power of society." Would you agree with that?—I should say that is a sound and correct statement.

When it is said that Major Douglas put forward no plan, are you aware of the fact that book after book has been written to criticize the plans he has put forward?—Yes.

Here in this book of Cole's; it says, "As we should expect, Major Douglas's remedy for the economic situation involves some kind of compensation for the 'deficiency' of purchasing-power which he is at such pains to demonstrate. But the methods by which he proposes to achieve this object are both peculiar and complicated. He rejects two well-known methods of increasing purchasing-power—namely, an increase in bank credits and a direct increase in consumers' incomes—the first because it involves an increase in costs and so leaves the ratio between costs and consumers' purchasing-power unchanged, the second because it will lead to a rise in prices. As an alternative, which suffers from neither of these defects, he puts forward the following plan: On a certain day the Government shall decree that prices are to be reduced in a certain proportion." Now his plans have been put forward repeatedly as a remedy?—As suggested remedies.

So that—I am willing to be corrected by Captain Rushworth—I do not follow the statement that he has not put forward any plan—the whole point of the analysis of the existing defects as he sees them is in order to put forward a remedy?—That is as I understand it.

Captain Rushworth: Can it not be a variety of remedies?

Hon. Mr. Downie Stewart: He puts forward some out of that variety.

Captain Rushworth: As illustrations.

Mr. Fussell: He has obviously advocated them as a cure; at least I should think so.

Mr. Langstone: He put forward a plan for Scotland.

Hon. Mr. Downie Stewart.] Yes. Reference is made to a book by Sir Basil Blackett. I have not the book, but I would like to ask either yourself or Captain Rushworth: Does he not expressly state in the preface that no institution and no person other than himself is in any way committed by the views here expressed? So that probably it is not within your knowledge, but, in point of fact, dissent from his views was expressed by his colleagues; at least objection was taken to him publishing them?—I have not heard of that, but I realized that in mentioning him to Captain Rushworth I should use caution.

There is one feature in the statement put in by the banks I would like to ask a question about. You were asked whether any specific improvements in the New Zealand monetary policy could be suggested by the banks as desirable from the viewpoint of restoring and maintaining general prosperity. I know the answer that you made. Do you not think there is any need to regulate and control the institutions that are doing banking business in New Zealand in effect without being subject to the safeguards that the trading banks are subjected to?—Speaking on a sound basis as a banker, I should say that safeguards are always necessary and should always exist where banking business is done.

It is within your knowledge that there are large numbers of firms in New Zealand taking deposits and allowing clients to operate by cheque?—That is the case.

Did the banks consider the question of whether there is any danger to New Zealand's economic life by that unrestricted operation by outside organization?—Bankers have considered it in their own minds. My own view is that safeguards should exist which would ensure that people who deposit money, whether with these outside concerns or with the banks, should have their interests properly protected.

You have not dealt with that in your answer to the question?—No, the question was in regard to the New Zealand monetary system as a monetary policy, not as to the organization.

I thought it was perhaps a matter of public interest?—There is another thing I would like to say and that is that the banks have indicated elsewhere that they consider a change in the direction of cheaper credit would be an advantage and a desirability affecting the monetary policy.

If the banks' reserves were monetized in the way suggested by Major Douglas, what would be the effect in your view?—If, as we understand it, and Captain Rushworth has indicated, that probably what was expressed is not what Major Douglas has in his mind—and I wish to be fair—but taking it that the suggestion is that the amount of those reserves be applied partly in reducing overdrafts, cutting out the amount of overdrafts, and partly in reducing interest—it is a reduction of dividends that reduces interest—it would reduce the banks' resources.

Then in whatever way it was applied, would the fact not remain that they would not be available to you in times of storm?—That is quite the case. It goes back to the old saying, "We cannot eat our cake and have it."

Would you care to express any opinion on the broad question of public policy as to the advantages of our present banking system as against socialistic banking or direct political control of banks?—It

is a principle which is widely held and has received the test of generations of bankers and of banking in many countries, that the banks operate best and most satisfactorily in the interest of the people when they are not nationalized concerns.

Is the apprehension that if it were controlled otherwise than by the present method that public pressure and public clamour would always tend to demand inflationary measures ?—It seems to us that that is the tendency, and that, I think, was in Sir Otto Niemeyer's mind when he said, in recommending the Reserve Bank, " It must be free from the fact or fear of political interference, otherwise it will do more harm than good."

When that question was asked about the rural bonds, as to your financing the Government with those, does the same principle apply there whether it was £400,000 or £4,000,000 ? You would have to have regard to your resources before you decided to assist the Government in any way ?—Yes—that is, subject to the fact that the Government is sovereign. The Government might compel the banks to issue money against these bonds.

But is it a fact that you can issue unlimited credits to the Government ?—In effect the thing is that the Government borrows, and in the cases where Government, for their own expenses, have borrowed huge amounts, it has resulted in economic and financial dislocation.

There is another question that is quite often raised in New Zealand and has been raised in this Committee—that is, why is it that some banks in England allow interest on current account whereas in New Zealand it is not so. Am I correct in saying that the reason why that is done in England is that as an offset to that when an overdraft is granted immediately the account is debited with the limit of the overdraft and interest paid on that, irrespective of whether it is fully used or not ?—In those banks that operate on that system that would be an important factor.

That would enable them to compensate themselves for allowing interest ?—That is quite so.

Whereas in New Zealand, although I may have an overdraft limit of £1,000, I am only charged on the day-to-day balance ?

Mr. Harle: I think, subject to correction, that the London City banks do not allow interest on current account. That system is confined to the country banks.

Hon. Mr. Downie Stewart.] Am I right in saying that when the advances exceed the deposits the general policy of the banks is not to ration individual clients, but to make a general control either by raising the overdraft-rate or raising the exchange-rate when they have control of the exchange ?—Their policy is to do it generally, not to ration.

Rationing, of course, would always give rise to discriminations and controversy ?—Yes. It is subject to the fact that the banks always ensure that the money they lend is soundly lent.

You are aware, of course, that there are a great many authorities who agree with your view that non-monetary causes were the main factors in bringing about the depression ?—That is so.

There are two schools of thought on it are there not ?—Yes.

Mr. Langstone.] The question of the account-keeping side of the bank is a very correct and scientific method of recording the trade transactions and the transfers of credit from one person in the community to another person or to groups of persons ?—Those transactions are recorded, and I think very efficiently.

Very efficiently ; there is no doubt about that, I think. Have the banks within their staff or within the management of the banks, a kind of study circle where members and executive heads study the banking question in relationship to all other questions ?—We have not got what is known as a study-circle, but there is the Institute of the Banking Diploma, and bank officers are encouraged and also financed to study the various subjects affecting banking.

That is, from all angles of banking ; you study the whole lot and are not confined to any one particular form, say, the orthodox system of banking ? You can study any system ?—In the subject " currency and banking " are included financial systems and types of banking and so forth. You are aware of the subjects as set for the Bachelor of Commerce degree ?

Yes ?—The subjects for the Banking Diploma are similar ; there are not so many, but on the same standard, and if you pass for one degree they count for the other.

I thought that that would happen from the way in which the questions are being answered. The first gentleman who spoke, Mr. Harle, made a statement with regard to what Major Douglas had said, and stated that the question of his fantastic suggestions taking the reserves and limiting the dividends to 6 per cent. was not a fair proposition. That is right, is it not ?—That is the intention of the thing.

Now, is share capital absolutely necessary for banking ; can you carry on banking without share capital ?—No, not in my opinion.

How do they do it with the Commonwealth Bank of Australia ; there is no share capital there ?—In that case the Commonwealth State Bank is trading on the State credit through the right of note-issue.

If the Commonwealth Bank of Australia are trading on the credit of the nation, the banks in New Zealand must be trading on the same basis ; is that so ?—Is not a distinction made between the holding of share capital and the non-holding of it ?

I said it was not necessary ; I suggested that share capital was not necessary ?—Formal share capital might not be necessary in the case of a State bank.

Or in any other bank. In your banking operations, if the bank only had its share capital and its reserve funds, and if that was the maximum amount of trade they did and they could not go beyond that, how would the bank get on ?—They would be very much restricted. May I stress the necessity for share capital ; it provides resources for the banks to use and, in the second place, it is a basis of confidence. If I open a bank and have no capital at all, how can I induce people to lodge deposits with me ? I certainly could not start off as a lending agent.

There was no trouble in Australia when they started without any capital at all ?—Do you mean the Commonwealth Bank ?

Yes ?—That bank has the State as its backer and in addition to that the other banks are required to lodge deposits with that bank. That is a compulsory measure, and the trading banks trade on the voluntary confidence of the people. There is a distinction there. I should say it would be very hard for a trading bank to start operations if it had no share capital.

Of course, the other banks have got the State behind them. In 1894 when the Bank of New Zealand was in financial difficulties the State had to go to its assistance. It was compelled to do so ; it would not do for the country to allow the thing to crash ?—That is the case.

So that they have, in a sense, the State behind them. But that is not the point I am trying to get at. The fundamental principle of banking is this : that the customers to the bank supply the capital of the bank on which the bank operates. For arguments' sake, if I have an asset and a security and it is worth £2,000 or £3,000, and if I go along to a bank and I ask for a loan on that security, I will get it on my security ?—That is so.

All that they do is to monetize my security ?—Yes, that is right.

They make it liquid so that I can use it ?—They enable you to spend part of your property and fully release your property when they have got the money back.

The banks have the power to say, Yes or No, and if they say, No, it does not matter how much I want to trade and how much other people want to trade with me, no trade can take place ?—That is the case, but it is the life-blood of banking to do good business, and to refuse good business is the same as a man refusing food.

What has gone wrong, then ? Let us try and get at the root cause of things. New Zealand as a going concern in the physical sense is better to-day than ever it was ; our roads are better and our farms are better ; cows have gone up in butterfat-production, and our sheep and all of our means are improved ; but there must be something wrong with the financial side of it ?—I would not agree there. It has been said authoritatively that if money is wanted for sound purposes it is obtainable and the banks are anxious to lend for sound business purposes ; it means that something else is wrong.

You will admit that, at the Ottawa and World Monetary Conference in London a while ago, every economist, local and international, attributed the cause to a fall in prices. There has been a fall in prices ?—Yes, but, of course, it would be understood that in referring to a fall in prices there must be some other factor behind that.

What causes a fall in prices ? What is the other factor ?—These other factors are mentioned in the Macmillan report.

I do not think so. On page 93 of the report, it is stated that they could not go into those non-monetary matters according to their order of reference, but they suggested that there were causes other than monetary, although they did not go into them ?—I read out this morning eight points.

What are the eight points ?—Shall I read them again ?

No ; it is not necessary. Let me see if we can arrive at a basis. Let us start with No. 1 : the ability of any firm or individual or company to finance is based upon the possession of assets and securities ?—Yes, that is correct.

But the value of assets and securities is determined by price. Price is the regulating factor of the value of assets and securities ?—I should say the value is expressed in price—that is, the exchange value.

But price is determined by the amount of money in credit, in circulation and use, is it not ?—The money in circulation has a bearing on the question, but the volume of goods has also. For instance, more money would be available now if it were asked for, but that would not necessarily alter prices.

Do you mean to tell me that the unemployed workers—if the Government or some one else came along and said we will increase your wages to £3, £4, or £5 a week, they would refuse to take it ?—I do not suggest that.

If they got it, it would be effective ?—They would be able to spend it at once.

And that would possibly put up prices ?—It might do so, but the money would go straight out of circulation. You would be giving the unemployed a claim on some institution—on a bank or on the Government.

Let us get this claim on the bank : when a bank issues notes, you told us yesterday that when they had notes printed and not issued the notes were worthless paper, and of no value at all ?—Yes.

Can you tell us what accounting takes place when you tear some of these off and issue them in Wellington. Say you issue £1,000 in Wellington this morning ; that it is necessary ; there is a demand for them. I know that a bank will not keep notes back if there is a demand for them ?—The broad accounting basis is that the notes in circulation—the liability of the banks—is increased by £1,000. The bank owes £1,000 more.

To whom ?—To the holders of the notes.

But then, what have they got to pay the holders of the notes ? If I go back to the bank with a note and say, " Give me something for it," they will give me another note ?—That is due to the fact that the note is legal tender.

The note is worthless while it is not issued, but immediately it is issued it is a legal claim on goods and services to the value of the note, and it will buy from Jones, Smith, or Brown an equal amount of value mentioned in that same note ?—And it will transfer from the drawer of the note that claim. That claim still remains on the bank.

If it was nothing in the bank from the start, only a worthless piece of paper until it was issued, it gets its vitality outside the bank instead of in it ?—I would not say that. If I had an I.O.U. in my hand ; I have written it out, it is worthless, but if I hand it to you it represents a claim you have on me.

There is a difference here. With an I.O.U., I have the right to issue, but in regard to a note I have got to accept it in payment or I forfeit my right to claim. If I go into a shop, the shopkeeper can refuse to accept an I.O.U., but he cannot refuse a note ?—You cannot push any analogy too far.

That is actually a fact ?—I may tell you that the fact that you cannot get any other form of purchasing-power of a higher title than a note is due to measures put in force for the benefit of the community, and the community would have been in great hardship if those measures were not put into force.

An Act of Parliament is behind it ?—Yes, the note-issuing is governmentally circumscribed.

Take the Act of Parliament away and all your money would be cancelled. If the Government to-morrow said we are going to issue Treasury notes and recall all bank-notes, then those Treasury notes would be a claim on the goods and services of the people in the exchange of goods and services. They would not cost the Treasury Department any more than the printing. It would be a tax. I mean to say, that the State as a State would receive its services in the form of a tax through the issue of money, would they not ?—They might do so, certainly.

If the Treasury do it that way, then the banks do it that way ?—Not exactly, because the banks have ultimately to keep solvent and to redeem the notes.

What are they going to redeem with ? If I have a pound and go to the grocer and buy some bread, he is actually giving me something for it. I cannot buy bread from a bank ?—No, but it can enable you to buy the bread.

I can go to the baker and the grocer ; he gives me real wealth for it, but the banks do not give me anything ?—But the banks enable you to do it. They give you something that the baker will take.

Then the Treasury could do it ?—In some countries the Treasury does.

It is a costless creation ; the service that the bank people are rendering in keeping accounts and all that is a really valuable thing ?—I would not say it was a costless creation, because the bank in giving a person an advance or a note gives a claim on the bank, and that claim is passed on to some one else when he spends it. There is still the claim on the bank.

But what are the banks paying that claim in ? The bank is only trading in money, and we do not eat money or wear money. Money is that transferee, that method or medium by which we transfer goods or services from one person to the other. We consume goods but we do not consume money. The bank only handles money or figures ?—It accepts the liability on the one hand. It is debtor on the one hand and creditor on the other.

But not in money. If I go along with a note to the bank and say, "Redeem that," what will they redeem it in ? Will they give me a suit of clothes for it ?—No ; but if you had an obliging banker he might say, "You wait here, and I will buy you a suit of clothes with it." But why go to the bank for a suit of clothes when you can go to the tailor ?

Yes, and be charged a sales tax on it ? If you have not read this Portugal bank case, I would advise you to read it. In December, 1924, a gang of frauds interviewed Sir William Waterlow and Co., the printing firm, who print notes, &c., for the various banks, and who were printing money for the Bank of Portugal at the time. These people evidently got to find out what was going on, so they entered into an arrangement for an issue of notes. They are what are called "escudos." They were going to get 580,000. The first issue of 20,000 was given late in February, and between February and the following December—that would be ten months—about 200,000 (to be correct 209,718) of these notes, in Portugal ?—These frauds ?

Yes, these illicit notes. The bank did not know anything about it. Here is the most remarkable thing. The trade of Portugal, the internal price-level and the exchanges, were more stable at that time than any other time before or since. In December of 1925 it was discovered that there had been a fraud, and the Bank of Portugal paid out a new issue of notes and called in all the other issue, and then they summoned Waterlow and Co. to make good the loss, and in making good the loss there was judgment given against them, and I do not think it was a good judgment ?—Against Waterlow and Co. ?

Yes. This bank was called the Bank of Anglo e Metropole. When they wanted to circulate these notes inside Portugal they had to establish a bank to do it. They found it too difficult, so they got a charter and issued them through the bank. Naturally, when the fraud was found out, they confiscated the property of the bank, and this bank within a few months was able to acquire, through the issue of notes, real property and estate to the value of £450,860 ?—That means it paid out notes ?

Yes, illicit notes, which were accepted by the community. It would have gone on ?—Those notes would represent a liability of the bank.

No, it did not represent anything. The Bank of Portugal gained not only the amount of fine that was actually paid by Sir William Waterlow, but, in addition to that, they made £450,860 ?—By issuing those notes ?

No, because the other bank had to be confiscated. They sold up the property, it was declared a fraud, and the Bank of Portugal got twelve-thirteenths of the estate, and that was £488,430, in a few months, through the issue of money. If it is possible for money to be issued that way—that money while it was passing was transferring the same goods and services as the licit money—it was just the same ; there was no difference ?—It had the quality of money ; it had acceptability.

No ; if they had gone to the authorities and said, "Make our money legal tender," it would have been all right. They made a mistake in that way.

Hon. Mr. Downie Stewart : The reason why damages were given against Waterlow was that it was not possible to substitute good notes, but the policy of Portugal was to restrict the note-issue.

Mr. Langstone (to Hon. Mr. Downie Stewart) : Your statement is true. The mere fact that, while the Bank of Portugal was going in for a policy of deflation, these new people were putting in an inflation, kept the price-level, and conferred a benefit on the people of Portugal. That is what happened.

Hon. Mr. Downie Stewart : It was not the policy of the Government.

Mr. Langstone : What I want to get at is : the bank is complaining of taxation—the heavy taxation that it pays. Does the bank pay heavy taxation ? Are there some corresponding benefits that they have that set off any disadvantages they may be imposed upon them, do you think ?

Mr. Fussell: The banks have the advantage of trade here, but the complaint of the banks is not that they have to pay taxation. They do not complain that they have to pay taxation; it is the basis they complain of. It is a fair complaint for any trading concern to make. In years when profits were small they do not pay smaller taxation.

Mr. Langstone.] They are assessed on an average of their assets and liabilities for four quarterly periods. It is estimated that they make 30s. per cent. on every £100, and that they are charged the ordinary rate of taxation on that 30s. ?—Yes, the maximum rate.

Yes; if they made more than the £10,000, any one would pay the maximum. They pay the ordinary taxation, but on a different basis altogether. But they can write down their property can they not, their land and premises, as much as they like?—For depreciation and replacement purposes.

Anything they like; there is no limit to it?—That is quite correct.

They can make all the provision they like for bad and doubtful debts, can they not?—They can make what they consider——

There is no restriction on them; they can do whatever they like. The Tax Department must accept the returns that are put forward by the banks; that is the basis it is done on?—Yes, that is right.

And do you not think that that more than offsets any disadvantage that they may have in regard to taxation?—I should say those advantages would apply elsewhere, too. In the case of trading firms that make a bad debt, they do not pay a tax on that bad debt.

Let me show you something I have here. The 1900 returns. I notice that in the 1900 returns, the Landed Property Account of the Bank of New Zealand is £422,339, that is thirty-four years ago. Now, I find that the return the Bank of New Zealand put in for taxation purposes Landed Property Account in 1932 was £481,463, £60,000 more. I think that their branches have increased from about 100 to 220. Is that right?

Mr. Shaw: Are those New Zealand figures only, Mr. Langstone?

Mr. Langstone: These are the figures furnished.

Mr. Shaw: Those are only the New Zealand figures; they are the tax figures.

Mr. Langstone: That is all they pay on.

Mr. Shaw: As far as that is concerned.

Mr. Langstone.] I am taking their figures in the years 1900 and 1932, that is thirty-two years afterwards. Do you not see, then, if they are able to write down their assets, they are avoiding paying taxation?—Yes, that is quite true that they do not pay taxation on assets which do not appear in the balance-sheet.

I mean to say that, when they complain about their overburdening of taxation, on the figures I have quoted (and they are the correct figures) it seems that there is a good deal of humbug about the statement?—They would not go to the trouble of wanting to be put on the same basis as other companies unless they considered they were on a worse basis now.

There are other reasons. They got their graduated land-tax abolished altogether, did they not?—Yes, in common with other people.

They were instrumental in doing it, along with others?—Yes, that is quite fair and just.

Naturally no one likes paying taxation. Any one likes to get out of it?—That seems to be the idea.

Do the banks really pay a note-tax?—They do.

What do they pay?—We really pay for it. The bank issues £100 worth of notes and they have to pay £4 10s. to the Government as note-tax.

How do they do it?—In our own bank we pay the £4 10s. to the Government by cheque.

All that you do evidently is to get £100 worth of notes. You get £95 10s. worth for the bank and pay the Government tax by cheque. It is not a tax really; it is a division of the issue of the notes. Do you give them a cheque on the bank to come and draw out the money in notes?—If the banks issued in notes they would have to issue more notes and the extra issue would mean more liability.

They pay to the Treasury by way of cheque?—Yes. I should say they are not paid out in notes. They may eventually, but the Government would normally pay the amount into the Government Account.

If you paid it into the Government Account and the Government transferred it to wages it would not make any difference?—It increases the bank's liabilities in comparison with its assets—increases the claims of note-holders.

These notes are paid back again into the bank?—Yes, but they do not relieve the bank of the claim; it puts the claim in another form.

If somebody wants notes it does not stop them issuing more?—If they issue more it is increasing the claim. I am stressing this a little, because I think it is important. If the banks could issue notes and they did not form a claim on the banks, they could give them without loss.

Where is the claim?—It is a liability. With the banks constituted as at present, if a man came in and said, "Give me £1,000 worth of notes," would you, as a banker, say, "Yes" or "No." I think you would say "No," because it is increasing the liabilities of the bank—increasing the claims on the bank.

That is a book entry. I want the reality of the thing. Supposing every customer of the bank went in on the same day to draw out their deposits, would the bank have to meet them?—The bank would not be able to meet them without some change in the organization. That is why confidence is so important.

Can you have confidence in a bank that writes down its securities to avoid taxation?—It is not to avoid just taxation. It is not admitted that the taxation is the most just that could be devised.

To Captain Rushworth you said that notes came into circulation by buying land ?—Notes might buy land.

In your statements you say it is for paying wages, salaries. If the only authority that it is necessary for the banks to have in order to pay for services is the statute law, which gives them the right to issue money on the credit of the people of New Zealand, then it is really the people outside who are paying the tellers and clerks in the banks for the services they are doing ?—That is true of the banks in the same way as other members of the community. The whole basis of the economical organization of the community is that services are given in return for a *quid pro quo*.

The Hon. Mr. Downie Stewart spoke a while ago about other concerns accepting money on deposit, but if they accept money on deposit that is the total amount they can lend out again. You admitted yesterday that that was not the total amount a bank could lend. Before the Cunliffe Commission and the Macmillan Commission it was estimated that they could lend nine times the amount of cash deposits—that is, £1,000 of cash deposits could be turned into a loan of £10,000 ?—I do not think it said quite that. I think it was said it could be used as the basis of it.

£1,000 would be the basis of a £10,000 loan. It was said that 10 per cent. cash was sufficient to keep against the demands ?—I would like to explain that this is in accordance with the English banking system which is not quite the same as ours. In England the bank-notes in the till are money assets of the bank, but there the bank-notes issued are not the liability of the trading banks, and the banks have found that by keeping about one-tenth of their advances or deposits in the form of cash reserves, they have sufficient against demands.

McLeod, in his report, stated that if the banks found that their lending had outstepped their cash reserves they got their reserves back again by calling in their overdrafts ?—That does not happen in this country. I think by using the term " calling in overdrafts " they mean they increase the rate and make them less attractive.

They ask them to reduce them just the same as in this country. It is quite common for banks to say to their customers that they must reduce their overdraft by a certain date. The only way they can reduce them is by selling something ?—That is so.

If you have a lot of people in the same industry affected—farmers we will say—and they are all sellers because their credit has been restricted, then the prices must fall, must they not ?—It might have the effect of causing prices to fall.

If prices fall for sheep and cattle, then the land and the other securities must also fall ?—You would go further back and see what caused the banks to have the overdrafts reduced.

They find their cash reserve is less than it should be according to prudent banking. To get their cash back again they call in the overdrafts and thus get their cash back ?—What I mentioned about the cash in the till is not the same system as we have in New Zealand, although it will be the same when we have the Reserve Bank. In New Zealand other aspects come into it. Here the banks generally adopt the policy that advances must not exceed deposits by too great an amount. It is better to have a system that works in practice.

Talking about advances, naturally when there is a plentitude of money about and people are using it, there is a demand for labour and most labour is paid in cash. Therefore there is a bigger demand for cash ?—Yes. There would be more notes in circulation when there was more labour employed.

Most of our business is done by cheque, and that is a matter of cancelling and increasing book entries from one person to another. But currency does not do that. When there is a big demand for cash and the banks call in the overdrafts the only way people can reduce those overdrafts is by selling their goods, if they have them to sell. If there are no buyers and prices fall, then you find you create unemployment. Is that not exactly what takes place ?—I should not say that is the case.

I am going to quote Neville Chamberlain, Chancellor of the Exchequer, at London last June. He is dealing with the position there. He says, " After the termination of the war we in this country, taking as it proved too hopeful a view of world tendencies, set ourselves to restore the pre-war situation." (That meant go back to 1914.) The war-time created such a huge expansion of currency by thousands of millions that prices rose, and we created a new standard of values. If we had to pay £80 a ton for wire and also had to pay in ratio for all the things we wanted, going back to 1914 would cripple us ?—Any sudden change in the volume of money and in the prices affects people, as has been mentioned before. A fall in price is beneficial to one section of the community; a rise in price is beneficial to another section.

To continue: " We established our equilibrium by a long and severe process of deflation. We struggled to bring sterling back to its pre-war period. At the same time, we made every effort to establish peaceful relations in Europe and to restore the international gold standard in the countries whose currencies had broken down. In the early part of 1925 Great Britain, together with the British Empire and certain other countries, returned to the gold standard; and, although in fact this step entailed further heavy sacrifices for our people in the shape of unemployment and depression for our industries, there was no reason why the restoration of the gold standard should not have been a great success had world price-levels at the critical moment displayed a tendency to rise, or even remain stable " ?—What you are driving at is that the price-level is an important factor.

I am saying that the monetary factor is the cause of the price-level falling. Further quotation from above report: " In the opinion of the United Kingdom delegation an attempt to obtain equilibrium by further large reductions of costs would be attended by intolerable suffering, and holds out no hope of success. No doubt it would be possible to restore equilibrium between prices and costs by reducing costs if only prices would remain steady. Under present conditions that does not happen, but, on the contrary, an all-round reduction of costs produce further reduction of prices, and so costs and prices chase each other downwards without getting to equilibrium " ?—It is true that if costs are less the price is less.

Is the policy in this country not the same as that in Great Britain ?—I should not say so. If costs were reduced to a certain amount they only reduce a proportion of the total transactions. If they went down two points they might reduce the general price-level only one point.

Under dual control: Do you think the banks say it is a matter for the Government to act, and the Government says it is a matter for the banks to act, and because of that there is no action at all, and things are left to drift ?—No. That there is any failure to agree—that there is a tendency on the part of the banks to push on to the Government their responsibility, and *vice versa*—is not correct. It has not been the case in New Zealand.

In referring to Neville Chamberlain's statement, he says, "The control of monetary policy is largely in the hands of central banks, and practical steps to give effect to the requisite monetary policy have to be taken by them" ?—Steps are taken by them, and I agree with what you say. But, as has been referred to earlier, the State is sovereign and the central banks, I should say, would carry out the policy which would not traverse the interests of the State. In England, for instance, I do not know of any case where the Bank of England's policy is in direct opposition to the Government. They manage to work in co-operation. The banks have their own duties. The State, I should say, should not act as its own banker. That is my view of the matter. It is found in practice, generally, that banking services as such are efficiently carried out by private enterprise without political interference.

When you say "political interference" you do not mean parliamentary interference ?—I mean the use of the banks as instruments of party government.

Do you not think the boot is on the other foot—that the banks possibly use influence on the Government or the politics of the country ?—To the extent that it is the duty of the banks as advisors to advise the Government, I do not think that the influence of the banks on the Government would be subversive.

You think the interests of the banks and the rest of the community are mutual ?—I think that is so.

We will take the case of a man paying 7 per cent. interest on an overdraft. The shareholders are going to get the benefit of it. Do you mean to say that the interests of the person who is paying the 7 per cent. and the person who is going to get it are mutual ?—That is a different matter. In the community shareholders as a body have the same interests as members of the community as a body. But those of each individual member of a community may be at variance with those of anybody else.

If we are running New Zealand as a mutual concern on the basis of what you say under one definite control, would it be possible to make a profit ?—I should say it would be necessary for the services performed to be paid for.

They cannot make a profit ?—In the last resort I would say there is no profit. Profit is paid out by way of remuneration for some form of service.

If you are running any concern and at the end of the year you find out that after paying all of the charges you have a surplus, that is a profit ?—Yes.

That means that that is a tax on the rest of the community who are that much poorer ?—I would not say that is necessarily so. Suppose a company is run moderately well and has provided good service for the community, but makes no profit whatever. You say that company has not taxed the community at all. Another large company might produce the same service and give good value for the money and yet at the end of the year have something left over. I would say, "Well done, good and faithful servant."

That is good evidence. I mean to say there cannot be a profit without a loss. I heard you say there could not be a credit without a debit. There must be something to offset it ?—No. In the matter of profit, then the human and psychological aspects come into it.

I am not talking about that. I am talking of the actual physical things people are getting. If you and I went on to the racecourse and you invested a pound on a winner and I invested it on a loser, you can only win at my expense ?—Oh yes, in a case like that.

While I make a gain, somebody has got to lose ?—Yes.

Well, if we commercialize things and put them into a profit and loss account, is that not just the same as on the racecourse ?—Not quite the same. If I went down the road and bought a pound of butter for a shilling and brought it along here and you wanted it, and I sold it to you for 1s. 1d., I would be making a penny profit.

I should say that I would be losing it ?—You are paying the penny for having the pound of butter delivered and not having to go for it. You are getting the service.

If it cost you a penny to deliver the pound of butter and I pay you a penny for it you would not make a penny profit on it ?—Oh yes, I would. I would sell it at a profit for the results of my labour.

If you charged me 2d. on it and there was only a penny cost of your delivering it, you would be making a penny profit ?—But you would not be making a loss because it would be worth while you you paying me the extra 2d.

If I pay you 2d. for what has cost you a penny, I must be making a loss ?—You would not, because you would be receiving value.

If it was value for value, then who is going to make the profit ? If we are going to have an equivalent of values, a *quid pro quo*, and it is going to be mutual, who is going to make the profit ?—If the service is worth while for the person who purchases the service, I should say he does not make a loss. Take this simple case. If a person borrows money from a bank and the bank makes a profit thereby, but the person borrows the money and he makes a profit on that, the bank makes a profit out of him. Of course, I know that these things can be passed on and passed on, but you can see that if the service rendered is worth while for the person and the person can make a profit out of the service, you can hardly say that he is involved in loss. He would be making a smaller profit than if the bank gave him the service more cheaply, but the bank gives him service at a price which makes that service worth while.

With regard to the reserves in London, I think Mr. Shaw talked about the advisability of having the reserves in London. The earning-power of London reserves is very small, is it not ?

Mr. Shaw : Yes, at present.

Mr. Langstone.] Has been for years ?—Yes. That is correct generally. There have been fluctuations.

I noticed a statement some years ago when the overdraft rate was put up here, the Chairman of the Bank of New Zealand said that the reason why the overdraft rate had been put up here was because the bank rate had fallen in the Old Country, and because there had been a fall there their profits would be less and they had to put it on to the people here ?—I do not think he said that. I do not remember that.

That statement was made in 1927 ?—I do not remember that. I do not think that is a correct statement.

I can show you the report of it. Is there any way in which our balances in London may show really more than what they should be ? What I mean by that is this : Is it possible for a Japanese person, say, to send goods to London to sell them there ; and he is wanting to buy wool in New Zealand. He has got a London credit, a London exchange ; could he sell that London exchange to the banks in London for an exchange in New Zealand ?—Yes.

He could do that ?—Yes.

So that we have £1,000 or £10,000 or £500,000 there that do not belong to us, and they have the advantage by buying in New Zealand at 25 per cent. appreciation ?—Yes, but he will get it in any case. The Japanese will get it in any case. It eventually must go through London, whether the wool is shipped from here and the draft is negotiated here, in which case the bank gets the premium.

But what I was meaning was this, that we get a lot of credits in London. We give that person, say, £10,000 (it is £12,500 when it comes here). The banks or the Government have guaranteed it. They can only invest that possibly at 5s. per cent. or 6s. per cent. ?—Not very much, anyhow.

But we have got to pay 25 per cent. here, plus the £5 8s. 9d. Treasury bills, for discounting the accommodation to let the money go over there at 1½ per cent. ?—I am sorry to interrupt, but just to clear the matter up, this £5 8s. 9d., that is not the present rate of Treasury bills, is it ?

No, but it was. Well, say £5 ?—But even then it did not even work out at that, because by the process of rebating Treasury bills the effective rate was lowered.

Rebating them ?—Yes.

By how much ?—I do not exactly know what particular time it was, but a little while back it worked out over a certain period at an amount about 3½ per cent., but we will call it 4 per cent.

Well, that 4 per cent. added to 25 per cent. is 29 per cent. that we have got to make good because we have bought an exchange. I might agree with what Mr. Shaw says, that it is inevitable if those people have got an exchange and they want to trade with New Zealand ?—You will agree that that 25 per cent. is also paid to the primary producers in New Zealand ?

Part of it ?—The whole of it.

No, not all ?—It is through London, and if the price received in London was £1,000 he would receive £1,250 here approximately.

From whom ?—From the banks here.

Yes. And whom do the banks receive it from ?—The banks receive part of it from the Japanese in London, sterling, and to the extent that that sterling cannot be sold at the price at which is was bought, they receive it by discounting bills for the Government. That means that the Government purchases the funds from them and pays out the equivalent value at the present exchange-rate here. But the farmer really gets that.

Yes, I admit he gets it, but who pays it for them to get it ?—That goes into the question of the effects of high exchange-rate, but it is quite an orthodox thing.

You mean to say the people have got to pay it somehow ?—Yes. The people pay it and the people get it.

To make it simpler, it is a transfer from the importer to the exporter ?—Yes, on a simple basis that is the case.

But it is charged in the price of goods that are sold to the community. In the last analysis they pay ?—In that case we can leave the exchange part out of it. The net result is this, that £100 net has been paid into the funds in London and £100 net has been received in New Zealand in payment for it. But the 25 per cent. was merely transferred from one to the other.

That is so. It does not make any more or any less money in New Zealand. But it is a tax on the people of New Zealand ?—You mean the extra 25 per cent. ?

Yes ?—You are talking on the exchange now.

Yes. If I am an importer I have got to add that 25 per cent. to the price of my goods, have I not ?—Yes.

And I have got to charge the people more for the goods that I am selling to them ?—Yes. It is a fundamental thing ; the effect of the high exchange-rate is to transfer from importing interests to exporting interests, but of course we might agree with the policy or not. The reason for that is that it was considered that the case of the primary producer was such a parlous one, and such a desperate one (and it has been agreed in this Committee that this country's wealth in the last resort depends on primary production), and it was considered by the Government that some means of assisting them at the expense of the rest of the community was necessary. And I think it can be soundly agreed that those measures were necessary. The measure by which the transfer of wealth from one part of the community to another part of the community was the machinery of the matter, and that does not affect the general policy that the primary producer must be helped.

I want to come back to the monetary part of it now. We will assume that I am representing a Japanese firm with a letter of credit. There has not been time to transfer any goods out because

when the bank in England has purchased my Japanese exchange and I am here in New Zealand to buy wool, who finds the money for the wool that I am going to buy. I only come with a letter of credit. Who provides the money?—You come here with a letter of credit?

Yes. I come here from Japan with a letter from the bank certifying that my credit would be good here in New Zealand up to £12,500?—It is rather a technical matter, but it would be necessary for the Japanese firm to have some form of credit in London.

But they have done it. They have sent goods there and sold them. They have bought a New Zealand exchange in London. But that is in London. It is not here. And the money is in London. It comes out here in a ship. I come out here in a ship. I come out here in a ship to buy wool and I buy wool up to the credit that you have given me in London, but who supplies the money to pay the £12,500 for the wool?—The money is supplied by the Japanese person in London because he pays it into the bank.

That is not in New Zealand. The farmer is paid here in New Zealand. When he sells his wool he gets a cheque. The banks pay it, do they? They admit that his credit is good and they supply the money to back up that credit?—No. They do that because the money has been paid into the bank in London and the bank itself is the one unit on both sides. The bank has received £10,000 and can pay it out on the other side.

You paid £10,000, so you have got a credit in London?—Yes.

When you come to New Zealand you have got £10,000 in New Zealand plus 25 per cent. exchange which the Government say the importer has got to pay?—Yes. The net result is that £10,000 has been paid to one part of the bank and the bank has paid out a net £10,000.

The point I am trying to get at is this. I know ultimately that other goods would come out or something like that, but I want to know the immediate effect of it. The banks provide the necessary money to back up that credit, so that that person can buy the wool?—Yes.

So that really the wool is the basis of currency and the price is determined by a Japanese or a German or somebody else that comes here to buy it?—Of course, the price of wool is determined by the demand for it in the open market.

But if they like to say that it is worth 1s. 6d. a pound?—If they are willing to pay.

If they are willing to pay, then the price is 1s. 6d. a pound and they arrange the credit. Then the banks see that the necessary finance is there to meet those credits?—Putting it very simply, if the wool-buyer pays the bank £10,000 in London the bank will pay the person who is selling the wool £10,000 here.

You think it would be possible, then, allowing for these ups and downs, for the Government through stamp duty to definitely assess the value of wool in its various grades and say, "Well, that is the price that has got to be paid." Would the banks find the necessary credit for that?—It is a policy matter, but I rather doubt it, because I very much doubt the ability of a small economic unit like New Zealand attempting to fix the price in the world's market of a product because if we said the price of wool is going to be 2s. the wool-buyers would say, "Well, until the price comes down to 1s. we will do our buying in Australia." What are you going to do about it?

You fix the price for milk in Wellington, do you not?—You can do that here because nobody is going to go over to Australia and get his milk because the price is a penny dearer here. That is because there is not a world market for it.

Do you not think that is what happens? If butter to-day in London is a shade over 6d. plus the 25 per cent. exchange-rate, which is 1½d., that makes it 7½d. Now that is the farmer's income from butter. That is his income; that 7½d. will only buy that amount of goods in London because it is a sterling exchange?—It will buy 6d. worth of goods in London: 6d. expressed in sterling in London.

But when those goods come to New Zealand the Government have come into the picture. They say, "To run New Zealand, because prices have fallen, we have got to get more income." So they put on, say, a 30 per cent. Customs duty. The 25 per cent. exchange-rate has got to be added too. They put a sales tax on it. They have got the importer's charges and costs, and the retailer's distributing charges. Now you find that that sixpenny article in London, which the farmer has got 7½d. for in New Zealand, that article is 1s. 6d. when it lands here owing to those internal charges. They are not external charges?—For the sake of argument I would rather you used a smaller price than 1s. 6d., because I do not think that 300 per cent. is a fair thing to add on. You mentioned 6d. to start with.

We will make it a shilling then. But if the farmer has only got 7½d. as his income from his labour, his commodity that has been sold over in London, how can he buy back with the price at 1s.?—The thing is that under no system can you import without expenses at all.

Quite so. But the expenses of importing are not greater than the expenses of exporting. A customer who exports from this country is an importer at the other end, and *vice versa*?—Looking at it from the goods side, we will say that if butter is exported to England some of the butter is applied to pay for its freight. That means the farmer only gets paid for a certain portion of the butter because a certain proportion has got to be paid for the freight.

You advance it?—No. I mean that if the price of a pound of butter on the London market is such-and-such a figure and the farmer has to send it from here, he has got to pay the cost so that the farmer sacrifices part of the butter to pay the expenses.

Quite so?—I have said that when the farmer imports he sacrifices part of the quantity of imports that he might otherwise want.

But he does it both ways. Does not the other fellow on the other end pay anything?—No. But the man who sells the goods does so at his price, and if you want to pay that price you must pay the cartage also.

If we sell butter here in New Zealand, we will say f.o.b., that means that all of the other charges, freights, and insurance, and so on, is paid by the person who buys the butter here. He buys it f.o.b. ?—Yes.

If it is consigned then we pay all the expenses. That is deducted ?—It all comes to the same thing, that out of the selling-price you have got to take all expenses.

Yes, they allow for it in the price ?—I can understand what you are driving at, but I think that the net result is that the quantity of stuff that we can import depends on the amount of money that is realized in London on our exports, and the quantity of imports we get is the quantity that we can pay for.

You definitely think that we must link ourselves to overseas markets, particularly London, with regard to our price-level here in New Zealand ?—We cannot be entirely independent.

Not entirely ?—We must be linked up to some extent, no matter what the system should be.

But our internal price-level, then, is not an external price-level, is it ?—Oh, no; it is not the same.

No, totally different. This is the position you are in: Your income is fixed on a world-parity basis, but your expenses are based upon an internal price-level ?—The income expressed in money is not necessarily fixed by the external price. For instance, even if you buy this exchange on an increased internal price-level the income that you get from exports depends on the amount that you get from outside, naturally.

But the internal price-level must always be bigger in the main than the external price, owing to those extra charges ?—Yes, to the extent that, all other things being equal, if a certain quantity of goods could be sold in the country that produced them at a certain price, it would not be possible to sell them at that same price in another country, unless there were some arrangements about it, as for instance, if the price was fixed in the country that sold them, or the country that sold them made a deduction to pay for the costs of export, but always, in some way or other, the service of transferring the goods from one place to another place must be paid for either by sacrifice of part of the quantity of goods or by paying money.

You know that in Egypt and Sweden they are fixing their internal price-levels, and they are utilizing their foreign exchanges to buy goods to go back into those countries, and they appreciate their internal price-level, and they balance in that way. They are doing that in Egypt to-day, and they have been doing it for eighteen months in Sweden ?—You mean to say that they fix the internal price-level and let the exchange-rate fix itself.

No. The exchange-rate they have got to take what they can get on the world market ?—Well, that really comes to about the same thing.

No. It means to say that when those goods go back they approximate the internal price level and they balance it that way ?—Do you think that is really the case though, because I put it this way: That if they keep the internal price-level steady the amount of goods that they can get overseas for a given quantity of goods that they export depends on the price overseas. So it comes down to the same thing. One year they might find that for twenty bales of cotton they can get two motor-cars, and the next year they might find that they have got to send forty bales of cotton to get the same two motor-cars. So that causes internal dislocations.

But if the price-level in London was fixed down to such an extent, then we would not be able to buy anything from London, so that they lose a customer ?—Yes.

And they create an unemployed problem for themselves ?—I should say an unemployment problem would certainly be created, unless, of course, the other adjustments were made, because it is said by economists that the actual amount of money in circulation has very little significance if the other factors balance or allow for it, such as velocity of circulation and price-levels. So that I would not say it would necessarily be followed by unemployment, but it probably would.

We will take a bank handling dairy-produce going Home. The bank advances, and then they take control of their exchanges do they not? And you retrieve your amount that you have paid out out of the sale of the goods when they are in London, and that gives you a credit in London ?—Yes.

Therefore, you own the exchanges ?—What is that ?

The bank, by financing dairy companies and other exporters, practically own the exchanges ?—They own the exchanges, do you say ?

Yes. You own them ?—Oh, the London funds balance that.

Yes ?—The banks have paid for them, they buy them, and they sell them, but to this extent you would not say it is owning them in the ordinary sense. For instance, if the banks could not sell the funds that they get, if there was no demand for them at the present price and the Government would not take them from us, it would be money that would result in a loss to us.

But under the guarantee I mean ?—Oh yes.

But under the guarantee you do not care ?—I did not say we do not care, because we would be very much happier if all the exchange could be sold.

Yes. So would everybody, but what I am trying to drive at is that if it is competent, and it evidently is competent, for the Government to guarantee the banks on a basis like that, it is only one step further to guaranteeing an internal price-level, is it not ?—Yes. They could guarantee an internal price-level, but what I am submitting is that so far as the external business is concerned it would not help us at all.

It would not affect the external trade ?—No.

The Chairman: I would like to thank the bank representatives for placing yourselves at our disposal when required. We will notify you when we would like you to come along again.

Mr. Fussell: You can rely on our being very willing to do so.

THURSDAY, 12TH APRIL, 1934, AT 10.30 A.M.

Witnesses: MESSRS. T. G. A. HARLE, E. C. FUSSELL, and J. SHAW, representing the Associated Banks of New Zealand.

The Chairman.—We are pleased to see you gentlemen here again this morning to finish your evidence. Several members have questions they desire to put to you, and possibly other questions may arise as we proceed. Now, Mr. Fussell, what has been the average number of notes in circulation during the past three years?

Mr. Fussell: Around about the six million mark.

The Chairman.] Under the conditions existing at the present time, if you wanted to increase the number of notes, you would do so?—If they were required.

Are they not required?—They are not effectively required.

Every one at the present time is complaining of the shortage of money, as you know. To what reason do you attribute that?—In my opinion it is due to the lack of confidence or the lack of sufficient avenues for trading. The man who can obtain money from the banks either by overdraft or otherwise will not use that money unless he can use it effectively or profitably. There are not sufficient avenues for the employment of money at the moment.

You think that is through lack of confidence?—Lack of confidence in the prospect of profitable trading.

You think that that is what has brought about the present state of affairs?—That is the immediate effect. Conditions overseas caused by the depression is a major reason why money cannot be profitably employed to the extent it was before.

But trading has increased and improved in the Old Country?—Yes, it is most definitely on the upgrade, and more money is being used.

Could not that be made applicable to New Zealand?—To a certain extent yes, and that is also reflected here in the price of wool, for instance. So far as the banks are concerned, if more money is wanted it can be provided.

Do you think that the holding of gold in New Zealand, when public securities can be made use of instead, is advantageous to New Zealand?—In a broad way it may be considered advantageous, but merely to the extent that we have the gold here. It is definitely a universal asset, but there is no technical reason why it should not be held overseas, or that sterling balances be held instead of it. There is not the same sense of security with gold anywhere outside of the country as there is in our own vaults.

So that if we had no gold at all, notes and subsidiary silver and bronze coinage would answer all practical purposes would they not? It is not necessary under legislation to hold gold?—It is not necessary under legislation to hold any gold here for actual banking purposes, although legislation prohibits the export of gold at present without the permission of the Minister of Finance. There is no real banking reason why it is absolutely essential to hold gold in New Zealand.

Public securities would do instead?—They would do—I know the question of monetary gold is a vexed question with the banks at the present time.

Mr. Ashwin.] That question is settled. It is all over?—I do not know. The Minister of Finance said that he was quite prepared to reopen the question if anything further was proposed.

Mr. Ashwin: That is so.

The Chairman.] Now, Mr. Fussell, it is stated that to hold the gold means a loss of about £330,000 per annum to New Zealand. Do you think we should save that money or hold on to the gold?—My personal opinion is that there is really no necessity to hold it here. Of course, we would not get £330,000 per annum if we sent it away. We would get interest-rates at about 1 per cent., perhaps, in the market where we had the gold.

It would be held in London?—Yes, by way of sterling balances. They would not actually hold the gold.

Still, that does not alter the fact that holding gold here is a loss to the Dominion?—To a certain extent it is. It is a loss in actual cash to the extent that you might get a small rate of interest on it overseas, but there is more to it than that. The knowledge that the gold is held here in times of difficulty means that we have a definite basis of confidence.

One admits that; but that does not alter the fact that it is not compulsory to hold the gold, and public securities would do instead. There would be a big saving to New Zealand?—The gold, at the present time, is the property of the banks, so that it is their own profits that suffer to a small extent by holding the gold here. If the gold were sent to the Old Country this country would make a slight profit out of it, and if the gold were sold at the present market price the country would make a large profit.

On the present market price, that is true, but if the gold here were sent Home it would be an additional security in the Home-country, and that would bring in a certain amount of extra money to this country?—Yes.

One admits that the rate of interest might be low?—Yes. I am not saying anything against the policy of sending it out of the country. I am stating that holding it here does, in bad or difficult times, give an added sense of security. I am not saying anything against the policy of sending it out of the country and collecting interest on it.

What use would gold or anything else be if the security of the country were no good?—If Government security were no good, you could not do anything, but gold is a universal asset, although I will admit that £5,000,000 worth of gold would not be of much use in a time of world cataclysm. If securities became valueless you could not base much on that at all.

Would not the security of a country come before gold or anything else?—I do not think so, because national credit—that is, the security of a country—has fallen away almost to nothing in some cases, but the value of gold has not fallen away. It is always worth its market value.

Since this Committee has been set up you have heard a lot about costless credit, and the issue of money by a Credit Board. Do you think that this could be carried out with advantage to the country?—Do you mean credit under political control?

Certainly, it would have to be under political control.—There would be a danger in that, because there is always the danger of inflation, and other aspects; besides, the economic aspect comes into it. If the Credit Board took over the note-issue and operated in the same sound way as the banks are now operating, and issued notes to the extent that they were required——

And interest free?—But in that case the Government would be losing a tax on the notes.

If notes were printed and issued from time to time as suggested, they would have to be cancelled at some time or another?—Yes.

Supposing that process went on until £50,000,000 in notes were issued?—There would be tremendous difficulties in the way of redeeming them. It is hard to say how they could be cancelled.

Might such a policy not lead to promises of credit at election times, with one party offering to issue so much if returned, and another party offering to issue so much more, to go one better?—That is rather a political question, but I should say that a candidate for election would be rather foolish if he did not take a chance like that to promise something like that in return for support.

I suppose you have read of the Guernsey Market Hall scheme?—I cannot say that I know much about that, because I understand that the experts who write about that scheme seem to be in the dark as to the actual effect of the scheme and all the forces that came into play.

Notes were issued to finance the cost of erecting the Market Hall and shops, which were let when constructed, and the revenue enabled them to extinguish the debt by repaying the notes?—They repaid the notes, I understand.

Mr. Lye: They cancelled the notes issued.

The Chairman.] From the income received from the premises. That would be a totally different thing to the proposals placed before us, because the conditions in New Zealand would not be on all-fours with the Guernsey Market Hall scheme?—It appears that notes were issued against the cost of erecting the Market Hall, and that that debt was met from receipts from the letting of the premises. I am not very familiar with the facts of this case.

Supposing we do issue paper money in New Zealand through a Credit Board as suggested, how would that affect our relations with Great Britain? Would it affect our present monetary relations?—If you had created a Credit Board instead of a Reserve Bank? If a Credit Board issued credit soundly, with due regard to the payment of that credit, I do not think that that would, in itself, prejudicially affect our relations with Great Britain at all. Britain would probably consider that as a first step towards the creation of a central bank.

The money would not be used outside of New Zealand. It would be a local issue?—Do you mean that the Credit Board would issue notes along with the banks?

Yes?—But the banks are only too anxious to issue credit. Do you suggest that the Credit Board would issue credit for purposes for which the banks would not consider?

Yes?—Well, that would most prejudicially affect our relations, because Britain would see that money was being put into concerns that did not have a chance of showing a profit.

What are the primary causes of the bank rates in New Zealand rising and falling? Is that affected by the London balances?—To a certain extent. The way the practical banker looks at it is this: He watches the deposits and advances, and if he finds his advances are getting rather ahead of deposits and reaching a figure which he does not consider satisfactory he may raise the rate, but, on the other hand, he may raise the rate to meet competition from outside rates. Various factors come into consideration.

An accumulation of money in the Old Country would not affect the position?—I do not say that, because if money were accumulating in Britain in normal times it would mean that we were exporting more than we were importing, and that would mean that we would have a favourable balance of trade, and the banks might be anxious to stimulate the purchase of London funds by lowering the advance rates. It does not necessarily follow that if London funds reach more than a certain figure the advances rate would go down. The exchange-rate would go down. All these things are interlocked.

And that would really have no effect upon the dropping of the advances rates. I am speaking of overdraft rates?—No, I do not wish to convey the impression that that would not necessarily affect the position. The economic tendency of large balances in London is to lower the exchange and advances rates, but it does not follow that both of these things would take place.

Do you think that the present rate of exchange is in the interest of New Zealand? Would you care to give an expression of opinion on that?—I would not care to say that. I can say, however, that some method of assisting the primary producers was necessary; some measures had to be taken either by subsidies or in some other way. What the banks said about their function in this matter was that they could not quote any other than the economic rate. If, for political or State reasons, any other rate were required, it would be for the State to deal with the matter in that light.

I do not know that I should have asked you that question—I do not think, perhaps, that it is quite a fair one to ask you. Now, Turgot, one of the greatest French economists said, "It is the superabundance of capital which enlivens enterprise, and the low rate of interest is at the same time the effect and the mark of the superabundance of capital." Would you care to express an opinion as to whether or not it would be advantageous if the rates of interest were reduced to 3 or 3½ per cent., or even to 4 per cent., with a corresponding reduction in the rate of deposits. That would liberate a lot of money and would give cheap and abundant credit as in the Old Country, would it not?—All things being equal, and it would be done in a practical way, I should think if would be most advantageous. That is what the banks want. They desire the rates of credit to come down. But, as I have mentioned earlier, there are certain obstacles in the way.

But abundance of credit is the main thing needed in New Zealand at the present time?—But credit is abundant at the present time.

I mean cheap credit?—If it could be done it would mean that it would help the marginal enterprises that are just deterred from operating under present conditions.

We have to remember, of course, that most of the banks have large reserves, and what Major Douglas calls "concealed assets," and from these reserves they receive a fairly large income for the benefit of their shareholders in the way of dividends, &c., because the money is lent out again, is it not?—Yes. I would like to say that the incomes that are called large are not relative really. In view of the amount of money invested by the shareholder, and the amount of reserves, the rate of earning is quite low. It is under 3 per cent. on the money invested. That is really moderate.

Well, take the case of the building societies. The building societies go on increasing their reserves year after year, if they are able to do that, and that money is lent out to clients and brings in an additional profit to the societies which enables them to pay larger dividends?—That is so.

The banks are in much the same position. Whilst you may be getting only 3 per cent. on your money in some cases, I have no doubt that you are getting a great deal more than that in other cases?—I am talking about the earning-rates on the amount of capital invested—that is, the return to the shareholders on the shareholders' funds, or otherwise the dividend.

Where building society money is allowed out again to clients it brings in an additional return to that which it received for its ordinary money?—Yes.

Surely the banks are in a similar position in some respects?—Do you mean that if they lowered the rate they would by this action increase the application for advances?

Certainly?—That would be no use if for every £100 there was a slight loss entailed—there must be a margin between the rates.

You pay 3 per cent. for fixed deposits?—Up to 4½ per cent.

But that will be discontinued soon?—That is so.

There are not many 4½-per-cents. left now?—Not many.

We want to get all the information we can on the subject. You understand that?—Yes.

Supposing the banks say, "No one knows how soon we shall get out of this depression. It may be one year, it may be two years, or it may be longer." As some one interjects near me it may be for ever. But supposing the banks took up that view, do you think they would consider any proposals for a stated term to endeavour to meet the position?—I think they would be fairly limited in the amount they could do in that respect, because it would mean absorbing part of the reserves for the benefit of the country.

But take the main income. If the banks can pay up to 14 per cent.?—Which bank pays that?

One bank did not long ago?—There is a source of misunderstanding over the dividend rates. A dividend is declared on the nominal value of the shares. If 14 per cent. is paid as a dividend, that does not mean that the person investing got 14 per cent. on his money.

I understand that?—If you suggest that they should allocate the money that is paid in dividends to relieve business concerns, that would mean, perhaps, that the dividends would be reduced to ½ per cent. or perhaps nothing. In effect it would mean sacrificing the interests of one section of the community who lived on or received income from dividends to help another section of the community to get cheaper money.

Might that not be adjusted, as Major Douglas suggests?—If we adjusted it it would have to come out of some one else's pocket. Why not go straight to the pockets concerned?

Of course banking institutions differ from the ordinary mortgagees?—In many ways.

The ordinary mortgagee pays money out and takes his chance. The banks hold securities that are quite sufficient to meet advances made. The ordinary mortgagee at the present time is getting down to 1 per cent. return, and sometimes nothing?—That is so.

Do you think it is possible for the banks to endeavour to meet the position by supplying money at a lower rate of interest for a stated term?—They could do it but only to a small extent.

I am not talking about a reduction of 1 per cent. I am talking about a reasonable reduction?—A reduction of 1 per cent. would reduce the earnings of the overdrafts by £500,000 per year. That would mean taking money from the pockets of one section and giving it to another section.

Are you taking into consideration the reduction that would take place in deposits?—No. If the rate for deposits could be reduced further, without having outside competition to contend with to take the deposits away——

But you would not have outside competition. That is all round?—Well, in my opinion the banks would welcome it. I think I have spoken on these lines all through. The banks are anxious to see the overdraft rates come down.

Mr. Lye.] Would not it be possible to reach an agreement on the matter between all the financial institutions, or would that have to be governed compulsorily by statute?—My experience is that it is hardly likely that that could be done, other than by legislation.

The Chairman.] If that were done by legislation do you think it would help us in our present difficulties?—It is a matter requiring investigation. You ask, in effect, would it help the community to reduce the incomes of those people receiving interest?

It would reduce the incomes of these people certainly?—If that led to a corresponding benefit to those people who pay interest, in my opinion, it would probably be to the good.

If we examine the Mortgagors Relief Act we will realize that not only the mortgagors but the mortgagees are suffering?—That means that the receiver of interest is suffering, and you are going to make him suffer more if you lower the rate of interest he is entitled to. It is a matter for a round-table conference, so that the pros and cons can be weighed.

It has been stated repeatedly that the banks and the stock and station agents and other financial institutions are receiving the whole of the benefit from the high rate of exchange. Do you think that

that is so ?—I do not think so at all. Of course to the extent that the high rate of exchange is a deterrent to importing it means that less business is done. Do you mean that some people claim that the £25 in every £100 that people pay to get London funds is just pocketed by the banks ? That is not so.

The suggestion is that the farmer and the seller in New Zealand is indebted to the financial institutions to such an extent that all the advantage is absorbed by these institutions and does not reach the farmer who requires the immediate assistance ?—That may be so to a certain extent, but all the farmer is doing is paying off his just debts. He must pay his liabilities and this is helping him to do so.

One realizes that. I have some figures before me showing the value of the increased exchange to the producers, and whilst I admit at once that this advantage to the farmers has been given at the expense of the trading community and others who are suffering hardship in many cases, it is evident from these figures that the farmers have been helped. The dairy-farmers alone, on the increased 15 per cent. on the exchange from the 20th January, 1933, when it was instituted, until March 1934, netted an additional £2,612,115. That is additional.

Mr. Langstone: Where was this money brought from ?

The Chairman.] It was not actually brought in, but that is the increased total to the New Zealand dairy-farmers. The total benefit from the 25 per cent. exchange has reached £4,353,525. I would like to point out that I happen to be a chairman of a dairy company with five hundred suppliers—probably not a great number— but it is interesting to note that with the exception of two or three Government loans, the whole of the benefit goes to the dairy-farmers. We have not one order on the stock and station agents ?—That is evidence that so far as your company is concerned the advantages are passed on to the producers, and the claim that all the advantages are not passed on is not true.

It may be in some cases the advantage is held by the stock and station agents ?—It has not been the policy of the banks to reduce their overdrafts by the proceeds of farmers' sales in this way. The banks want to extend their overdrafts, provided the conditions of so doing are on sound lines.

So far as the London balances are concerned, we have four Australian banks operating in New Zealand ?—The banking business is predominantly Australian, but two Australian banks have their head office in London.

And the London balances are held separately are they not ?—They are now, but were not previously. They have to be now on account of the Banks Indemnity Exchange Act.

Getting back to overdraft rates, you have clients who run two or three accounts at the bank, have you not ?—Yes.

One account may be in debit and two accounts may be in credit. Do the banks allow the credit balances to be set off against the debit balance ?—Yes, under certain conditions. The condition is that the money is the customer's own money, and unattachable credit balances may be set off against debit balances. The banks are not obliged to do it.

Provided it is a genuine business that is allowed ?—Yes, and any private person is permitted to do so, as long as there is a legal right. Trust funds do not come into it.

Mr. Harle: For instance a solicitor could not have his trust account set off against it.

The Chairman: I realize that, otherwise we would have people sending their money to that solicitor——

Mr. Langstone.] If a local body had a credit balance in one account and a debit balance in another account, could the credit be set off against the debit ?—We could not set off unattachable credit balances. The right of transfer from one account to the other must be in the hands of the banks.

Mr. Harle: That principle is governed by the Municipal Corporations Act.

The Chairman.] Have stock and station agents been able to reduce their overdrafts with the banks ?—I have not looked into that aspect of the question. I would say that the dairy-farmers have been able to reduce their overdrafts.

Mr. Harle: Some stock and station agents do not work on overdrafts. They work on their own capital.

The Chairman.] But many do ?—Yes.

Mr. Fussell: I think the general attitude of the financial institutions is that they like to see their customers prosperous, for that makes them more prosperous, and if they can help their customers at all they do so.

The Chairman.] In reference to legislation enacted two or three years ago for long-term mortgages for the Bank of New Zealand, has there, generally speaking, been any great demand for that type of business ?—The figures are about £1,100,000—that is, the figures of a year ago, and I do not think they have altered very much.

Has that money gone out on broad acres or on city properties ?—The intention was for broad acres, but I think in some cases, owing to lack of demand in that branch, it has gone out to some extent on city properties.

Yes. I find it rather difficult to follow that in your balance-sheet ?—I do not think the balance-sheet sets it out.

It is difficult to follow it. The rate of interest was to be 6 per cent.; has that been automatically reduced or does it still stand ?—It is 5 per cent. now.

And the whole of the amount the bank really set out to lend has not been taken up ?—No; it may be said that the demand is disappointing.

In your lending policies you work upon deposits, do you not ?—Yes, the banks lend against their deposits.

Suppose all your deposits were called up and you could not equate your advances, what would you do ?—That is a thing I would like to look at fairly particularly. It is a different question if it happens to all the banks at once or just to one bank. Dealing with the matter happening to one bank: Apparently the reason is that the confidence of the customers has been lost. Knowing that notes are

a first charge on the assets, they want a first charge on the assets because they think the bank is going to fail, so they withdraw their deposits in the form of notes, and presently that bank reaches its limit. Then, I suppose, it would try and call in its advances, and of course could not get them in quickly. The bank has to be solvent on the day; it is no good to be solvent on paper, or a week or month hence; it must be solvent on the day. That bank would either have to close its doors, as banks have often done and have been forced to do in America, or it would have to get help. Either the other banks or the Government might come to its aid. If it happened to all the banks, you would have to look around for a motive, because there must be some cause. It would want people to hold the notes of all the banks if they thought all the banks were going to smash and wanted a first charge on the assets. They could do so; it would be possible, but it would not be in the national interests. When the notes reached their limit, a banking crisis would arise, and probably legislation would be altered to enable more notes to be held. In that case I think it much less likely that they would call in their overdrafts.

Captain Rushworth.] Would legislation be required to enable them to hold more notes?—Oh, yes.

Cannot the banks issue notes against public securities? The Government can issue public securities and they can issue notes against them?—Yes; the Government could buy the money from them, but what would happen? As does happen when the note-issue is limited, some legislation is passed to enable that to be exceeded. Where legislation does not already exist, they would give the conditions for which it might be exceeded, but I do not think advances would be recalled in such a case, because that would naturally aggravate the position engendered by the lack of confidence causing the money to be withdrawn.

On the last occasion you were asked a question about the exchange on cheques; it was considered by some of the members, I think, that the rate was excessive, and then, of course, reference was made to the Old Country where there was nothing charged for exchange, but there was a definite arrangement made in regard to overdrafts?—You mean the bank charges, but I read somewhere since that exchange is charged in some cases in England.

That was admitted here; it was not said to be general, but do you think that the rate of exchange could be reduced? Do you not think that is a big charge—a heavy tax upon the customers of the bank?—The charge is 2s. 6d. on £100, but it operates as a clearing system and any clearing system costs a fair amount of money, and in New Zealand the charge is considered to be a fair one, and it is one of the charges made for the banking service. They have whittled them down as far as they possibly can.

It is considered by the banks that the charge is a fair one?—It means that they have lowered it as far as possible; their overhead is a certain amount and they have to meet it.

But you did not hesitate to increase the charge for the customers' accounts from 10s. to £1?—And the Government did not hesitate to increase the note-tax.

They had to have money?—So did we! The banks have intimated that when the note-tax is reduced they will be pleased to lower the bank charge.

I am afraid that may be a long time?—It will not be a long time because the Reserve Bank is taking over the note-issue, and our own note-issues will gradually go off—I think, in two years. The matter would be immediately *sub judice* with the banks.

Dr. Sutch.] They are intending, then, to lower the charge?—That would be a matter crystallized at a meeting, but my own view is that, when the cause of the charge is removed—the note-tax which puts the rate on—the bank charge will come down.

The Chairman.] I asked that last time, but you were not then sure?—I said it would be *sub judice* and would have to be decided at a meeting.

The increase in the exchange-rate in normal times (leaving out the depression altogether): How is the question of the reduction or *vice versa* arrived at? Does it happen when you have an accumulation, or is it settled through a meeting of the associated banks, or directed from London?—It is settled out here through a meeting of the associated banks; London has no say in the matter.

No influence on it?—It would be impossible to say anything has no influence. The bankers have a meeting and a decision is made, here in New Zealand, and put into effect in New Zealand, by co-operation of the banks.

Mr. Langstone.] With regard to the reply that you gave to Mr. Nash in connection with the 3 per cent. dividends on the actual assets and capital involved in the bank?—Put it this way, that the return on the investment to the shareholder is under 3 per cent.

If the shares were sold on the Stock Exchange for £2 10s. or £3, that has nothing to do with the bank?—That has nothing to do with the bank, but from the point of view of the investment, the shareholder expects——

Does the dividend that the bank has paid determine the rate?—It certainly does. The dividend is declared on the actual capital paid up, but the earnings are a very much lower sum.

Then your secret reserves must be very much more?—They are not secret reserves.

If they are only paying 3 per cent. on dividend, and the Bank of New Zealand are paying 13⅔ per cent.——

Mr. Shaw: No, 11¼ per cent.

Mr. Langstone: It was 13⅔ per cent. some time ago; it may be 11¼ per cent. now?

Mr. Fussell: Of course you have to take other aspects into it; people will be prepared to accept a smaller return on bank shares because of the safety of the investment.

Mr. Langstone.] It seems to me that if we are to take the 3 per cent. literally ——?—You must take into consideration that the rates quoted have come down a good deal.

I asked previously about the question of the taxing of the banks on their assets, their landed property and premises. In 1900 these stood at £422,339 and in 1932, £481,463?—You are referring to the New Zealand premises of the Bank of New Zealand?

Yes; I have got some returns of the Wellington properties of the Bank of New Zealand, in Wellington: the valuation of the Stout Street property is £10,500 unimproved and £20,000 improvements, a total of £30,500; Lambton Quay, £75,000 unimproved and £55,000 improvements, total £130,000; Manners Street, £24,500 unimproved and £14,500 improvements, total £39,000; Riddiford Street, £2,045 unimproved and £5,035 improvements, total £7,080. There is £206,000 in four banks in Wellington. That is nearly half the total of £481,000 for all New Zealand?—Yes, but that figure includes depreciation and replacement.

The valuation I have here is the valuation of the City of Wellington for rating purposes, and is the Government valuation. It seems to me that if four premises in Wellington are going to be for £206,000 there is only one reason for the banks in writing down their property, and that is to avoid taxation?—I do not think that is the case. In other countries where the taxation is not on that basis, they write them down also.

Mr. Shaw: You are under that impression, Mr. Langstone, but that is not the case.

Mr. Langstone: What is the reason for it?

Mr. Fussell: Ordinary prudent reasons. In 1900 the values were, comparatively, very considerably lower, but the banks did not write them up. On the other hand, they recognize that banking premises are to a certain extent specialized premises. If a bank has to remove and the premises become empty, as is the case with several of our country premises, that is a dead loss.

Mr. Langstone.] That would apply to all other premises as well?—Yes; but we are talking from the bank's standpoint. We look at it from that standpoint, that it is prudent and in accordance with banking practice.

But other firms are not allowed to write down their premises by that amount?—Yes, they are. Other business firms do not have to pay on their reserves.

For ordinary taxation purposes, you are only allowed so much depreciation?—Other companies do not have to pay income-tax on the value of their premises, but the point about specialized premises is quite correct. If, for instance, a stone bank building on a corner section in a country town becomes empty, no one can use it if it is sold up. It would have to be sold at a very low figure and a lot of money spent on reconstruction.

That applies to a lot of other buildings?—Do you consider it is not a wise and prudent practice for the bank to adopt?

I think it is, but to me it seems that if it was written to its true value with due prudence, they would pay more in taxation than they do to-day?—They would pay more if they did not adopt that prudent policy, but any firm would be foolish not to make provision in such ways.

The banks say, "That is the valuation," and it is never questioned, but another firm cannot do that?—But it does not have to pay income-tax on it.

If a bank is paying on its assets and liabilities, on the average of its assets and liabilities, a liability is also an asset to the bank. If I bank £500 in the bank, the bank owes me £500—that is a liability?—Yes.

But if that bank lends that £500 to Mr. Munro, and he has to pay in security for £1,000, it is also an asset, because he pays the bank £500 plus the asset?—He does not owe that £1,000.

They have the security for £1,000. I have not got security for £1,000 for my £500?—The bank security is worth a lot more than £1,000.

It was not in 1894?—Nobody lost a penny, though.

The point is that every bank asset is also a liability, and *vice versa*?—Against the assets, they are liabilities; that is quite true.

They work one with the other?—But they pay on both.

On the average. Do you mean to say that a bank only earns £1 10s. per cent.?—It does not earn that much.

If you borrow £1,000 at 3 per cent., you do not lend it out under 5 per cent.?—Yes.

You make a 40-per-cent. profit there?—40 per cent.? On what?

If you borrow money at 3 per cent. and let it out at 5 per cent. that is 40 per cent.?—Yes, on the interest.

If I buy goods and get a 40-per-cent. profit on them with no chance of deterioration, it is good business?—I do not think your mathematics are quite correct. If I bought something for 1s. 1d. and sold it for 1s. 2d., I am making 100 per cent. profit.

You would have to charge 2s. 2d. to make 100 per cent.?—You are not working a percentage on the business, only on the profit, but not on the total business done. For taxation purposes, the tax is worked on the income you make, on the amount of business, on the asset and liability. I quite see what you mean, but the profit is really only 2 per cent. on £200.

You pay taxation of £1 10s. on every £100 assets and liabilities, and you pay about 6s. on the £1 10s.?—No, we pay 8s. 9d. per £100 on the average assets and liabilities.

Not 8s. 9d.?—It works out at that.

4s. 6d., plus 30 per cent.?—That is 5s. 10d., and then that is what is paid on every pound of ordinary income, and then half of that again—8s. 9d. It really comes to this, that the present basis of taxation taking everything into consideration, bears hardly on the banks because one of the principles of taxation, I think, is that it should be fair and equitable, and that when income falls the taxation should fall, and *vice versa*. But with the banks the assumption that they are making this amount goes on, and though their income is halved, they still pay the same taxation.

Mr. Ashwin.] And when it is doubled they still pay the same?—It does not double, unfortunately.

Mr. Langstone.] If all businesses were in the same position as the banks, there would not be any slump?—If other businesses had been conducted as the banks, there may not have been.

Captain Rushworth.] I think not, because the banks make their own money?—They do not.

Say the Government wants £1,000,000, and issue Treasury bills, you discount the bills; what do you do?—Hand the money to the Government.

Do you not create £1,000,000?—You do not create the money, you create a debt; you have allowed yourself to become a debtor of the Government.

Suppose the banks said, "No, we will not discount your Treasury bills," that money would not be in existence?—No.

And if the banks say, "Yes," the money comes into existence?—What they do is turn the non-liquid purchasing-power into liquid purchasing-power.

They monetize the Treasury bills?—They are in a form which is not currency. They do not just create it and make it out of nothing.

You just say, on the taxing of the people and the assets of the country, you are certain the Government can pay it?—The purchasing-power is there.

Directly you give them £1,000,000, that is reflected in further deposits in the banks?—It all depends on where it is spent.

It does not matter how it is spent. How will it not reflect in deposits?—If it is used to buy sterling. If it is spent in New Zealand it might be reflected in the deposits, and might not.

Could it be spent anywhere else?—The banks could give sterling balances.

So you issue the Government £1,000,000 worth of currency on Treasury bills and they pay that £1,000,000?—That does not go into anybody's deposit account.

It cancels out a deposit?—If you gave the Government a deposit of £1,000,000 and they spent it, they cancel out a deposit, but if the money is spent in England, you transfer the money.

It is purely book-keeping?—Yes.

Mr. Langstone.] I would like to get on to that point. Leaving the Government out of it, if a Japanese merchant who has sold goods in London and got £10,000 credit in London——?—You went through that last time you questioned me.

What I was trying to get at was this, that that increases the London balance by £10,000. If it is sold to the Bank of New Zealand in London to purchase goods in New Zealand, he gets a letter of credit. There is only a cross-entry debiting the London account by £10,000 and increasing the credit in New Zealand by £12,500?—He pays in £10,000 in London, and, leaving the exchange out of it altogether, he is entitled to £10,000 in New Zealand.

The money is still in London, but evidently some communication comes in and you give him £10,000 here in New Zealand. He takes goods away?—It has enabled him to do so.

You get the reverse action of somebody getting goods from New Zealand to Japan, but both of these transactions are settled in London, and the physical part we see is, possibly, wool going from New Zealand to Japan, and goods coming from Japan to New Zealand?—That is correct.

But the whole thing is settled in London?—London is the money-market of the world.

Is that what gives London dominance over the finance of New Zealand?—You would have to get me to admit, first, that London has the dominance over the finance in New Zealand.

Has it?—No, I do not consider it has.

The mere fact of settling our balances——?—We just do it there.

That does not give them the control of finance in New Zealand?—No, it does not.

I suppose that means money comes into existence by way of a debt anyhow. Originates in a debt?—Did you say currency or money, because there is more currency in use than money, so we will say currency.

I am talking of money in the general form. Anything that will pass for payment?—Cheques. Yes, we will call it money too. We understand that using money as we do now we are including all things that pass for payment, cheques and everything else.

Yes. Now that currency is in existence in the form of a debt?—To a large extent.

Then it just depends largely whether the banks will buy securities?—They do not buy them. The securities are pledged to the banks and the banks do not include those securities in the balance-sheet. They are not purchased.

Then it just depends how they lend against those securities, how much money there is in circulation?—Yes. To the extent that they are requested to, because the banks are willing to lend more than they are lending, but they cannot lend more because the people cannot borrow from them. But you mean that the way the currency comes into existence is that a person who has an asset wants to turn part of that asset into a form that can pass as currency, and the job of the banks is to do that.

But because the great bulk of our people possess no assets they do not come within the sphere of banking at all?—If they have no assets at all—no. I should not say that any person who has no assets would.

So that, although there may be a very dire need for purchasing-power in the pockets of the unemployed relief workers, that is outside the realms of banking. You do not pretend to be able to cure that?—No. The banks do not pretend to be able to give purchasing-power away, because they say themselves they cannot create it out of nothing, and if they gave anything they would be giving what belonged to somebody else.

Could the Government do it?—Do you mean by issuing money?

Yes. They issue Treasury notes we will say?—The Government is physically able to issue Treasury notes. Governments have done so.

Make them legal tender?—Yes.

And they could pay those to the unemployed and the other workers, and that would create a definite demand, an effective demand for goods, and that would reflect itself in the increased business in the ordinary banks and restore confidence?—I do not know that it would go all the way to restoring confidence, because, in the first place, by issuing that money the Government are issuing what cannot

be repaid by the people to whom it hands the money, and that money has got to be got back from somewhere, and in the meantime it is a Government debt. You would have to go into all the complicated question as to how much the debt would be and how much the confidence reposed in the Government would be affected by issuing that debt and the money issued without provision for cancellation.

But is not the lack of confidence reflected in a lower standard of living of the people. And they do not want a lower standard, do they ?—No. I think that some of the effects of lack of confidence are a lower standard, but the lack of confidence is the effect of something else, and the thing that caused a lack of confidence would be causing the lower standard of living.

I think I asked you before what caused prices to fall. Prices do not fall of their own volition, do they ?—No.

Well, there must be some reason for prices falling ?—Yes. One of the facts, of course, is the supply in proportion to the effect on demand in England. For instance, they can get supplies of butter for less. At one time they paid us 2s. 6d. a pound for butter. They could not get it for less, but they would not pay us 2s. 6d. now, because they can get it for less. The supply in relation to the effect of demand is greater, and if we charged more for butter we would not be able to sell it. They would probably use margarine rather than pay the high price.

Did not that come about first simply because the banks in Great Britain called in overdrafts and pursued a policy of deflation and took money out of circulation. If you take money out of circulation prices must fall, must they not ?—Yes. But I do not think the banks adopted a policy of calling in overdrafts, because it has not been my experience of banks that they do. They do not say "We are going to lower the volume of overdrafts and we are going to call them in." When they ask a man to reduce his overdraft it is in that man's own interest that he should, because the business is getting unsound and the security is not adequate support for it, and it is not good for a man to have the money on that basis because he can never repay it. The banker acts as a counsellor and counsels him to repay it while he can. They are quite sorry to have to do it, but they must take into account the security.

Do you not think that the continual fluctuation of prices gives the banks or the bankers greater control than they otherwise would have ?—I do not think so. The price has been fluctuating lately, and, as I have said before, the banks are so anxious to give more money out.

Suppose we pursued a policy where, in accordance with the increase in wealth production, the customers of the banks—farmers and others—had credits and did not need to borrow money at all, but utilized their own credits, how would the banks get on as a lending institution ? Their job would be gone ?—It most certainly would.

They do not want that, do they ?—No. They do not want their job to be gone, but on the other hand——

I mean to say, the profitable part of their business would be gone ?—Yes. But something has got to come from somewhere if everybody could get free credits.

Yes, if they could get free credits ?—It is only the amount of interest you are talking about now, the difference between whether the banks lend for nothing or lend for a rate of interest.

No ; there is more than that ?—Do you mean to say people using their own credit would just get the money and would not have to repay it ?

Yes, and there would be ample of it due to the ordinary exchanging of goods and services ?—I said, "And they would not have to repay it ? "

When you exchange goods and services you repay them do you not ?—No.

When do you repay ?—I am asking you. I do not know if there is any provision in the idea you are talking about for repayment of the credits.

Every time a transaction takes place and is paid for it is redeemed at that point. If I buy something from you and pay you for it that represents some tangible asset that I have had in monetary form. I give you my monetary form for it and take your tangible asset. That redeems the business so far as you and I are concerned, and then that gives you the right to go and buy something from somebody else, so that every time the transaction takes place it is redeemed ?—I do not know. What about that £10 you borrowed from the bank to buy that article from me with ?

Yes ?—Or from the Credit Board or the Government or anywhere.

Yes. But that has cost the bank nothing ?—That is not the case because, put it this way, that the bank lends you £10 and hands you notes for it. From some of the things I have read it seems to be thought that those notes are the bank's. They are debts. The bank is paying taxation on them.

In your statement that you made at the opening of your evidence you stated that the bank-notes could be used in buying gold and paying the services of those working in the bank. Now, then, if the bank has a whole block of notes printed, made legal tender by law, the only cost to the bank has been the printing of them, but directly they tear one off or a number off and buy gold with them or pay the services or perhaps buy property with them, then they are able to buy a value of many thousands of pounds for things that have cost them a few pence ?—But you must take into account that when that note is handed to the person who sold the gold that note is a debt of the bank.

But the bank has got the gold ?—I know, and they owe the amount of the gold too. Their position on their balance-sheet is exactly the same.

But there must be some beginning somewhere. If we were to give anybody else, any member of this Committee, the right of issuing money, they could start and go to the printer. They could get the notes and if they were made legal tender they could issue those amongst the people and the only cost to them would be the printing of the notes, but the value outside of the bank would be the equivalent in actual real value, in goods and services outside of the bank ?—But the cost to the person who issues them is the debt that he incurs by doing so. If he issues a million notes he owes £1,000,000.

Now, we come to the interjection of Captain Rushworth. Suppose that they have got to redeem the debt, what do they redeem the debt with. If I go to the bank with a note and ask you to redeem it what are you going to give me, another note ?—Yes. In the last resort the banks have assets which would enable them to redeem all their debts.

They do not need to have any assets ?—They have those assets, but as things go, and with legal tender, they do not supply tangible assets in redeeming notes. In redeeming a note they give you a credit with the bank. That means, make you a creditor of the bank in a way that will enable you to buy the tangible things. If you went to the bank with some notes and said, "Redeem those notes, and what I want for them is a car," the bank will say, "We do not keep cars, but you take the notes along and you can get the car." So that you can get whatever you want.

So that if I go to the bank and say, "Give me some notes" which have cost them only the matter of printing, but by law have been made legal tender, they give them to me, and I can go and get the car. I have now got the car. The other fellow has got the notes. If he goes back to the bank he cannot get another car to replace the car he sold me. All he can do is to get more notes ?—He can get another car with the notes. I do not see how it matters.

It is a very important point, that if the banks have the power to create money they have also got the power to destroy money ?—But what they do is to turn assets into a form that can be spent, but all the same they incur a debt in doing so.

But they could even go further than that. They could go and buy gold with notes. That gold has cost the other people so much labour and time and energy to create, but there is a vast difference between creating an ounce of gold and manufacturing £4 or £5 in notes by the printer ?—Yes. But if the person hands over the gold he wants the notes in exchange for it.

That is so. But they have got the gold, but they have not done anything to get the gold. What have they done ?—They incur a debt. They have not benefited their position. You say they have got the gold, but have they improved their position ? Have they increased their net position ?

Well, why are the banks complaining about the confiscation or the theft of their gold ?—Because in buying the gold they did not improve their position, and if it is taken from them again their position is worse.

They only gave notes for it and they used the notes to pay taxes with, so that really when a bank takes to paying taxes it does not pay taxes at all. If everybody had the same right as a bank has to issue money and to pay taxes and make it legal tender——?—But whenever they pay it in legal tender they incur a debt. That means that they have not really paid it. They still owe it.

Who do the banks owe to. We will say they owe £100 worth of gold. They have given the necessary notes for it. Who do the banks owe anything to ?—To the holder of the notes. If you brought the gold in and sold it to them and they gave you a hundred notes——

But when that man who has the gold valued at a hundred notes goes and deposits it in the bank and proceeds to spend the notes, he does not buy anything from the bank. He buys something from somebody outside the bank. Then the bank does not supply anything ?—No. The bank enables him to do so. The bank's job is this: The people have got the assets. The banks do not create purchasing-power. The purchasing-power is there, but the banks issue evidences of that purchasing-power and accept an obligation. They accept the debt for that amount, and any banking system at all would have to be on the same sort of basis, that there must be a debt against the credit, and that money itself or currency—legal-tender money—is not of value in itself, but is evidence of purchasing-power, and that purchasing-power has to be put up before the evidence can be brought forward.

That is admitted. But if I go to the bank for a loan and you monetize my assets and securities the bank is not giving me anything or expending anything and they have got a right by law to make it liquid, to monetize it, and if I do not repay the notes that they have given me, something happens, then they take my security and it belongs to the bank ?—But you have received value.

Not from the bank ?—If the bank takes your security it just takes a sufficient amount to enable them to pay the equivalent amount of the deposit—that is, to enable them to pay their debts. They do not take your security and pay the whole thing into profits.

But their profit is the charges that they make on the operation of the thing. But they can buy real tangible properties from people in the community with those notes ?—But they do not improve their position. They do not increase their margin of assets over liabilities by doing so, so that you can see that for the tangible property they get, or whatever they buy, they have got a debt of an equal amount.

The debts are only a figure in a book ?—The assets have to be written down, but the debt is an obligation.

Yes. But in the settlement of that obligation the bank does not give anything. Somebody else settles that obligation ?—But it must keep enough assets to be able to do so in the last resort. That would simply stop the process of the bank's becoming insolvent.

All it has got to do is to keep sufficient balance of cash in conformity with the statutory law. As you stated a little while ago, if they all went bankrupt what they would have to do would be to go to the Government and they would have to get a law where they could extend their note-issue, and if they could extend their note-issue they would not go bankrupt. They have got some rule of thumb. I do not know just what it is. But they have got to keep some relationship between their cash reserves and their other obligations ?—Yes. That applies more particularly, of course, in the Reserve Bank system such as we have here. The system here will be different in material respects when the Reserve Bank comes into operation. But still the general principle is the same, that the banks perform a service in the country and that service is charged for at a reasonable rate. For the size of their businesses, the profits are not out of the way at all, but this statement of yours that they cannot

give you anything for it, that really means very little, because in the last resort, if you said to the banks, "Now just show that you can meet all your obligations and give tangible assets for what you owe," the banks would say, "All right. Then we will go into liquidation and show you we can do it." And they would call in £100 advance and give it to a depositor, call in another £100 and give it to another depositor, call in the whole lot and square the whole thing up, and say, "We do not owe anything to anybody but the shareholders. Here you are, shareholders, take the premises." But trade would be stopped. So it can be done, but there is no need to do it. All the time it is a debit and a credit, and by issuing notes it issues debts. The notes in circulation do not belong to the banks at all. They belong to the people, and the people are effective creditors of the banks.

I quite realize that if I do something for somebody and they give me an IOU and I could use that, there is an equivalent of services, there is an equivalent of value, but if we can go to some concern and get notes and the only cost has been the printing of those notes, there is not the same value.

Mr. Ashwin.] But is not the point this: That if a man expects to get value for money, when he has got it he must give value to get the money?—Yes, that is so.

And the bank only comes in between those two?—Yes. The bank is the middleman.

The bank is the middleman in that transaction, and expects to get value from one man and give it to another?—Yes. I thought I had made that point before.

Mr. Langstone.] There is more than that in it. But they are able to acquire real tangible assets?—But only against a debt. They do not improve their position. The position is this, that I have got the right to create to a certain extent. I could go along to my tailor and say I wanted a £10 suit. You could say I have not given him anything and I have got the suit, but I have got to pay him some time.

But if we all came along and said, "We are allowed to issue notes," we could issue ten notes and pay the tailor. There is a vast difference between the making of the suit and the issue of ten notes?—No. My credit would be £10 and my debt would be the notes in circulation against me, £10, and my position would be just the same.

If anybody comes to the bank and they want to redeem a note, all the bank says is, "I will give you another for it"?—I have already explained that if you did not want them to do it that way they could wash everything up, but nobody would be benefited by doing that. You have mentioned a few times about this costless issue. The real point is not the cost that it takes to print the note, although there is all the overhead expense. It is the debt the bank incurs when it passes that note across the counter. That is the main thing.

What debt does it incur?—It owes the note-holder the amount.

Yes. But the note-holder can only go back to the bank and get another note?—The job of the bank is not to enable the people to treat the bank as a great emporium where they can get everything. The bank enables them to go where they can get the things.

If the bank has got a lot of notes unissued it has only cost them the printing, but directly it goes out into the public it assumes a new character altogether. When it comes back into the bank and it is not in circulation, but has to remain there, it would be just as it was formerly?—No.

Why? It is not in circulation?—But once it has been out, when it comes back it does not cancel out the indebtedness of the bank. It transfers it. You come to the bank and you get a £10 note. That note immediately becomes currency and then you pay it back into the bank. The banks do not say, "We are worth £10 more." They credit your account. They say, "We are still owing Mr. Langstone £10."

Yes. But that is transferred in the community into goods and services to that extent. When it comes back into the bank the bank does not give us any services for it. They do the book-keeping between the individual and the bank?—And all the profit they make is just a return for the services that they perform. I would like to get at what fault you are finding with the present banking system, because any banking system at all, whether done by the State or elsewhere, would have to have a system whereby there would be debts on one side and credits on the other.

I am not finding fault, but I do find fault with the banks trying to cover up that there is any such thing as practically costless issue of credit, and that the banks have got to give value, a *quid pro quo* for all the credit they issue. I think that is where I differ?—I think that you might change your view if you talked the matter over. It is very hard to talk it over here, but if you studied and went into it more carefully, because, after all, the banks do not get any more value than they give. When a person pays a cheque into a bank the bank owes him that amount, but what value has that person given the bank? He has made the bank his debtor for £10,000, say, by paying that cheque in, and in a gold standard country the bank owes him £10,000 worth of gold. But what service has he given to the bank? He has only given them a piece of paper.

Where did he get the paper from?—He writes it out himself.

Mr. Clinkard.] Could you compare the note to a promissory note?—Yes. A note is a promissory note. And this point about it not being money while it is in the till of the issuing bank, that would be just the same as if you wrote out a cheque. You could write out a cheque for £1,000 and put it in your pocket. It is not an asset and not a liability, but once it got out of your hands it would be an asset of the person that had it and a liability of yours.

But when that cheque comes back to me, if I issued a cheque and had nothing to back it up with, but it circulated and went round half-a-dozen people, it would do the business of half-a-dozen people and come back to me. There would be no fraud in it. I would just destroy it?—No. Because you could not get it back without giving £1,000 for it.

But it originated from me?—Yes, I know; but you incurred a debt by operating with it.

But I am saying that I issued a cheque and I had no money or credit to back it up with, but it passed amongst the people and did the business of the people and came back to me again. I would

have already received in my transaction the value of it when it came back to me ?—You return that loan. People do that every day.

And therefore the question of the cost of issuing it is not much ?—Not the mere cost of writing it out. But by issuing it you do incur a debt.

Yes. You can look at it that way ?—On one side there is the credit and on the other side the debit. You mentioned that the banks are trying to cover up that it was costless, but the banks do not consider anything costless that involves them in a debt.

But when the bank subscribed and took up war loans and issued the money to the Government, all they did was to hold the war scrip and gave the Government the money. They possibly sold those again to somebody else. I think you could put down £10 or £15 and get £100 worth. That was only a matter of giving credit by way of figures in a book. The bank did not give anything there, but they held the war scrip as security ?—Yes. They held the scrip and they were legally able to issue money against that, but their position is just the same. They are no better off. They have incurred the debt by issuing the money, and they have got the backing for the debt in the scrip.

But there was this about it, that they were able to get 4 per cent. or 4½ per cent. for that, and it has not cost them anything to do it and they can get the interest on it ?—But the total interest they get on all their advances is offset by the costs of banking, and the margin is the profit. Most certainly it is the profit, but the people of the country get it.

You cannot tell us, then, what proportion of the deposits that we have got in the banks in New Zealand is just purely bank-created deposits ?—I do not like you using the word "create" because to me "create" means to make something out of nothing. But you mean deposits that arise out of the bank advances. No. I could not tell you that. I do not think it would be possible to say.

Have you got any idea of the relationship between the business done by cheque and the business done by legal tender money ?—No. I could not give you that.

Cheque money is short-circuit money and legal-tender money you might call long circuit ?—I could not give you any figures at all, but a very great preponderance of business is done by way of cheques. I do not think there is any definite means of finding out the exact relation but you can get an idea.

I suppose we all recognize that there is something wrong somewhere. There is a screw loose somewhere ?—Yes. The world is pretty sick.

It is not the fault of the ordinary working-people, because they have played their part. There is something gone wrong somewhere or we would not be in the slump. Now, is that because we start to blame one another. You have just told us that the banks cannot issue money out into the public for relief workers because they have no assets and securities, but you have admitted that the Government could. Do you think it is in the control of banking, then ? I mean that the bank to-day possesses rights and privileges under the law, but has no legislative authority. If it had legislative authority it could meet circumstances as they arise. Do you think, then, we would be able to avoid a slump ?—No. I do not think so. What do you mean by legislative authority ?

I mean that if the banks had the same legislative authority as Parliament, and when they saw a slump coming they could meet it by issuing money, we will say, to people who have got no assets and securities by way of wages, keeping up wages, purchasing-power, salaries, pensions, and that sort of thing ?—I can see what you mean, but I do not think that it could be met that way, because it would involve giving money and currency for purposes for which the trading banks could not give it, because the business would not be considered sound and the money could not be repaid. That sort of thing has happened in other countries where the Government says, "We have got the right to give this money," and they give it, and when the time comes for meeting the debts they cannot be met and the money starts dropping in value and that starts a vicious spiral of inflation which is very hard to stop. The whole trouble with inflation is that it is very difficult to stop.

Do you not think that if you have a lot of production and no consumption then you bring about the very conditions that we are trying to avoid ? Do you not think that if there is a lot of production and the people have not got the money to buy that, then there is a slowing-down process. That brings unemployment, and we get the very vicious circumstances that we have got to-day ?—The people who are not entitled to get money—it is because they have no goods and no services that anybody else wants. The banks cannot make that good.

But I want to take it a little further. It is desirable that those people who are human beings with family responsibilities and citizenship, should have income ?—It is most desirable.

Under the present system of banking there is no method whereby the bank can meet that position ?—No method whereby the bank can, but it is really not a bank matter.

No. It is outside their sphere ?—As you know the banks are at least as anxious as any individual to see the suffering caused by the depression cured forever, but they cannot give what they owe to other people to help. For instance, if they said, "We will give £10,000 to the unemployed. We will issue that credit," that would mean the people to whom the banks are trustees are finding money taken out of their pockets for another purpose. The banks have no right to do that. Their duty and the basis of their confidence is in safeguarding the interests of those to whom they are under an obligation, and they could not depart from that; and it would not benefit the country if they did, because the moment they started doing that the confidence would fall away, and it is the confidence that they depend on.

But it would be quite possible for the State to go and pledge the security of the nation and say, "We want £10,000,000, or £20,000,000, or £30,000,000 and we are going to do it that way." And the bank would not question it ?—No. If the State does it the State says, "We are going to issue more money and in doing that we must lower the value to a certain extent, and we give our money claims on the bank by making it legal tender." That means the State says, "What belongs to some-

body else is now going to belong to us." And the State has the power to do that, but the banks have not got the power.

You admit that it is desirable that there should be some means whereby profits should be distributed amongst the people ?—I admit that it is desirable that everybody should have an income.

But that the State is the only authority that can do that ?—The only authority that can give the people that.

It is not in the interests of the banks to do that to-day—outside of their sphere of operations altogether ?—The banks cannot make money available without due regard to repayment.

If we wanted to remedy the position in New Zealand we have either to have some form of finance whereby the Government can make arrangements with the banks to provide the necessary money to meet the position, or we must establish a State Bank ?—I would not go as far as that. The position has to be met in some way. If those people who have no money and the services they have to offer are not wanted they must, for State reasons, be supported or helped in some way, and this is done at the expense of the other people.

Mr. Holland.] Is it a monetary problem ?—It is largely a State and fiscal problem. If the money belongs to some of the people and it is wanted to help others it must be got by some means of taxation.

Mr. Langstone.] If I want my house painted, and if I have no income I cannot get it painted. There is an ample supply of paint and painters and yet the painters are idle. The work is available and the workers are there, and therefore there must be some lag in the monetary factor to bring them together to get the work done ?—Money is available. Money has a definite relationship to tangible assets, and it is only because of a lack of tangible assets that the money is not there.

But your tangible assets to-day in New Zealand are as great as they were in 1929 ?—Yes.

You have had £80,000,000 less in circulation since then ?—Although physically the assets look just as good, the rest of the world does not want what those assets produce to the same extent as formerly, and therefore the assets fall in value.

But the people want these things that are produced. You cannot say that the people go hungry or ill clad by choice ?—No.

Who is to deal with the ordinary working-people outside of the banking sphere ? They do not interfere with the value of the exchange-rates, and the relation of money, &c. ?—We are talking about New Zealand. The New Zealand position is dependent to a large extent on the income derived from the selling of our produce overseas ?

What proportion ?—About 60 per cent.

Forty per cent., I think ?—I think it is about 60.

The exports of our total production is 39·1 per cent. of our total production ?—If you leave buildings, &c., out of it. You would not exclude money spent on building bridges, &c. I believe 60 per cent. is the portion exportable. I do not know whether I can get more exact information.

But the bridges are wealth just the same ?—I thought you were referring to the production of our produce exported.

Out income from overseas exports is about 40 per cent. of our total production ?—What about splitting the difference and calling it 50 per cent.

Then a fall in the overseas prices would affect only 40 per cent. and not the whole lot ?—Well, there again it is hard to say, because the goods we export have, more or less, a world market, and that means that if butter rises in the United States sufficiently high to make it effectively possible to export there we would do so.

I noticed the other day that butter in Berlin was 183s., per hundredweight, in London 70s., and in Paris 238s., all on the one day ?—All the same sort of butter ? I have not seen the figures.

A Member.] That is due to internal arrangements or protection ?—I could easily see how that operated. When the price falls overseas our income is less, and if that is so the price we are willing to pay here is less.

Mr. Langstone.] But that is made worse by this factor: The London price falls, and then the Government revenue falls, because it gets less in the way of income and Customs taxation, and if extra Customs and sales taxation is imposed to get more revenue in, you double the fall. The income has fallen and the price has risen, and it has a double effect ?—Yes.

Do you think that linking our prices with the overseas level in London, for instance, has been a rank failure ?—I do not think there is any conscious policy of meeting overseas prices. If we are only paid a certain amount that inevitably has that effect.

We have entered into obligations, the State, the farmers, and everybody else, all at a time when the prices were high ?—Yes.

When the relationship between money and goods alter and when prices fall, reserves of money become more valuable and goods less valuable ?—Yes.

Therefore farmers and others producing find that they cannot meet their commitments ?—Yes.

The food-value of a pound of butter is the same at 6d. as at 1s. 6d. per pound ?—That is the trouble.

Do you not think we could fix an internal price-level that would be free from fluctuations and oscillations in consonance with the overseas prices ?—I do not think that that would work well in practice. If you have stability of incomes on price-levels, you cannot have stability of exchanges.

How would that affect exchanges ? If you had a New Zealand price-level of 1s. 6d. per pound on butter and you exported you would be paid overseas ?—Yes.

You could only use that credit overseas to pay debts ?—Yes.

If the goods coming into New Zealand approximated our internal price-level would not that adjust the position ?—I do not think so. If the price-level falls 150 per cent. overseas, and you pay the same price here on purchasing-power already determined that would mean that the exchange-rate would

go up, and that would mean that instead of paying a debt with 20 lb. of butter you might have to use 40 lb. We would have to produce more.

Our trouble is that the farmer is lacking income ?—But income comes from overseas.

It comes from New Zealand ?—I know what you mean there, but if we send to London all our produce and buy on the London market, it means a great deal what the exchange value of our money is on the London market.

I do not see the difficulty there. The New Zealand farmers are producing more, and yet they have not the income to pay for the things they want ?—On account of a price fall. It is the same thing with the overseas debt. They were contracted in different times when we got a good deal more for our primary produce.

But our overseas debt is a minor matter ?—It is a large factor—£150,000,000 is it not ?

But the annual interest payment is only about £8,000,000, or 10 per cent. of our total production ?—That may be so.

So that only 10 per cent. is involved, and that is not a big thing ?—Perhaps not.

The great difficulty I see is that it is difficult to translate into money form the wealth the farmers produce, and indeed the wealth others produce, to enable us to keep on trading here amongst ourselves. In the last analysis every country consumes all it produces. They exchange goods for goods ?—Yes by exchange. Taking that further we are producing less than we did in value although the physical quantity is more. The goods we want others to consume do not return us the same amount. The goods we want to consume are more difficult to get.

That is reflected in the increased London balances ?—Yes.

They can be utilized there, if necessary, to pay off our national debt there ?—Yes, but even that would be difficult, because these balances were paid for at the rate of £125 for each £100. It would be an expensive method of paying off a debt in that manner.

If the exchange remains as it is, that would still have to be taken into consideration anyhow ?—Yes. It would mean an extra £40,000,000 in terms of New Zealand money to repay the national debt in London.

Mr. Clinkard.] Now, Mr. Fussell, I take it that to provide credit at a cheap rate, it would be necessary to prohibit other competitive parties from paying more than a stipulated amount for deposits ?—I would not like to say, prohibit, exactly, but it would be necessary to induce them either by prohibition or persuasion, no doubt.

Well, induce them, anyhow ?—Yes.

We have heard a lot about the value of the note. I listened attentively and it seemed to me that the case quoted by Mr. Langstone showed that the purchase of the gold would depend entirely on the confidence of the recipient of the note ?—Not entirely, but to a large extent. If it were legal tender he would not have any option of any other form—that is, if he wanted to part with his gold. He would stick to the gold no doubt, if there was not sufficient confidence. The banks have carefully built up that confidence by sound trading. Confidence is the greatest national asset we have.

That confidence is preserved by the legal assets of the banks—that is, by having assets available to back up the notes ?—Yes, and by careful trading, and with due regard to those other factors I have previously mentioned, not to lend unwisely, and not to allow assets to become frozen.

I take it that it is for that purpose that the banks pay interest on fixed deposits, in order that they may hold these assets against liabilities ?—If they do not pay interest and hold deposits they cannot make advances soundly.

If Mr. Langstone's suggestion holds good—and of course in actual effect we know that the banks can issue credit and so on—but if they did that unwisely and issued a considerable amount of currency without assets behind it, would they pay interest on deposits ?—I do not see the connection there.

The suggestion is that the banks can create their own credit out of nothing practically. They can print notes and issue them. If that was freely done would the banks then pay interest on deposits ?—Probably not. The real trouble is that if the banks advance without a proper backing in assets they are not able to pay back the depositors. The deposits are held against these advances.

Is a relationship maintained between the deposit rate and the rate of interest on loans made or notes issued ?—No, there is no definite relationship. The joint ratio is usually endeavoured to be maintained between the deposits as a whole and the advances, and the interest is paid on fixed deposits to bring up the total of deposits. If the banks paid no interest their deposits would not be large enough. There is no fixed relationship between fixed deposits and current account deposits.

But between the total deposits and the titles to goods and services the banks hold ?—Yes.

It is said that owing to some peculiar method of utilization of social credit you can at the present time place the country in a very advantageous position compared with our competitors. Have you a knowledge of the nature of the financial operations mentioned ?—I have not gone into that. I believe that in relation to sterling such currencies as are referred to are considerably depreciated. The lower standard of living in such countries has a bearing on the matter. No doubt, but it is said that although there is a lower standard of living that does not come into the question so much as the method of financing, and that consequently they are in an advantageous position. I would like to hear an authentic view on that contention. I think the general economic position in such cases is reflected in the volume and value of exports, and if there is a premium on exports, naturally exports are encouraged. In Japan, for instance, they are able to make goods cheaper than anywhere else, and if they get a premium on exchange naturally trading is stimulated.

Well, their units of value are smaller than ours.

Hon. Mr. Downie Stewart.] There are violent fluctuations in Japan at the present time ?—I think the yen was worth a fraction over 2s. at one time and is now worth a little over 1s.

Captain Rushworth.] Is it not a fact that the League of Nations has just arranged to send a Committee of observers to find out exactly what they are doing there ?—I do not know.

I have read cables to that effect ?—It will be interesting to see the report.

Mr. Clinkard.] I thought Mr. Fussell would have had some knowledge on the subject. Now, in reference to the cancellation of the note: When the bank issues a £1 note it practically issues a promissory note, just as I would take a book of promissory notes, and if my credit is good these notes will be accepted and if my credit is not good they will not be accepted. That is the principle is it not ?—These two cases are quite analogous.

I take it that before I can get back these notes for cancellation I would have to give value to the extent I received ?—Yes, give value or evidence of value.

And the banks would have to do the same ?—Yes. They have to give evidence of value, and that evidence may be in the form of deposits in the banks.

In the ordinary course of business a note goes out as new and after circulating in business it comes back to the bank from some one else, and the bank is merely custodian for the time being, the note being paid out again to whoever cares to draw the money ?—That is so.

Mr. Lye has referred to acceptability. I would deal with that under the heading of confidence. Confidence behind the drawer is the thing that makes the note acceptable ?—Confidence is the fundamental backing.

For instance, if a man of reputable standing draws a promissory note it is immediately accepted, but if some one of no standing draws a promissory note it is not accepted, and is treated as a piece of waste paper. I have been bitten once or twice like that. There seems to be a confusion of thought as between money and the interchange of goods and services. Supposing we were to divide all those who had nothing to exchange on one side of the street, and those who had something to exchange on the other side of the street, would an increase in the monetary system make any difference to them ?—If money were given to those who had nothing, Yes.

It would have to be given to them either by gift—if we do not care to use the word charity—so that they could obtain the goods from those on the other side of the street who had the goods to sell ?—Yes.

And after the money was exhausted ?—They would be in the same position they were in before.

That thing would have to be repeated ?—Yes.

Our economists say that with our production, the Hottentots would be able to live like millionaires, but the Hottentots must have something to give in exchange ?—Yes.

Would you say that so many people have nothing to give in exchange rather than that they have no money ?—Money is evidence of purchasing-power. I look upon money not as purchasing-power of itself, but as evidence of purchasing-power against which that money has been issued.

And it should reach the holder through some service rendered to the community in other ways ?—Yes.

And an additional quantity would not make any difference ?—An addition in quantity given to those without would enable them to spend that at once, but experience shows that you have to repeat that process.

By there being more money in circulation would not of itself mean that those who had something to exchange would have greater purchasing-power, only that the units being more, more would have to be given—in other words, there would be a rise in prices ?—I would not say that those who did not have anything before would not be better off.

I mean if there was more money in the community ?—You mean, if the banks gave more credit it might affect the position indirectly ? It might affect trade, and more men would be absorbed in employment.

I was referring to the greater volume of money, as it is usually referred to. Such, for instance, as the issue of large numbers of notes ?—If people want them ! You mean if people use more notes ? Several things would have to be taken into consideration. The velocity of circulation could drop to half, and there would be no difference in the actual work done. If more money were in circulation and it did not have work to do, there would be an increase in prices if the money circulated as quickly as before.

And an increase in credit at a low rate of interest might inspire expectation of profit and induce people to enter into different ventures from which they were previously excluded ?—It is such a small margin that if we reduce interest-rates say 2 per cent., and if we get the marginal men in, that would only help him by 2 per cent. on the amount he borrowed. I was reading a book the other day by Paul Einzig, whose view was that a low rate of interest does not have the same effect that some people imagine, because if a venture is going to be profitable, 1 per cent. one way or the other is not going to make much difference.

Of course, the interest-rate is not such a large factor in total production as many people imagine, but it is undoubtedly a factor, particularly if it can be obtained at a reasonable rate and without the fear of a very short period of recall ?—Yes.

Mr. Munro.] Is it a fact that in general practice between the associated banks that one bank will not entertain taking over an account that already has been secured in another bank ?—I do not know of any such arrangement.

Supposing a client of a bank has accumulated security in one bank, I am led to believe that if he goes to another bank they will not take his account even if he provides further security ?—I do not think that is the case.

Are you sure ?—If I were a banker and a man came to me I would give him an account against security even if he had an account with another bank.

The person who I am asking this question for said another bank would not take his account ?—Many people do have accounts with more than one bank.

You give that a flat denial ?—To the best of my knowledge. There may be some reasons which might prevent a bank from giving an account.

There might be some reason in connection with an individual client, but it is not a general practice ?—No.

Mr. Harle: I think you can put it this way: Although the banks act in unison so far as notes and other policies are concerned, amongst themselves there is intensive competition for business.

Mr. Munro: There is nothing in the nature of a ring ?

Mr. Fussell: No.

Mr. Munro.] Captain Rushworth asked you if the Government wanted £50,000,000 and they placed securities in the hands of the banks could the banks raise that £50,000,000 on behalf of the Government, and I think your answer was in the affirmative ?—If the Government gave, for instance, Treasury bills, yes. These is no machinery to bar them doing that, because the Treasury bills themselves form the basis for the issuing of the currency.

I was not talking of inflation. I wanted to get at the method by which the banks would do it. They would simply liquefy those Treasury bills up to the extent of £50,000,000 ?—The Treasury bills are assessed and the banks can perform the function of turning those assets into a form in which they would be spent. In the case of Treasury bills it might be under the heading of Government securities on the one side and they might pay a deposit into the Government's account on the other.

Notwithstanding the fact that approximately to-day the deposit of all the banks must be £50,000,000 ?—Yes. I think it is £61,000,000 at the present time.

Now, the Government wants to raise £50,000,000. The banks could find that money providing the Government would hand over to the banks Treasury bills ?—Yes. The banks could give the Government evidence of the purchasing-power which was inherent in the Treasury bills. The banks do not make purchasing-power, but they could do that. It was done in a general way during the war.

Would that appear in the banks' books—that would increase the deposits on Government security ?—It would increase the Government securities on the assets side and it would increase the deposits on the liability side, or, instead, it might reduce other people's advances.

The total of the deposits in the banks to-day is £61,000,000 ?—Yes.

The Government wishes to raise £61,000,000 in New Zealand by way of issuing Treasury bills to the banks. That is as much money as you have in the whole of your banks ?—That is correct.

It has been put up that the deposits in the banks are simply book entries—they are not real money ?—They are evidences of purchasing-power and they must have the backing of the purchasing-power before they could come into existence. Book entries are the only records which exist of indebtedness of the banks.

Supposing the banks raised that £61,000,000 on behalf of the Government, would that appear in the deposits of the various banks ?—If it was done by the banks discounting the Treasury bills the Government would go to the banks and say, "Here is £61,000,000 of Treasury bills, cannot you discount them ?" The banks would say, "Pay it into our credit account," and you would find Government securities on the asset side and Government deposits on the other side. If it was spent in New Zealand, some of it might not get back into deposit accounts at all—it might go into advance accounts.

It would appear in the first place as a deposit on behalf of the Government and it would increase the general deposits ?—Yes, by £61,000,000.

Notwithstanding the fact that you claim that you always advance only the deposit money in general cash reserves. Really the banks, on those Government securities, would bring into existence another £61,000,000 ?—The banks do not bring it into existence. The purchasing-power is there. The Government has set the purchasing-power, and all the banks have done is not to give advances at all. It is turning purchasing-power into currency.

At the present time could the banks raise that money in that way for the Government at the pure clerical cost ? Would that be inimical to the interest of the bank ?—It is very difficult to say whether it would be inimical. You would have to go to the question of whether it was inimical to the country. I consider that to have suddenly to increase the available currency by £61,000,000 would be damaging to the country at the present time. The shock would be less if it were done over a period of time.

It is a question of how long they are going to spread the expenditure of this money over ?—Yes.

I want to know, Could the banks do it even in a year if it was necessary for the Government to get the money ?—Yes. The banks could do it. In cases of national emergency if has been done.

The banks could charge 4 per cent. to discount ?—Yes. I cannot say what actual amount they would charge, it would be by arrangement with the Government. It would leave them a margin for profits over their costs. For instance, as regards the £61,000,000: On every £100 the banks would be paying tax to the Government and a tax would also be paid on any notes that came into circulation as a result of that.

That is the note-tax you are referring to ?—Yes.

Could the central bank raise that money in the same way as the present banks could do it ?—That is rather a difficult question for me to answer. The trading banks are allowed to use Dominion Government securities as a basis for note-issue. As far as I can remember the Dominion Government securities are not mentioned as the reserves that the central bank must maintain. It would have to get reserves in London.

I ask, Mr. Fussell, if the Government wished to raise £61,000,000 by Treasury bills could the central bank issue notes against it ?

Mr. Ashwin: No. The basis of the Reserve Bank issue is sterling.

Mr. Fussell: Read subclause (*h*), section 13 (1) of the Reserve Bank of New Zealand Act, 1933.

Mr. Munro.] Some people seem to have an idea that the central bank would be able to do exactly the same as the present banks could do on behalf of the Government. You do not think

that the central bank could do that?—Just on that particular thing they might not be able to issue currency on that basis, but I am sure the Reserve Bank will be able to make any arrangements for Government finance that are nationally considered necessary. I do not think the Government or national expenditure will be under any disability because of the establishment of a Reserve Bank.

If a client, say, for instance, myself, went to a bank and gives £1,000 security and gets a £500 advance from the bank does that £500 add to the deposits in the books of the bank?—It may do so, and it may not. For instance, if that £500 was received by you and you paid it into the overdraft account of another man who had an overdraft it would not go on the deposit side at all. On the other hand it may do so.

Supposing I get that £500 my security goes into the bank?—Yes.

I open an account for £500. My £500 advance would appear in the bank's books as a deposit, and that would be added to the total?—Yes. First, the overdraft might be £1 and you gradually draw more and as that money was put into circulation it might reduce an overdraft in another account. The bank gives you a claim on the bank. By exercising that claim you do not destroy it, you transfer it to somebody else.

Mr. Massey.] From time to time this question of costless credit has been presented to this Committee. Could you define costless credit?—No. I do not know of any costless credit. As a matter of fact, it must cost somebody something. If it is given by way of loan it is somebody's debt and somebody's credit, and whoever possesses it has to pay in taxation and the person who gets it has to pay interest.

Then, in your opinion, there is no such thing as costless credit?—If I lend you £5 without any interest it would not be costing you anything, but it would be costing me something.

Then it is bound to cost the country something?—Yes.

Again, the question has been raised and it has been pointed out that the banks of New Zealand are in the happy position of being able to make profits. It has been asserted that the banks could make profits out of the manufacturers' money. Is that correct?—No. That is entirely different from my conception of the thing. What the banks do is to convert purchasing-power into evidences of that same purchasing-power. You must have the value first.

Mr. Clinkard.] Put it into a liquid form?—That is what they do.

Mr. Massey.] A question has been raised in connection with £400,000 being borrowed from the Bank of New Zealand for the Government to be relent to the Intermediate Credit Board. Could you tell this Committee how that money is arranged?—I believe that money was not arranged by discounting Treasury bills, but by the Government hypothecating securities to the bank in the same way as a farmer might do. Mr. Shaw tells me it was a straight-out purchase, that would be the same as discounting the Treasury bills at the present time. The purchasing-power is handed to the bank and the bank turns that purchasing-power into evidences of purchasing-power or currency, and makes it available to the Government.

Then it would not be purely a question of book-keeping?—No, but book-keeping had to record the transaction.

Mr. Lye.] In the Prime Minister's office there is a Treasury bill typed out and signed by the Prime Minister and also by an officer of the Treasury, and it is handed in to the banks. The banks discount it, giving the Government the cash they require. Is the security behind this Bill the taxable capacity of the people and the authority of the State to levy taxation?—That is my conception of it, and it is a first charge on the revenue.

Mr. Massey.] You state that the banks endeavour to keep a certain ratio of advances to deposits. The figures over the last twenty years show that there is no constant ratio. Sometimes advances are ahead and sometimes deposits?—There is no constant ratio. There is no fixed figure.

Dr. Sutch.] What is the ratio you aim at?—If I myself were a banker, I would aim to have the advances round about 90 per cent. or slightly more of total deposits.

That only occurs by chance?—Yes.

Mr. Massey.] What is the average over the period of, say, the last ten years?—I could not say that without working it out—but between 80 per cent. and 90 per cent.

Could you work it out and let me have it?—Yes, I could do that.

What proportion of long-term lending is done by the banks?—That is another very difficult thing to say. As you no doubt know, the general principle of bank advances (I am not talking about long-term mortgage advances) is that they are repayable on demand. This right, of course, is not exercised by banks if they can possibly avoid it; but it is no good denying that at the present time a certain amount of the advances is on a long-term basis, because they have been in existence for a fair while and to a certain extent are protected by moratoriums, and they are not in fact called up, and probably could not be paid on the mark by the borrowers. But I could not say to what extent the farmers could not by realization buy back their advances at the present time. If there was a forced sale on a large scale, you can quite imagine that the prices realized would not be a fair market value.

I presume the commercial banks find that they can make more profits out of financing commercial institutions?—That would be rather an invidious thing to say, because it implies we rock the interest more hardly into commercial concerns, whereas we try to give every one a fair and favourable rate.

Could you give figures showing how much money commercial banks have lent out on long-term mortgage during the last ten years?—Only the Bank of New Zealand lends money on long-term mortgage, and the lack of demand seems to indicate that it is not desired by the farming community in that form.

Lack of demand?—Lack of effective demand, shall we say?

Mr. Langstone.] Or lack of security?—That would of course come into it. Mr. Shaw could probably say why the long-term mortgage department results have been disappointing. I read in the balance-sheet a few years ago that they had not lent a great deal out against broad acres during the past year on account of the lack of demand.

Mr. Shaw: I think most farmers prefer an overdraft, if they are working on a fluctuating account.

Mr. Langstone: That is not the point. I am trying to find out about the amount of money the banks have lent out on long-term mortgage.

Mr. Fussell: The only way to find out how much of the mortgages that exist now should be classed as long-term would be to carefully study each account and each security, and to assume how much of that mortgage the farmer could pay back if called upon within, say, a year. It could only be an estimate. None of the mortgages are lent out on long-term mortgage.

Mr. Langstone.] Except by the Bank of New Zealand?—If you go to the bank and say, "Lend me £500 for four years at 5 per cent." the bank will say, "You will have to go to a long-term mortgage department."

Mr. Clinkard: Did not the Bank of New Zealand set aside a particular sum of money to lend in that particular way?

Mr. Shaw: Funds were provided by a special issue of capital.

Mr. Clinkard.] It was not very generally taken up?—It has been rather disappointing, on the whole.

Mr. Fussell: Financing by overdraft is an advantage to the borrower, because he can get the benefit of the day-to-day fluctuations. If he pays in £10 in one day, the interest goes down immediately, but on a fixed mortgage the interest goes on all the time.

Mr. J. N. Massey.] You only lend on demand, and the demand can be made at any moment?—That is the basis. The bank's first duty is to the note-holders and the depositors, and if you have tied up your advances, the note-holders and depositors may ask how you are going to pay them. The depositors do not come on us for the full amount, because they have confidence in us, and we do not come on to the holders of overdrafts because we have confidence in the securities, and we realize that would only precipitate a crisis at the time when it is the last thing that is wanted.

Could Mr. Shaw tell us the amount of money the Bank of New Zealand has lent on long-term mortgage?

The Chairman: I think that question was replied to by Mr. Shaw this morning, Mr. Massey.

Mr. Shaw: Yes, £1,100,000.

Mr. J. N. Massey.] What proportion of losses do your accounts show?—I am afraid I could not answer that; it has not come under my notice. You mean on the long-term accounts?

Yes. Would it be reasonable to ask you to supply a statement to the Committee on that point?—I shall be quite prepared to arrange it, provided my general manager is agreeable.

Thank you. In connection with commercial concerns, do the banks do any investment business apart from the overdraft?

Mr. Fussell: In what way? In the system they have in Germany where the banks engage in trade? What you mean, I think, is do the banks act as a sort of holding company?

Mr. J. N. Massey.] Yes?—No, they do not do that.

Dr. Sutch.] Do they ever underwrite share flotation?—Not to my knowledge. I have not heard of any case where it has been underwritten.

Mr. Schramm.] Gold was referred to this morning. You say it was not a fair price to pay for the gold, the price set out in the Reserve Bank Act of New Zealand?—I did not say that; nothing like that was mentioned. While the matter is *sub judice* I would not like to say anything that would embarrass either side.

The notes that are issued to-day by the banks are really inconvertible note-issue?—In a sense. They are not convertible into gold, but into sterling. Legally they are inconvertible, but you can buy sterling.

Captain Rushworth.] You can buy gold too?—Yes.

Mr. Schramm.] They are pronounced to be legal tender and you have got to accept them. If a man came along with one hundred bank-notes, you would have to take them?—Yes.

You would have to accept them in payment?—Yes.

I put it to you that it does not matter whether they are inconvertible bank-notes or convertible?—If it were convertible into gold the fact that it was legal tender would not matter at all, because you can change it into gold. If they were convertible but legal tender, there would be no hardship on any one. I do not consider there is any hardship at the present time, because it is for the benefit of the country that they are legal tender.

But the State has to put through an amendment to the law to that effect to assist the banks?—To assist themselves. They use the banks to assist themselves.

And to help the banks?—Yes. It is quite clear that it was necessary for the efficient carrying-on of the banking business, but the object was to help the country.

That was the point I was coming to. To efficiently function, all banks must have at some time or other behind them the assistance of the Government?—I think that has been the experience. I do not say no bank could satisfactorily function without the Government behind it, but every bank is circumscribed with banking legislation, and the general experience of the world has been that it is necessary that the banks should have the Government behind them in some way or other.

If all the banks were owned and controlled by the Government, you officials, who have competence and ability, would not lose any of your competence or ability?—No, but that, of course, is not the objection. I do not think any one would argue against nationalization of the bank on the ground that it was not built for the education of bank clerks.

Bank clerks would be just as good, and would do their best under either system ?—Yes. In my own opinion, the difficulty I see in nationalization is that it would not confer the benefit on the country that was hoped. Banking operations and bank-running are so complicated and so technical that they cannot be reduced to the rules and regulations that would make them suitable for public service. As you know, those services and businesses which can be reduced to rules and regulations are most suitable for nationalization. Banking is not like that; it is a highly skilled sort of business, and depends on traditional knowledge that has been built up over many years. In England the banking system is supposed to be the best in the world, and the envy of the world, yet there is no place where there is so little legislation. England looks to the bankers as a sound race of men. In America they are far more circumscribed in their operations, and it seems to have a hampering effect. Mr. Ramsay Macdonald, in the election campaign in 1931, was asked whether he proposed to nationalize the Bank of England, and he mentioned then that, if that was brought forward to solve the difficulties or the position at the time, people would be so frightened that there would be no bank left to nationalize. That was the Labour Prime Minister.

Mr. Schramm.] Not in 1931; he was then an ex Prime Minister ?—Do you know the date when he left them ?

Just before that; about September, say ?—The election was in October and this was reported in the *Times* of 14th October. That was his view and probably sound.

I prefer to accept the views expressed some time before that in his book, where he believes that the State should control the banking system ?—Of course, the State is behind the Bank of England, which is not at variance with the State at all, but probably his considered opinion was the better one.

You were talking this morning about the cheque system. That is a very important part of banking ?—It has been said that if the cheque system had not been evolved it would have been very much more difficult for the economic progress of Britain to take place, though I will admit that the use of bank-notes on a much larger scale may be done, as in France where the cheque system is not nearly so common.

Of course, some people do not even understand the cheque system. As a matter of fact, when cheques are issued they are not accepted by prudent business people unless they are known ?—Quite correct. I could not pass in my own cheque here; they would not take it.

It has often been stated that the depositors in the Post Office Savings-bank should have the right to issue cheques; what is you opinion of that ?—I have not thought it out, but it is one of the practices of the Post Office Savings-bank that deposits are not withdrawable by cheque, and I think it is useful for this reason: It is harder to get the money out, and therefore it is more likely to be saved. When I was a lad in the country and had a Savings-bank account, it was too much bother to get the money out; I had to go to the Savings-bank, and wait for a couple of days before I got the money. In most cases I would not bother spending it. Had I had a cheque-book, I would have done so.

It would increase the cost of running the Savings-bank ?—Yes, I think it would.

You would have to have special staff ?—They seem to have a very efficient system for the working on the present basis. It is just as well, too, because the money is not put in for the same purpose as in an ordinary bank, for current expenses, and anything that would encourage people to save should, I think, be left. But I do not think it would be vastly unsound if they had cheques.

Mr. Langstone.] If you could not spend your money because it was a little bit of trouble to get it out of the bank, it would not suit the man who sells the goods ?—If you really wanted anything, you would get the money for it.

Mr. Schramm.] From the point of view of efficiency and cost ?—It is more efficient on the present basis.

There is not the slightest doubt in your opinion that it would cost the State a great deal more to to run the Post Office Savings-bank ?—With the cheque system ? More than on the present system.

In connection with the power to issue bank-notes under the law as it existed before the Reserve Bank of New Zealand Act was passed, have you compared the powers under the old law and the new law ?—Under the old law, notes themselves could be issued to the extent that Government securities were held and there was no legislative necessity for the gold. Under the Reserve Bank Act they specify certain securities and balances, and say this must constitute the reserves which will be at least 25 per cent. of the bank's note-issue and for demand liabilities; the demand liabilities of the bank that the notes are to be reserved against. You notice the reserve is 25 per cent. instead of 100 per cent. The effect is that the other liabilities make it a sound basis.

But it is not as broad as the other basis ?—It seems rather broader because it combines more.

Government securities do not come into it ?—You do not have to have 100 per cent.; the Reserve Bank will have large sterling reserves.

You think it is a broader basis ?—Yes; it is very hard to say, but it gives more latitude to the extent that you did not have to have reserves of 100 per cent. It includes more. The reserves quoted against the funds of the trading banks includes only notes, but this includes liabilities as well.

Mr. Murdoch.] In connection with the valuations of your properties, what is the fixed period or length of period between the valuations you make of your banking properties ?—I do not think it can be said that banks have a definite periodic one, but they see that the valuations are made at reasonable intervals, and keep a steady watch on the position, but they do not say, "This is the 1st April, we must value the property at so and so to-day." They might not revalue it at all where they know the property very well and are getting the balance-sheets every year and can see the position is sound and the balance is well within the value of the security.

I notice from the returns that the advances to-day are more or less at a low level, while the fixed deposits are at a high level ?—The total deposits also are.

How do you account for it ?—The advances would be higher if people could effectively use the credit. The banks openly say that they want good lending business, for sound purposes, and with due regard

to repayment. That business is not forthcoming. The banks could offer people money, but people will not borrow unless they can use the money to advantage, and as a result of that we find that there is a large gap between the advances and the deposits, and that is caused to a large extent by the discounting of Treasury bills.

Have you any idea whether the drop is in rural securities or in town securities ?—No ; that would require investigation by the banks. I cannot guarantee whether it would be policy to give that information, but if it is available I shall be glad to hand it in.

You discount Treasury bills to the Government at 4 per cent. ?—I do not think it is as low as 4 per cent.

Five per cent. ?—By agreeing to rebate, the rate would be a bit lower.

We are told that the business in England is increasing very largely on account of the fact that there is so much cheap money, from ½ per cent. to ¾ per cent. How can they operate in England at that rate while here for our best securities the rate is 5 per cent.?—In an old country, and a country where there is a short-term money-market, money is very much freer, but if in England they had the same system of banking taxation (I am not saying this as a complaint) as they have here, they could not do it, because they would find they would be paying 8s. 9d. on every £100 of their assets and liabilities by way of taxation, and that would absorb more than all the interest they got. But the reason is that, with the supply of money in the hands of the banks, they would be getting nothing for it if they did not lend it at a low rate of interest, and they find it better to get that than nothing at all.

It struck me that it might be possible for the banks to give a lower rate of interest ?—I could not say anything about that, but I will say that the banks' expenses in connection with their business are such that I do not see how they can do it. I personally believe it is as low as we can reasonably get, and the banks' profits have subsided a lot as a result of the depression. The banks themselves would like to see the rates lower, and would welcome anything that would assist them in that direction.

We often hear that there is no reason why £10,000,000 of costless credit should not be issued. What, in your opinion, would be the effect on the general security of the country, and on the general borrowing-powers of the country (assuming they had to borrow) with the issue of either £10,000,000 or £20,000,000 ?—I cannot understand that there would be any credit that would be costless. If the banks issued that credit, £10,000,000, that would be a debt, that would comprise a debt of the bank ; that would give claims on them for £10,000,000 and if it were costless, why come to the banks ; you could afford to give it yourself. It cannot be done. We will put it, the issue of £10,000,000 of credit ?

Yes ?—If the Government hypothecated or sold securities to the banks to enable them to do that, that would increase the Government internal indebtedness by £10,000,000. The method of spending that would have to justify that debt, because it would have to be repaid. I could not say what effect it would have.

We have a lot of money from overseas. With the issue of further money here we are building up greater liabilities. What effect has that on the lending overseas ?—That comes again to the same thing, because the lending overseas depends upon the confidence in the national credit here. If the Government decided for reasons of its own, quite sufficient reasons, that they would borrow internally another £10,000,000 for public works or other necessary expenditure, I do not think that that would affect the credit overseas as long as the money was soundly spent and provision was made for sound repayment. I do not think that that would be to our detriment overseas at all, as long as we did not behave in a way which would shake the confidence overseas in us. Naturally, if they know that the Government will repay that £10,000,000, they think that the Government will pay our £10,000,000, and they would be willing to lend also.

Mr. Holland.] I would like to know if it is the policy of the trading banks to increase the rate of interest on overdraft when times are bad and to reduce it when times are prosperous ?—No. That is not the policy, so far as it could be said to be a policy. They are anxious in hard times to lower the interest-rate, and in the present hard times you will see they have lowered it from 7½ per cent. to 5 per cent.

But that reduction was under pressure ?—No. I would not say that, because the banks realize that in hard times it is most desirable, and I think that I am right in saying that the banks have suggested to the Government before that the outside rate, the Government over-the-counter rate and the Post Office Savings-bank rate, should come down. Let them lower their deposit rates to pave the way for lowering advance rates. I think that suggestion has been made from the banks, and so the general policy in hard times is to make things easier for their customers.

The banks mark various accounts first-class, second-class, and third-class, and, it may be only gossip, but it is common talk that the banks, in order to charge a higher rate of interest on overdrafts have shifted those accounts from first-class to second-class and in some cases to third-class ?—I will guarantee that that is not the case. I am absolutely sure of it.

I am glad to have your assurance of that. Suppose I have a property which is valued at say, £8,000, and I have £500 on fixed deposit in the bank, and I require temporary accommodation for, say, £200, for a short period—two or three months. Can you imagine any bank refusing to give me that accommodation ?—I could not. I know for certain in our own bank they would be very glad to give you the accommodation, and I know, from speaking with members of other banks, that they are the same. Banks usually do all they can to meet their customers. If you have a fixed deposit and you want temporary accommodation you get it, and, moreover, the banks make it favourable for you in that they do not charge you more interest on the advance than you are getting on the deposit. If you are receiving £20 interest on your fixed deposit they will not charge you £21

on whatever you borrow against that. So that they facilitate it for the customer as far as possible, though technically, of course, it is better to finance in other ways, but the banks always meet the customers.

That has been done, though, a good many years ago. They have declined the advance against fixed deposit?—Of course, I do not know of any such case, and I can only speak from what my experience has been. It seems hardly possible to me that they would do so.

Mr. Harle: I know of no experience in my twenty-nine years where such a thing has happened in my institution.

Mr. Murdoch.] What bank do you represent?—The Union.

Mr. Fussell: I do not know what other reasons there might be.

Mr. Murdoch.] I deal with the Union and I have not had such an experience; but a brother of mine was saving up to buy a farm and he had a fixed deposit in the bank and before the deposit matured he tried to get an advance to pay a deposit on his farm and they would not grant it?—But in the banks' regulations there are specific provisions made whereby that can be done. It is down in black and white. He might have tried to break the deposit.

He offered to sacrifice the interest that was due?—I do not know about that. I have known cases where deposits have been broken. For instance, if you had a fixed deposit and you were going away unexpectedly and wanted the money the bank would break the deposit for you.

Mr. Clinkard.] I have known that to be done by the Colonial Bank in Australia, but they charge you in that case?—If he had a two years' deposit at 2 per cent., say, and he broke it after three months he would be paid a different percentage on the three months' rate.

Mr. Holland.] But they do break it?—Yes. As a matter of grace, but not as a matter of right. They can do whichever you like. They would advance against it. You have got the security. They will advance against another bank's fixed deposit, which is a gilt-edged security, so if they advance against another bank's they advance against their own also.

Do you think it would be wise policy that when times are very prosperous and there is a tendency for reckless speculation for the banks to increase their rate on accommodation?—That is a politic matter. It would be rather hard for me to say anything about it, because why should people who are trading soundly have to pay a higher rate because some people want to speculate. I think the best way is for the banks to look into the business and if the business is good business for advancing they make the advance, but if it is not good business or suitable for banking, they just decline it.

When butterfat was 2s. 6d. a pound there was a big tendency to buy land at extraordinary prices, and if the rate had been increased it would have acted as a deterrent?—Only to a small extent, I think, because they were all the time banking on a rise. They would think that whatever they paid in interest they would be able to pass on to the next man. "The market is going up and I will make a profit whatever happens." So it would be very hard to stop the speculator by adding another 1 per cent. or ½ per cent.

Captain Rushworth.] When you were here before you elected to answer certain questions in writing. Did you produce those?—They will be handed in with the transcript of the evidence, and will be available very shortly.

They are not available to-day?—No.

So that we cannot ask you any questions on them?—I should not think so.

Under the law as it exists to-day, the banks, in collaboration with the Government, can issue any amount of money. Is that right?—They can do so. If they were subjected to force, which I do not think they would be, they might have to issue it unsoundly, but given the security of the State they can transfer the value received.

That is not the question. The question is, in collaboration with the Government, is there any limit to the amount of money they can issue?—No. Because the Government could enable them to issue what the Government demanded.

So that, if there were a run on the banks, so long as the Government issued public securities, the banks could issue any calls upon them for cash?—Subject to the legislation being amended, of course, if necessary.

What legislation?—Legislation about note-isues.

What legislation?—The legislation that note-issues must not exceed the gold and public securities.

But we can eliminate those, can we not?—You mean by handing over the securities against the notes.

Yes?—Yes. They could do that. I would have to think over it to see whether it would cause dislocations later on, but if the Government required it and the banks co-operate they could issue notes against the Government securities to any extent.

Dr. Sutch.] There would still have to be one-third of gold?—Not under the suspended legislation.

Captain Rushworth.] That is my whole point?—I would like you to know that in saying they could do it I did not mean to imply that they could do it soundly.

We are taking an exceptional point, the point of a run on all of the six associated banks. It is an impossible situation, of course?—Yes. If it were done the Government could provide means whereby the banks could issue notes to the full extent of the demands made on them.

In other words, to the full extent of the deposits, so that it would be possible for the banks to meet the whole of their depositors without calling in one single advance?—Yes. They could do so with the Government's collaboration.

Yes. That is the point. The question of depreciating bank premises was mentioned. By depreciating the value of bank premises are you not creating a frozen asset?—No. I do not think so. In what way would you say it would be frozen?

Well, it is an asset is it not?—Yes.

And it is demonetized, otherwise frozen ?—No. I would not call an asset that is not expressed in the balance-sheet as frozen.

If you have bank premises that cost £400,000 and you gradually depreciate them until there is nothing there at all, is that not a frozen asset ?—No. Because by writing them down you create a fund for replacement.

Do you create a fund ? What happens when you depreciate ?—When you write down the value ?

Yes ?—I consider that creates a fund or builds up a fund from which it can be replaced.

Your physical assets remain the same, but your money assets are depreciated by the extent of the depreciation obviously.—Certainly. The asset does not appear as money.

Mr. Ashwin.] Possibly it would be written out of your profit and loss account, and you would pay that much less in dividend ?—That is what is done. The profits for the year are allocated towards creating a fund. As far as the country is concerned it would not make any difference if the banks built up a fund on the other side of the balance-sheet. That is my opinion.

Captain Rushworth.] You say the banks have plenty of money available and they want to get it out. Why is it that everybody seems to be experiencing the banks insisting upon a reduction of the overdrafts ?—I do not know that that is the case, but I know that the banks are anxious to extend credit to sound businesses.

Are they not reducing overdrafts ?—Overdrafts are certainly coming down, but the banks wish them to expand. But if in individual cases the bank ask for a reduction it means that the security is such that the advance is not safe.

Is that not the general practice at the present time ?—No. I do not think so. Only in cases where the security is not adequate.

Is that not general ?—I do not think so.

Have not securities been falling in every section of the community ?—Yes. But the banks make an allowance for that in granting the advance.

Mr. Ashwin.] It is a fact, of course, that the present fall in advances is really due to the excess of exports over imports. In other words, there is not a volume of imports ?—Yes. To a certain extent, the cause which creates an excess of exports over imports is the same one that causes the fall in advances.

Mr. Langstone.] Has that not been countermanded by the issue of Treasury bills against that ? I do not know what you mean by countermanded, but it has been offset.

Captain Rushworth.] The question was raised as to how the banks pay for gold—that is by notes, generally speaking, or the equivalent ?—Yes. They receive the gold and they accept an obligation to the extent of the value of that gold. By buying the gold, however, they have not increased their assets or their net position.

I was just asking how they pay for the gold ?—They might pay for it by notes or they might pay for it by allowing a credit balance, which is the same thing.

Yes. We will not argue about that. The possessors of gold have no option in the matter have they ?—You mean to say if they bring them to the bank ?

No. The possessors of gold have no option in the matter in that they are not allowed to export it themselves ?—There is no prohibition on the export of bullion.

I am talking about ordinary gold ?—Yes. They can export that and they do.

If they want to sell it ?—Yes. They can sell it overseas. The banks sell it on their behalf and give them what they get for it.

And they pay for it by means of these notes. Now, you mentioned that those notes are a debt owed by the banks, but do they owe it ?—The banks owe it to the holders of the notes.

And how do they redeem it ?—At the present time they are not called upon by law to redeem it in any way.

How do they redeem it now, to-day ?—They do not redeem the notes to-day, because the notes cannot be presented for redemption under the Act.

You mean you have a debt that you cannot liquidate. You are bankrupt then ?—No. We are not bankrupt. The banks could liquidate them.

How ?—By gradually repaying some of the deposits and then calling up some of the advances.

But if I have a pound-note and I call upon you to redeem it how can you redeem it ?—The notes are inconvertible. That is the principle at the present time. A note is inconvertible, but if the country as a whole, for some unknown reason, desired physical redemption of the notes, considering that, after all, they can only get from the banks what they can get without going to the banks for it, that means physical property, they can buy physical things with the notes, and the banks cannot give them anything more, and the only way the banks can give that to the depositors is to liquidate.

But that does not get away from the point that you said that the notes are a debt owed by the banks ?—Yes. They are a debt owed by the banks.

To the holders of the notes ?—Yes.

Well, what does the debt consist of ?—A debt is an obligation to pay, which they are not called to redeem in physical assets, any more than the holders of advances, people who are indebted to the bank.

Can they redeem those notes in any other way than by issuing other notes ?—I have told you that they can physically redeem them by calling up advances and handing over the proceeds.

You have already agreed that it need not be necessary to call in a single advance to meet all the calls upon them ?—But the banks do not do that in that case. All they have done is to purchase Government securities and to give the Government a deposit.

Yes. There is a difference between a deposit and a note. We are not talking of deposits at the moment. We are talking of notes, and your claim that a note is a debt due by the bank is a matter

that requires further consideration?—It is a debt due by the bank and you mentioned the case of whether they could repay the depositors in notes if the Government authorized them to do so. I say, "Yes. But those notes are still a debt of the bank. They have not repaid their debts."

The depositors do not come into the question. The possessors of the notes, whether they deposit or otherwise, have a claim on the bank?—Yes. They have a claim on the bank.

What can they claim?—They can claim evidence of purchasing-power.

They cannot claim anything more than they have got?—The idea of currency is not to go to the bank and get from it something that a bank does not supply, but which the bank will enable you to supply.

I think the difference between us is this, that you are dealing in shadows and I am considering realities?—I think the reverse is the case.

It is quite obvious that the notes are representative of things that the community can supply—goods and services. The goods and services are realities, but what the bank supplies is only the shadow of those realities?—It is not. It is the evidence of those realities.

Yes. Evidence, that is all. You do not supply the commodities themselves, so that you cannot redeem them in commodities?—That is not the case. If the bank's business was washed up, they would collect the debts due to them and they would pay the debts due by them, but that would not be in the interests of the country, and the Government, realizing that that is not in the interests of the country, have made notes legal tender.

And in making them legal tender they have removed any suggestion of debt by the bank to the community?—No. They have not.

Because the bank cannot, by the very nature of things, render anything to the community in exchange for the notes that they have issued?—You will remember that when notes are made legal tender they are made legal tender for a limited time, so as to remove any idea of debt.

For a limited time. But that time has been extended time and time again?—Yes. For the benefit of the country.

Or for the banks. It is immaterial?—I can say that it is to the benefit of the banks as banking institutions. The banks are part of the country, but I read that an English banker said that so low is the profit that the banks make on such business, that it would pay them to call up all their advances and repay all their deposits, and then to take their net assets left over and invest them in Government securities. They would make more money. So they are performing a valuable service, and the idea of having the notes legal tender I submit to you, that if you were Minister of Finance you would not suggest that the legal-tender quality be taken away from those notes.

That opens up a vista. If I were Minister of Finance I would have a fiduciary inquiry into the money system to start with. But money that is issued by the banks; you have laid great stress on the fact that that is out on loan and must be repaid. Originally, when all money was metallic, before the introduction of paper money, the money was coined at the mint and was put into permanent circulation, not as a loan. Is that right?—That does not get away from the idea of loans. Loans were probably as frequent then as they are now.

Possibly, but money generally was started in circulation not as a loan?—No. It is quite possible that the money did not enter circulation as a loan, but, of course, it was hoarded and kept out of circulation.

Yes. But the essential point is that in those days money started not as a loan and to-day it does start as a loan?—Yes. That is a fair enough comment. I am saying that the evidences of purchasing-power now start by way of a loan. But I would like to say the reason for that is that the evidences of purchasing-power at the present time are evidences of purchasing-power that exists. The purchasing-power exists and it is turned into evidences of that purchasing-power, and that is a wonderful service to humanity that that has been able to happen. If it were not, I should say most of us would never have been alive at all.

That is perfectly true, but at the same time it seems evident that those evidences of purchasing-power have got into the wrong box somehow. That is what we are trying to get at?—We will have to agree to differ there.

Naturally. I am representing the submerged tenth. You are representing the people on the box seat?—In other words, I am representing the majority.

That is a matter of opinion too?—You said you represented the submerged tenth. I submit that nine-tenths is more than one-tenth. So I represent the majority.

Not necessarily.

Mr. Langstone.] Nine-tenths have not got money in the bank?—I agree with you there.

Captain Rushworth.] Perhaps you can explain this—just a little local thing, but it illustrates the point: I was in Canterbury some time ago and they had at that time a great glut of potatoes, but no timber and no coal. I went across to Westland and as soon as I got over the ranges there were stacks of timber and a plentitude of coal, but no potatoes, and I made inquiries. I said, "Why do you not exchange your coal and timber here for the glut of potatoes they have in Canterbury?" Although there was a train running each way each day it could not be done, because there was no money. That was the explanation given. The potato-growers could not accept timber and coal, because they had to pay mortgage interests and county rates and things of that sort in money. Similarly with the coal and timber people. They had to have money to pay their debts?—I do not think that is a proper explanation. If they wanted the potatoes they could have accepted potatoes in exchange for the timber.

That is the point. The people who owned the timber and coal did not want the potatoes and *vice versa*?—Well, that is all right. If they do not want them you cannot make them exchange them.

But if the money had been available the exchange could have been effected ?—I do not think so. If the people did not want to exchange on an exchange basis, they would not have done it for money.

You have no other explanation to offer ?—No. I would say that if the people who have got the potatoes will not exchange them for the timber, there is the reason why the exchange does not take place.

Is that not an epitome of just what is happening all over the world to-day ?—To a very large extent. Those who want purchasing-power have nothing to give in exchange for it.

Mr. Murdoch asked what the effect would be if we increased the money in circulation here. The general idea was that it would cause a dilution of the money system and an increase in prices. The question of confidence was brought into it, but, generally speaking, if you increase the money-supply here would that not tend to increase prices generally all round ?—There is a tendency for increasing the monetary supply to increase prices, but I would like to say that there is a sort of Economic Committee overseas that looked into the question, and they said that although a rise in prices may be held to be advantageous, a rise in prices can only be a benefit to the country when it is accompanied by confidence and not by fear.

Never mind how it comes about. Would not that rise in prices cause an increase in value of assets ?—No. I do not see that; that is a different thing, because the increase in the value expressed in currency might be only a measure of the depreciation of the currency. Or put it this way: It would increase the money value of the assets if the prices go up.

If the money value of the assets of this country were going up do you not think overseas investors would strive to put their money into those properties ?—I could not say that, because so many other things come into it.

But has that not been the general effect throughout the world ?—Overseas investors have been investing in New Zealand. Yes. And I do believe that if New Zealand wished to float a further loan on the London market that we would probably be able to do so. That means that people would be willing to invest in New Zealand.

You think that would be sound ?—I do not say that. We would have to go into the whole question. Only the experts dealing with it would know just how the money could be spent and what use could be made of it.

Supposing, instead of floating another loan, the Government achieved the same thing here in New Zealand by issuing their own money. We will call it a special Treasury issue ?—The same as in Canada, shall we say ? There is a Dominion note-issue there.

Or as they did in Great Britain during the war, an issue of Treasury notes. But what is the fundamental reason why the Government of the country, the State itself, should not issue notes instead of borrowing overseas ?—I do not see any fundamental objection to it because it has been done soundly before, but it lets in a political danger. The people say, "If £10,000,000, why not £100,000,000, and let us all have something ?"

I quite admit there is a political danger, but it seems to me that we are being forced to run the risk of that danger by the very nature of the things that are happening now. We have the reverse situation now ?—In what way do you mean ?

We have a general fall in the price of commodities and a fall in the value of assets ?—Of course, that cannot be said generally; as you know, there has been a most substantial rise of millions of pounds, in wool.

I know, but that is another story altogether, probably due to very special circumstances, possibly due to certain things which we may rue very bitterly ?—The point you are dealing with is that the Government could issue a certain amount of Treasury notes. I could not possibly say that they could not do that, but though I might doubt the wisdom of the policy it has been done and it could be done.

The Government could do that without making much difference ?—I did not say that it would make much difference there, because, by issuing that money they are giving claims on the Government.

If they did that, if they issued their own money instead of borrowing on Treasury bills from the banks, that would be costless to the Government, whereas it is now costing them 5 per cent. ?—I do not think it would be costless to the Government, because they would be giving people claims on the Government which would have to be liquidated some time.

Who by ?—By the Government, by taxation. Unless you can say that they are not going to redeem them at all ever.

Suppose they use that money to pay the Public Service with ?—If it was paid out by the banks, there would be a claim by the banks. The Government has already taken steps to establish a Reserve Bank.

I know, but we are getting off the point. I am dealing with Treasury notes. During the war, Great Britain issued Treasury notes. Did that cost the Government of Great Britain anything ?—I do not think it did. If the Government hands security to the Bank of England to take over the Treasury notes issued——

Are you sure that that is the position ?—I understand that to the extent that the Government has not liquidated the notes, it will still have to do so.

Mr. Ashwin.] There are one or two points I would like clarified, particularly that dealing with the effect in the fall in advances. It is correct that there has been a fall in advances, but there has not been a fall in deposits as a whole ?—That is so.

Is not the fall in advances a reflection of our external position rather than of internal action ?—To a large extent, but I think conditions arising in New Zealand have affected the position. The two effects are from the same cause.

I am dealing with the actual trade balances ?—Well, if an advance were given to the extent of £20,000,000 to purchase surplus London funds, that would wipe out that surplus and bring up advances, and the fact that that has not happened is to a large extent a reflection of the London position. I would say that that is the cause of it. I would also say that not only in respect of our external business, the trading prospects are such that advances business is not sufficiently attractive to potential borrowers to induce them to borrow. I agree, however, that the London position is to a large extent a reflection of a lag of borrowing here. Probably both are due to the same cause.

And not, generally speaking, to the policy of deflation on the part of the banks ?—Certainly not in that connection.

I wanted to know whether this policy was due to the general fall in advances or a reflection of an excess in trade balances ?—The banks view with concern the fact that advances are so low. They would welcome it if you came along with a business proposition and asked for a few million pounds.

If I came along and asked for £100,000, and you gave it to me by way of an advance, that would not narrow down the margin between the deposits and advances ?—I would not say that, but from the trading point of view that comes into it. We are anxious to do business.

I wanted to clarify these points. Now in regard to the issue of notes by the State, when we borrow overseas, what do we borrow ? Economically speaking we borrow in goods ?—And you pay back in goods.

And when we borrow internally are we not taking a larger share of the existing stock for capital purposes ?—Yes. To a large extent yes, but not necessarily, because when loans are issued the Government provides purchasing-power by way of securities which are sold to the banks for the loan, and that is not taking money out of any pockets, physically speaking, although by raising prices that might be an effect.

Does it come to this, that when the Government raises a loan from the banks the stated amount of credit is transferred to the Government and used by the Government for war or for capital purposes, &c. ?—That is so. When a Government loan is taken up by the banks deposits decrease by that action, and the spending of these deposits means that the money goes through the various channels in the usual way.

And to that extent the purchasing-power is not increased, but its purpose is deflected ?—Yes.

Supposing you issued State notes in lieu of borrowing ?—I think that is borrowing.

That is the point: Has it not worked out as a sort of forced loan through the depreciated value of money ?—The Government has the power to do it, and if the Government issues notes that would be a forced loan. The notes might be retired eventually by taxation, and thereby be paid, but that is what it comes to.

The Government secures a loan in the meantime, and is able to pay it back by a tax ?—Yes.

Those are the only points I wished cleared up.

Mr. Lye.] I have two questions arising out of Captain Rushworth's statements about the redemption of notes. I do not think the matter was very clear. I wish to put it this way: If I realize on some of my real wealth, and deposit it in the bank, and in due course I want to draw on my credit established at the bank, I get £1 notes, do I not ?—Yes.

That is a receipt for goods or a claim on wealth, and if I want to change that into some other kind of real wealth I am sure of the acceptability. The acceptability of those notes is made possible by the resources of the bank ?—That is true.

That makes it generally acceptable, and by virtue of the fact that I have this promise issued by the banks, I am able to go anywhere and redeem portion of my wealth deposited with the bank, and I am able to turn it into real wealth that I am short of—I can use it in the open market ?—I look upon currency as a medium. If you have a farm to sell, and you sell it putting the proceeds in the bank, and then later take that money out of the bank and buy a house with it, you are using the money as a medium between the farm and the house. It is another way of exchanging the farm for the house.

The point I wish to make is that the medium that effects the exchange of real wealth between individuals—money—is not real wealth ?—Leaving gold out of the question, currency is not wealth, but evidence of wealth.

Exactly. After I make a deposit in the bank I can draw on the bank and get bank-notes enabling me to purchase requirements or services anywhere because of the general acceptability of the notes issued, backed by the banks' resources ?—I think that is very well put. That is the actual economic position.

Now, I want to pass on to the other questions raised about the coal and the potatoes, and the inability to exchange coal for potatoes. In the final analysis goods pay for goods, and we are really working under a kind of barter system which is facilitated by a medium of exchange or a measure of value commonly called money ?—In the last analysis we are still on the barter system, but we use a sort of middle medium.

The next point is that money is not purchasing-power because we can exchange goods and services freely—but not so conveniently—and still have purchasing-power without money ?—I firmly believe that money or currency is not purchasing-power, but evidence of purchasing-power, which must be there before it can be expressed in terms of money.

Therefore to increase the volume of money whether by bank-notes or otherwise does not mean that we are going to have a superabundance, or an increase in the ability of the people to exchange real wealth ?—It does not increase the purchasing-power of the people as a whole, although if you give it away it would.

You would not agree that the unemployed men are suffering because of a chronic shortage of purchasing-power, rather than that he has nothing to sell that some one else wants ?—I think it is not a case of chronic shortage of purchasing-power, but that his services are not in demand by some one else.

Then before he can get purchasing-power he must be in profitable employment which will enable him to get the necessaries of life in exchange for his labour ?—He must be necessary to some one else in some way or another, or have something necessary to some one else.

The mere addition of currency would not overcome the unemployment question ?—I firmly believe it would not.

Mr. Langstone : Unless it was issued to the unemployed ?

Mr. Lye.] That would only be when the unemployed were unable to give something in return ?—If you give money to the unemployed it would mean the same thing as taxation. I am personally very sympathetic indeed with the unemployed, and I do not think the sacrifices made by the rest of the community are at all out of the way.

The capacity of an individual to exchange real wealth for real wealth is purchasing-power ?—Yes.

One cannot get something for nothing ?—No.

To sum up the position of the unemployed is that these men, through one cause or another, have nothing to sell that other people want, therefore they have no purchasing-power ?—I would rather put it this way : That he has nothing to sell, whether by goods or services, that anybody else has a more effective demand for.

There is any amount of work to be done, and there is the labour available to do this work. The people have not the wherewithal to pay for the work to be done ?—There is a shortage of purchasing-power and there is a tremendous amount of deposits. There is purchasing-power somewhere. There is £70,000,000 in free deposits in the country at the present time. That could be spent if desired by the depositors. It would still go round in the usual channels. It does not change hands. That is the trouble.

According to the Macmillan report, 1931, page 136, we see that it is the policy of the banks to-day to make credits available at low rates of interest ?—That matter was also mentioned by the Chairman of the Midland Bank, who contended that the way to get out of the trouble was to keep on as we are doing, and make abundant supplies of cheap credit available.

Well, in the Macmillan report, to which I have just referred, we see this passage :—

> Very low rates of discount prevail, it is true, already, but have so far failed to bring about the transfer of money from short-term to long-term loans. The main practical obstacle which we see in the way of resumption of long-term investment is the shortage of acceptable and willing borrowers, for the purpose of new enterprise due to the general unprofitableness of industry.

Now, one of the reasons why industry is unprofitable to-day, apart from the fall in prices, is the high rate of interest charged. According to the Macmillan report, the banking policy is directed now to releasing large credits by inducing people to borrow and invest in industry at a lower rate of interest thereby enabling them to show a profit. The point I am leading up to is that the establishment of a Reserve Bank and the handing-over to that bank of the assets and securities of the associated banks, against which the Reserve Bank will issue notes to the associated banks, will no longer mean that the associated banks will pay a note-tax of 4½ per cent. ?—You mention assets and securities—I do not think they issue notes against the security we hold, unless you refer to the gold. Balances will not be the basis for note-issue.

What will be the basis of the note-issue of the Reserve Bank ?—The associated banks will hand over the gold, and they can also hand over sterling.

Will these be the only sources against which the Reserve Bank will issue notes to enable it to carry on ? Section 17, subsection (2), provides for the following reserves :—

> (*a*) Gold coin and bullion in the unrestricted ownership of the bank :
> (*b*) Sterling exchange, comprising—
> (i) Deposits at the Bank of England :
> (ii) British Treasury bills with an unexpired currency of not more than three months :
> (iii) Bills of exchange payable in London bearing at least two good signatures, with an unexpired currency of not more than three months.
> (*c*) Net gold exchange . . . in the unrestricted ownership of the Bank, if such exchange is on a country the currency of which by law and in fact is convertible on demand at a fixed price into exportable gold. For the purposes of this paragraph the expression "net gold exchange" means—
> (i) Balances standing to the credit of the Bank at the central bank of the country of origin of the currency in question :
> (ii) Bills of exchange payable in a gold currency maturing within three months, and bearing at least two good signatures :
>
> less any liabilities of the Bank in currencies other than New Zealand currency.

You said this morning in answer to a question that it was desirable to bring about a demand for these credits, or to release them and put them into active employment in industry, and it might be difficult to reduce interest-rates because of competitive interests. I gathered that it would be difficult to arrive at an agreement other than by legislation ?—I do not anticipate any difficulty as between Government Departments and the banks. That can be talked over in an amicable way, but there are many others who are interested, and you must have uniformity of policy. I do not think that that could be arranged solely at a round-table conference.

You say that there would be no difficulty so far as the State lending Departments and the Government were concerned ?—I would leave the Government to do what it considered reasonable.

And the other lending institutions are largely financed through the banks ?—Yes. The mere fact of the advances rates being lowered to enable them to lend at lower rates might induce the lowering of deposit rates, and I would like to point out that some of these other financial institutions trade on their own capital without getting accommodation through the banks.

There are very few of them ?—The building societies and to a certain extent stock and station agents and so on.

Would it not be possible if the banks and the State lending institutions reached a common agreement to substantially reduce the rates of interest, to reach a complete agreement between all financial institutions, private and public, to substantially reduce the rate of interest, particularly in

view of the fact that in the last analysis most of the private lending institutions are financed through the banks?—I mentioned this morning that there would be machinery difficulties in the way.

Do you not think that the result would be worth while?—Most certainly, if it could be done.

Taking that question in conjunction with this fact, that the banks will not be paying 4½ per cent. note-tax when the Reserve Bank is in full operation—and neither will the Reserve Bank have to pay that—that should automatically bring about a reduction in the lending-rates should it not?—Yes, but it all depends on whether the trading banks are to benefit in the long-run, because, although the trading banks will not pay the 4½ per cent. on their notes, they have to leave 7 per cent. of their demand liabilities and 3 per cent. of their time liabilities on which they will get no interest or benefit, so that what they get in the way of a benefit in one direction may be curtailed in another.

Would it be discounted in full?—It is hard to say. All these factors would have to be worked out.

Would you suggest that something be put in to clear up that point? I would say, in view of the circumstances I have mentioned, that there is justification for accepting a lower rate of interest as a result of the reduced taxation by virtue of the fact that you are no longer paying the 4½-per-cent. note-tax?—I would be glad to look into that.

And make any suggestions regarding the possibility of reducing taxation further in order to bring down the interest-rate?—I do not say that that will necessarily follow, but I will make any suggestions I probably may. It is probable that an agreement between the Government and the banks about the reduction of interest on deposits—the Government over-the-counter rates, the Savings-bank rates, and other rates—might be effected by negotiation. I think I said this morning that legislation might be necessary, but, thinking the matter over, I am of opinion that if an agreement is made between these two—the Government and the banks—I do not think there would be loss to other institutions who might give more.

Well, that eliminates what might have been a great difficulty?—Yes, I have thought it over; and it seems to me that an agreement between the Government and the banks might give us a workable basis to go on.

After all is said and done, if the rate given by the Public Trust Office for investment in the Common Fund, as well as the rates given by the Government Savings-bank and the private banks for fixed deposits are fixed by negotiation, private competitors would not attract a great deal of business?—Of course, there are certain difficulties, because the banks would go on paying the present rates of interest in respect of existing lodgments.

There is always that difficulty, and it takes time to adjust?—That is so. The banks adhere to the rates of their own free will, even if entitled to reduce the rate they would not take advantage of it, because they feel that they have made a contract and that they will hold to it.

It is possible, then, by agreement to effect a reduction in the rates of interest?—Yes, I believe so; but I would point out that if you reduced fixed-deposit rates by 1 per cent., that would not mean that you would be involved in reducing all interest-rates by the same amount, because the relief from paying 1 per cent., on £30,000,000 on fixed deposits, for instance, is not going to make up for getting so-much less on £56,000,000 on advances and discounts.

One more question arising out of the suggestion placed before the Committee in Auckland, that it is a sound thing in every respect for the State to borrow money for the prosecution of public works, and that the money so borrowed and expended should be free of interest. Do you think that that contention is sound?—Do you mean the Government getting the money from the banks free of interest?

Yes?—The thing would not work out.

Well, issuing it themselves from a national credit authority? It was claimed that it could go on issuing fresh capital for public works and that it would be sound to do so?—I do not think it would be sound. There would be danger of public pressure. People would say that it costs nothing to produce this capital for bridges and roads, and it is only human that the electors should press their parliamentary representatives to get more for their districts. They would be forced to do it; they might be told to issue more or get out. It is a dangerous policy. Once you started it it would be hard to stop.

I presume—being a banker or a banker's representative—that you would say that it was reasonable to charge and accept a small rate of payment for the use or utility value of the money, and also as an insurance against loss?—You mean from the Government?

Yes?—If the Government lends money it is entitled to charge interest, because wherever you lend money there is some loss, and the interest paid has to pay for these losses, and also the risks involved, plus the running and working expenses. The person who gets the money should be able to turn it over at a profit and pay the interest charged.

The Chairman: I think that concludes the examination of the officers representing the associated banks. Mr. Fussell, Mr. Harle, and Mr. Shaw, I should like, on behalf of the Committee, to thank you for your attendance and for the evidence you have given. You have had a pretty lengthy examination, one way and another, and I must congratulate you all on the very ready answers you have given to the questions put to you. I think that, with one or two exceptions, where you preferred time to consider the matter,——

Mr. Fussell: In several cases the information can be secured. It could not be given without looking it up. I am getting some information for Dr. Sutch and others.

The Chairman: Very good. I wish to say that I have been agreeably surprised at the result of the examination of the representatives of the banks. A vast amount of information has been imparted to the Committee. You have given the information freely, and we appreciate that very much indeed. I wish to thank you again for the evidence you have given, and the promptness and readiness of your replies.

Mr. Harle: Mr. Chairman, on behalf of my colleagues and myself, I wish to thank you very much for those kindly remarks, and I ask you to accept our thanks for the very courteous and kindly manner you have listened to us. I thank you.

WELLINGTON, MONDAY, 23RD APRIL, 1934, AT 2.30 P.M.

Statement in Reply by D. O. WILLIAMS to Monetary Committee Questionnaire.

"*Banking and Currency in New Zealand,*" *by A. D. Park and B. C. Ashwin.*

I am in substantial agreement with the opinions and conclusions expressed in this statement. In my opinion it ably sets out the main features of the New Zealand system.

The chief items concerning which I am in doubt or in disagreement are—

(i) *Pages 8 to 9.* Velocity of circulation: The method of computation is not clear to me, and, as the utility of the graph on page 9 depends on the method employed in its preparation, I am not prepared to accept (or reject) it in its present form.

(ii) *Pages 11 to 12.* Recent changes: The statement is made that it would be the duty of the Reserve Bank "to maintain the value of currency by holding the exchange-rates within a swing of approximately 30s. per cent. either way, that being the approximate cost of shipping gold from London to New Zealand and *vice versa.*" This appears incorrect. In the first place, the authors have themselves pointed out that in practice there is no free movement of gold into or out of New Zealand. The so-called "gold points" have no practical application to a sterling-exchange system. The margin of fluctuation round any given par, therefore, will depend on exchange policy and not on the cost of gold transport. Where the movement of gold is of no consequence in the maintenance of an exchange system it would appear perverse to make the cost of its movement the determinant of exchange policy. It is much more logical to recognize the practical unimportance of gold-movement and to rest exchange policy on other considerations. Such considerations are discussed in answer to question 1, 2, and 3, and 12.

(Questions 1, 2, 3, and 12.)

1. *In view of present conditions and the prospective outlook for the next few years, what should be the exchange policy of New Zealand?*

2. *On balance would devaluation at New Zealand £125 to £100 sterling be in the best interests of New Zealand? This question assumes that £125 would be the "normal" exchange-rate about which adjustment might be made if warranted in the future.*

3. *What would be the advantages and disadvantages of lowering the exchange-rate on London from the point of view of (a) the budgetary position, (b) the economic structure of the country?*

12. *Would you favour a rigid exchange-rate with sterling?*

(*a*) These questions are complementary and are best treated in one general answer. It would, in my opinion, be wise to seek a new par of exchange in the vicinity of the rate of £125 New Zealand to £100 sterling. In present conditions and in view of the uncertainty of future prices for our export trade, any substantial lowering of the exchange would involve a gamble with the solvency of primary industries, unless it were possible to provide assistance of another sort to replace the protection now afforded by the exchange. In practice this would mean borrowing internally in order to pay a subsistence dole to farming. I am convinced that the practical difficulties in the way of borrowing money for the purpose of farming subsistence, of allocating it equitably, and of preventing it from leading to undesired overproduction, as well as the danger of alienating still further the English Administration, make the subsidy proposal an unsatisfactory alternative to the exchange device. Even though it may be pointed out (fairly or unfairly) that the exchange device has operated inequitably in that it has conferred benefit on the deserving and undeserving alike, that it has stimulated overproduction, and that it has irritated people overseas, yet it is a much simpler weapon than any subsidy could be, is fairly elastic in both directions, operates most directly on the major source of our national income, and does not pile up unproductive debt for a later operation. In what follows, therefore, I am assuming that exchange policy is to be considered without reference to possible alternative forms of framing relief.

(*b*) Certain apparent advantages would follow upon a lowering of the exchange-rate on London. The money costs of overseas payments for debt charges would be reduced, and to that extent the Budget would be relieved. I suggest, however, that nationally (as distinct from the relatively narrow field of the Financial Statements) there would be no relief. If an economist may be permitted the luxury of going back to simplicities, it is to remark that overseas interest is basically paid in butterfat, meat, wool, apples, and honey. One bale of wool at £10 sterling pays a debt of £10 sterling whether the exchange is £100 New Zealand or £125 New Zealand to £100 sterling. At the traditional par a £10 sterling debt and a £10 bale of wool both mean £10 New Zealand money. At a par of £125 New Zealand to £100 sterling a £10 sterling debt means a £12 10s. New Zealand obligation; but also a £10 bale of wool (sterling) means a £12 10s. New Zealand means of payment. The Minister of Finance taxes the people additionally to meet the additional money costs of the debt; but there is a larger national income in terms of New Zealand money to meet the extra taxation. The incidence both of the larger taxation and the larger national income are indeed altered, and the real as well as the money costs of overseas debt press more heavily on some sections that formerly; but that is a question of expediency and equity which does not affect the validity of the general proposition that nationally the real costs of overseas debt have not even increased by the higher exchange and would not be diminished by a reduction of the exchange. The real costs of the overseas debt have been increased not by a raising of exchange, but by the fall in sterling prices. My conclusion is that the real burden of overseas debts would not be lightened by a reduction in the rate of exchange on London.

(*c*) In the case of internal-debt charges, money costs are unaffected by the exchange-rate; but the real costs are definitely influenced by it. A lowering of the rate of exchange would increase the weight of internal debt. A lower level of money incomes derived from exports sold under a lower exchange-rate would widen the gap between farming receipts and costs and would compel adjustments which would be reflected in a general reduction of money incomes. The fall in the internal price-level would increase the real burden of all fixed debt charges—national, local-body, and private. (See Report of Economic Committee, 1932, pages 30 to 32, for a fuller exposition.) The exchange-rate of £125 New Zealand to £100 sterling has supported internal prices above the level which would have prevailed under any substantially lower rate, and therefore has provided (nationally) some relief from the dead weight of debt. Summed up: The higher exchange adds to the money costs of the external debt but does not increase its real burden; the higher exchange adds nothing to the money costs of internal debt but does decrease its real burden.

(*d*) A lowering of the rate of exchange would stimulate imports in the first instance, and this would swell the Budget. Whether the increased revenue would be maintained would depend, however, on the course of external prices. The cost-price structure of farming would immediately suffer by a lowering of the rate, and unless export prices rose by an amount at least equivalent to the loss of income sustained through exchange reduction the economic distress of farmers would rapidly spread to the rest of the community and prejudice their power to meet direct taxation as well as their power to purchase imported goods. Since there is no valid reason for assuming that lower exchange-rates would cause a rise in external prices, the result on the Budget is unpredictable. If no rise in export prices occurred, revenue from other than imports would be more difficult to collect, and imports would also decline once the loss in farming income began to express itself in diminished buying. My conclusion is that, in our circumstances where national increase and therefore taxable capacity is so sensitively responsive to the course of external prices, a rise in prices should precede any lowering of the rate of exchange.

(*e*) The initial stimulus to imports under a lower exchange would set a limit to further accumulations of exchange funds purchaseable by the Government, but would involve a loss on the amount now held. This loss would be of little economic consequence if rising external prices restored farming and national prosperity; but it would be serious if prices failed to rise and the cost has to be borne by a Budget weakened through the diminished revenue consequent upon a fall in money incomes.

(*f*) A consideration of these various factors convinces me that the Government would be unwise to lower the rate of exchange in the present depressed and obscure circumstances. It might conceivably be justified if it were certain that external prices would rise sufficiently to restore the profit structure of farming. But there is no such certainty. The risks of undermining still further our farming industries while they still remain our major source of income are too great to be assumed. The serious consideration of a proposal to lower the rate should be postponed until either higher external prices or lower internal costs (or both) have definitely restored the profit equilibrium between costs and receipts.

(*g*) It would be wise, I think, to go further than this and definitely devalue our currency at the present rate. I justify this on the grounds—

(i) That it would be unwise to lower the rate:
(ii) That it would be difficult or impossible (politically) to raise the rate:
(iii) That gradual cost adjustments to the present rate have made it an appropriate rate:
(iv) That devaluation would introduce a degree of certainty now lacking from the exchange situation.

In regard to the last point: it is probable that uncertainty as to the future of the rate, combined with an expectation on the part of importers and traders that the rate would fall, has done much to cause the accumulation of credits in London. It has been fully enough stated (but with what authority I cannot say) that a generally cautious policy of importation due to the fear of being caught with large stocks bought at a high rate has prevailed, and that British exporting firms have opened accounts with New Zealand banks rather than pay the costs of transferring money to Britain (see *National Opinion*, 12th April, 1934, p. 7). If this is so, the only apparent explanation would be the hope or expectation of currency appreciation. A definite act of devaluation would therefore remove the incentive to these practices. It would also have the broader effect of minimizing distrust in the future of the currency. I would point out that at present there is not only the distrust entertained by those who fear a further depreciation, but also the distrust entertained by those who fear appreciation. Farmers and many who trade in farming belong to the latter group. Many cases have been brought to my notice of potential purchasers of farm lands who refuse to conclude the deal until they are reasonably sure that the rate of exchange will not be lowered. This is quite rational, since they are not prepared to assume important exchange risks in addition to the ordinary risks of farming at the present time. Although the effect of this uncertainty both in limiting importations and in freezing land transfers is not measurable, it may be of considerable importance, and is certainly of some importance. My conclusion on this point, therefore, is that stabilization of the exchange is desirable as a measure to increase the fluidity of trade. Moreover, I think that stabilization should be effected through devaluation at the rate of £125 New Zealand to £100 sterling, since a lower rate is likely to have serious repercussions on our key industries, while a higher rate is, I believe, inexpedient at present.

(*h*) The stabilization I have in mind, however, must permit of some elasticity. It has been suggested that the margin of fluctuation round the par should not exceed 30s. per cent. either way, on the grounds that this represents the cost of gold transfer between New Zealand and London. This, as I have said, is not relevant, since gold transfers are not normally important in our exchange system. I admit, however, that initially at least the limits of fluctuation set by law will be largely

arbitrary, and subject to modification according to experience. Two considerations have to be reconciled in deciding on these limits :—

(1) The desirability of narrowing exchange risks as much as possible.
(2) The need for exchange flexibility in a country which depends so largely on export sales for its income and which has a relatively rigid cost structure in its key industries.

The first point has already been discussed. The second is, however, more important. Any country whose economic structure rests predominantly on farming for export experiences wide fluctuations in national income but narrow fluctuations in costs. The result is in periods of rising prices a very marked boom and in periods of falling prices a very marked recession. Moreover, where (as in New Zealand) there is " no bullion market, no bill market or short-loan market, and generally no money market in the full sense of the term " (Park and Ashwin, p. 1), the power of a central bank to influence economic conditions by internal measures is likely to be more limited than in more developed countries. Variations of discount-rates and open-market operations are likely to be of small importance so long as our money-market is immature and as long as our economic conditions respond as clearly and quickly to external changes. In our circumstances the most promising point of control, therefore, is the exchange-rate. I believe that some power to alter exchange-rates as a deliberate act of policy is necessary in New Zealand if we are to minimize the effect of external disturbances on our economic structure. Thus, the most dangerous time for us is invariably the period when rising prices, mounting into boom, exaggerate the normal optimism of farmers and others and lead to serious land speculation and the extravagances of competitive finance. It is at least probable that a deliberate lowering of the rate of exchange before the situation reaches the danger-point might save us from the worst effects of too much prosperity.

While I have no desire to be overconfident as to results, I consider that the sphere of exchange control is a proper field for monetary experimentation in this country. It would be illogical to support the use of the exchange as a relief measure in times of depression and then challenge its use as a " deflation " in times of boom. It would be quite logical to object to its use on either occasion, but I strongly urge that its utility as a weapon of economic control be more thoroughly explored.

It is only through properly controlled experimentation by the Reserve Bank that we can arrive at any sound opinion as to the limitations of such a device. The knowledge and experience gained will permit a proper balancing of the claims of exchange stability in the interests of overseas trading and the claims of greater price stability in the interests of domestic security. In the meantime I suggest that the limit of fluctuations be set somewhere between 30s. and 100s. per cent. either way. The former is too narrow to give any substantial control over the effects of external price variations, and the latter may be too wide to give the sense of security required. Having decided this point, the exchange should be held between the limits set for as long a period as possible—that is, the limits should not be widened in either direction unless the economic situation changes so much as to make them anomalous. In such an event it may prove necessary to determine a new par. It will be evident that these suggestions do not regard any par as necessarily permanent, but they aim at a greater degree of stability than exists at present.

Question 13. Has the exchange-rate in the past been governed by the supply of and demand for London funds? Was the exchange-rate ever "free," or was it always " pegged " ?

It is reasonable to suppose that some degree of control over the exchange was normally exercised, since the rate remained steady despite wide seasonal fluctuations in demand for and supply of funds. In the words of the Economic Committee : " This involves a considerable measure of control ; but that control is customary and necessary and would require to be maintained under any system of exchange operations." (See Report of Economic Committee, 1932, pages 27 to 29, for a further statement, with which I agree.)

Witness : Mr. D. O. Williams.

The Chairman : We are very pleased to have your replies to the questionnaire, the second part of which came to hand this morning and members have therefore not had the opportunity of studying it. I would suggest that you read it through to the Committee.

Mr. Williams read the statement in question, as follows :—

4. In what respects can the Reserve Bank act as an instrument in securing national control of the monetary situation in New Zealand?

4. As an instrument of monetary control, the Reserve Bank will—
(*a*) Be the sole note-issuing authority ;
(*b*) Hold minimum balances of the trading banks ;
(*c*) Control the exchange-rates ;
(*d*) Possess full information as to the position of the trading banks statutory returns to be supplied.

(See Park and Ashwin, pages 12, 13, for a fuller statement.)

I have always viewed the functions of a Reserve Bank as essentially experimental in nature. What is appropriate elsewhere may not prove entirely applicable here. What is appropriate now may prove inappropriate in the future. In other words, although the bank will commence its operations on the basis of the above machinery, it has to learn the details of its job in the light of experience and intelligent

trial and error; and it has to endeavour to create a situation which will strengthen its powers of control. Thus it will have to consider the special problem of exchange policy in the light of the special importance of such a policy on our credit structure, and it will need to build up, if it can, a more important short-term money market. Neither the proper exchange policy nor the short-term money market is ready made for it; and it will eventually prove more successful the less ready-made are its own ideas. A further reference to its powers of control is made in answer to Question 5.

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?

I think that experience will show that control and co-ordination of banking policy will remain imperfect if any large and important financial institutions are left as free agents outside the area of control. In New Zealand the stock and station agents are of great importance as financial institutions and in principle, therefore, should be linked to the Reserve Bank. Here again the potential dangers of unco-ordinated financial institutions are most apparent in prosperous times; and it is my opinion that in the past the competitive scramble for accounts between trading banks on the one hand and stock and station agents on the other have greatly accelerated boom conditions and facilitated the overcapitalization of farming ventures. The opinion has several times been expressed to me by both bankers and stock and station representatives that in such times they have been powerless to resist the eager demands of customers for finance even where they doubted the wisdom of acceding, since there was no certainty that competitive institutions would also refuse and since the loss of accounts in any number might jeopardize the position of a local manager. If such a situation is true generally, it would strongly support the principle of including all important competitive financial institutions within the sphere of Reserve Bank control. In practice the obvious difficulty is that stock and station agents have important functions other than those of banking, and it might prove difficult to impose control at one point without unduly restricting activities at another. I am not competent to express an opinion on such a matter but would suggest that the companies concerned be invited to state their case.

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?

I favour the principle of such an Investment Board, but strongly doubt the possibility of establishing it on a practicable basis. The qualification and training required of the members are unlikely to be found outside members of the stock exchanges. In practice the Stock Exchange Association of New Zealand—or a central committee of the Association—would probably prove the most competent body to estimate the economic soundness of any given project open to public investment. There are, however, obvious dangers in placing judicial responsibilities on the shoulders of people whose pecuniary interests are involved in their decisions. This might be overcome by a strict limitation of brokerage charges—say, to $2\frac{1}{2}$ per cent.; but I am sceptical of the outcome. It is apparent that the Exchange would be bound to refuse to list the enterprises against which they had reported adversely, and this would, in fairness, involve some Appeal Board, and so raise again the problem of an appropriate personnel. The most promising immediate developments would appear to be (*a*) to provide as much legal protection as possible for the public; (*b*) to provide as much information as possible to the public. The first point is being met by the recently appointed Commission to inquire into company promotion. The second might be be met by the issue of advisory statements through the appropriate public services. For instance, an account could probably have been published setting out the state of existing knowledge, the technical difficulties, and the reasonable risks of such enterprises as forest, flax, tung-oil, and tobacco plantations. Put in a more general way, wherever the Government is in possession of knowledge (either through the research activities of its own institutions or from any other source) which is likely to be helpful to the investing public, the information should be made available. All the more so if the information clearly discounts or contradicts the claims of professionally optimistic promoters. Information held by public services is obtained with public money and is intended for public service. Neither departmental policy nor the economic interests of special groups should cause the information to be withheld from the public if it can be of help to them. The public may not be in any way grateful for such a service; but if the ethics of Government are to claim respect the public must be served in spite of itself.

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

I have given no attention to this matter, and therefore have no useful suggestions to make.

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

The internal expansion of notes would, I think, have no appreciable permanent effect in raising internal prices. In any case there are no cramping restrictions on their issue while the demand is limited to the requirements for minor payments.

8B. What are the limits of economic recovery in New Zealand by internal expansion of (b) *Credit?*

On the supply side the amount is strongly influenced by the banks' demand liabilities overseas. This may partly be inferred from the account given by Park and Ashwin of the mechanism of the New Zealand exchange and the marked influence of overseas trading on our economic structure. It is normal for credit expansion in New Zealand to be associated with or to lead to increased importations. A limit to further credit is set by the need of the banks to meet the overseas payments for importations.

On the demand side the limiting factor is the requirements of business and these depend upon the estimates which men make of the opportunities for the profitable use of funds. At the present time profit-making opportunities are relatively few, and it is not to be expected that a much stronger demand for available finance will develop until there is greater confidence in the future of prices and until a closer adjustment between costs and prices has been made. Experience has shown that the prevalence of cheap money is not sufficient to promote recovery if confidence in investment possibilities is lacking; but that cheap money is helpful once this confidence emerges. In present conditions I doubt the possibility of forcing much new commercial credit into circulation. There is a growing body of opinion that in such circumstances it is desirable that increased public expenditure should be undertaken. I am inclined to favour the view that a careful investigation should be made of the possibilities of expanding national and local-body expenditure on useful public works.

9. In New Zealand is there any reason why the Govrnment should pay interest on Treasury bills?

I cannot see how Treasury bills could function in their present character unless they bear interest.

10. What limits do you place on the Government's financing construction schemes by non-interest-bearing Treasury bills or notes?

I think it would be inadvisable to attempt any such policy.

11. Assuming normal conditions, has New Zealand reached a stage of development such that overseas borrowing will in the future not be necessary?

I find it impossible to answer this question since it involves a knowledge of (*a*) what "normal" is, (*b*) how long it will take us to reach this "normal", (*c*) what the requirements of the country will then be for new capital, (*d*) what the resources of the country will then be. If the question is modified somewhat to ask whether we should aim to provide internally as much as possible of the capital required, I would answer, Yes. The growth in the world of economic self-sufficiency has brought about the position that a debtor country is more and more exposed to external policies which may seriously impair its ability to meet external obligations. While it has no control over such policies, it is reluctant (as in our case) to ask for debt concessions, since these involve delicate questions of national credit. Conversely the creditor country has little or no control over the policies of the debtor country and may find (as at present) that these policies endanger the security against which the loans were made. In present conditions, and if the trend to economic nationalism continues, the separation of the ownership of capital and its control is hazardous for both creditor and debtor country. And it is probable that in the future there will be a greater reluctance on the part of creditor countries to lend, particularly if they are successful in finding more opportunities for home investment. In view of recent experience, I think it desirable that lenders and spenders should be as close together as possible, and therefore that we aim at financing from local sources as fully as possible.

12. Would you favour rigid exchange-rates with sterling?

This has been answered in my earlier reply to questions concerning the exchange.

13. [Answered above.]

14. What determines the rate of interest charged and paid by the banks?

(i) The conditions of supply and demand as outlined in my answer to Question 8B; (ii) the influence of such competing institutions as stock and station agents and Government lending Departments; (iii) the rate at which money is available in other countries.

15. If deposits and advances rates were lowered would this tend to promote economic recovery?

The effect of lower deposit-rates would be to encourage the search for investment avenues, and would liberate funds which, at present rates, are "doubtingly" left on deposit. The effect of lower overdraft-rates would be to reduce costs. The combined effect would be to improve the prospects of profit-making.

16. Do banks in New Zealand lend their deposits? Is there any fixed relationship between deposits and advances in New Zealand? What factors determine an increase in advances?

(*a*) Deposits are lent in the sense that banks could not make the advances they do without having deposits in addition to their capital.

(*b*) No. For short periods there is no constant connection between them; they do not increase or decrease together. On the contrary advances may increase when deposits are increasing and vice versa. Over a long period of years, however, the expansion or contraction of trade will be accompanied by an expansion or contraction of both advances and deposits.

(*c*) The extent to which bankers are willing to accommodate the increased demands of the business community generally, which in turn is related to the overseas balance of payments, the banks' estimates of the future course of economic activity, and the character or security of the applicants.

17. The fluctuations in export values of New Zealand products are reflected in changes in ecomonic conditions within New Zealand. What can be done by monetary means to ease the effects of these fluctuations?

I have answered this in my reply to the questions relating to exchange, particularly in the section concerning the possible use of the exchange as a control device. I would like to make this general statement: that I hope the Committee does not look upon me as an expert in money affairs. I am very interested in them, and I know sufficient about them to recognize that there are large debatable areas upon which I personally do not wish to be in any way dogmatic. I think I have said all that

I really feel I need say upon the question of the exchange-rates; that to me was the most important question of the questionnaire because I feel that our local conditions are such, while we remain a relatively immature country, that external influences are of predominating importance at present. The extent to which this country derives its national income from overseas trade necessarily exposes it to external conditions to a degree that is not felt by most other countries, and it therefore seems to me to be logical that if we are to seek for control over our money system we must seek it at the point where the main disturbance occurs, and that is in relation to our overseas trading. That is why I think the exchange-rate, however much it may be anathema to some or all of you, is nevertheless the crucial point of attack; at least that is my own view. I would go further and say that I very much doubt the possibility of an internal control by the central Reserve Bank which limits itself to the ordinary devices of variation of the discount-rate, and so on. Any bank which ignores the very direct and obvious impact of external influences upon us must fail to be really effective. I suggest in the later section that we have to try and reconcile the need for as much exchange stability as possible with the necessity for using the exchange as a control device, and I suggest that the appropriate fluctuation might be somewhere in between the points of 30s. and 100s. per cent. either way. I want you to understand that I have no particular figure in mind, and that after discussion with other people I might be quite prepared to abandon any figure that I had previously decided upon. I feel that there must be enough room round about the par—whatever that might be—to give the central bank an effective weapon, and I particularly stress the point that it is probable that the most effective use of that weapon will come when prosperity returns and is reaching the danger point of boom conditions. That will not be very popular with the farmers in New Zealand, but I think the banking system has much more power of influencing conditions when things are good than when things are bad. The only other point of any importance in my reply from my own point of view is that which relates to question 11 in regard to the borrowing overseas and borrowing locally. I have not developed the idea to any extent, but I think the notions are clear enough. To a large extent it does depend upon an estimate of the future trend of events. Those I anticipate to be for some considerable time, say a decade or a generation, a continuance of the present process towards greater national self-sufficiency, and that I think will eventually have its reactions upon New Zealand in compelling adjustments which, whether we like or not, will make us a more self-sufficient country than at present. I mention this at this stage because it will be evident that if this country in its endeavours to adjust itself to a declining world trade, or a world trade which expands very reluctantly, endeavours to multiply industries in New Zealand, it will to that extent be less dependent upon external influences and therefore as that process develops, the importance of the exchange rate may diminish. I think it is important in that connection. There is a very good statement to which possibly the attention of the Committee may have been drawn on the question of self sufficiency, by J. M. Keynes: I am prepared to attach that to my statement if it is desired. It definitely emphasizes the point of view of a creditor country, that it will be preferable for a creditor country to have closer control over the spending of the money that it lends. I think we may find it difficult in the future to borrow even if we want to; that may compel us to live upon our own capital resources more than we hitherto have done.

Dr. Sutch.] I think I follow very well what you have given us; very few points arise as far as I am concerned. In regard to the small savings in this country, people who prefer a rate of interest greater than they can get in the savings-bank invest in concerns whose security is questionable; if we could get some institution in New Zealand of the type of an investment trust to take over small savings and ensure a continued return to the saver, would you favour such an institution being set up?—It seems to me to be unquestionable in those conditions.

That was the point of the question on small savings?—I rather understood the question to mean was I dissatisfied with existing institutions for small savings, and I was quite complete in my answer that I really had not thought about it.

You have mentioned Government lending Departments, would you favour greater expansion of these?—I have had the feeling, which has grown stronger in recent years, that so far as rural credits are concerned it would be a vast improvement if those various sources of credit could in some way or other be canalized. I think one of the weaknesses at the present time is the multiplicity of creditors which farmers and others have to face and compromise with, and it does seem to be the experience that, unless those creditors voluntarily get together and make pooling arrangements for a *pro rata* adjustment of their debts, some suffer much more than others. Apart from the advantage which it would be to co-ordinate the sources of credit from the point of view of adjusting them in times of difficulty, it would also do away with what I think is one of the most objectionable features of the present system, which is the overcompetitive nature in good times of rural advances.

Does that include Government rural advances too?—Yes, definitely.

In your opinion they should have some greater control and co-ordination?—That is my opinion.

You also mentioned methods of controlling the credit situation. In England we understand it is largely done by means of the bank rate, the rise and fall of which affects economic conditions in the country very materially. What would be a corresponding measure in New Zealand, or corresponding implement, to bank rate in England?—I do not think there is any corresponding implement so far as the internal control over credit is concerned. It comes back to the point I have already made, that we are in a very different position from England—a very different position from America. We have probably the largest external trade *per capita* in the world, which is only another way of saying that we are more than usually dependent upon overseas conditions; and therefore I would say that it is the rate of exchange which is likely to count as the controlling weapon in New Zealand, not the rate of discount. On the other hand, to the extent that we mature and become less dependent upon overseas trade, to that extent the bank rate may assume a bigger importance than it can possible have at the present time, but at the present time I believe that the exchange-rate is likely to be the most potent weapon in exercising control over our internal credit.

It would seem that there are no economic text-books which explain New Zealand's position ?—We are building them up with the Monetary Committee and other Committees like that.

Assuming that the Government paid its wages bill out of Treasury notes, what would be the effect of doing that ?—Candidly I do not know, but I think that the effect would be a temporary increase in spending-power, which would eventually mean, while general profit-earning opportunities remain as bad as they are, the retirement of existing purchasing-power or currency. I think there would simply be a replacement of the old by the new, or simply, if you like, the retirement into fixed deposit of funds, in just the same way as is happening now. It seems to me to be the same point I have already made. I cannot myself see how any substantial injection of currency can be made while, under the profit-earning system, profits are not being earned.

Mr. Langstone.] Does the payment of pensions have that effect ?—I do not know what effect the payment of pensions has.

Dr. Sutch.] There would be a transfer of purchasing-power, would there not ?—I do not know, and I do not suppose anybody else does, what the effect of that is. Can anybody say ?

Captain Rushworth.] But they are paid out of revenue are they not, so, as Dr. Sutch suggests, it is merely a transfer from A to B ?—Quite possibly.

Dr. Sutch.] So that, if the tendency of business and confidence and the price-level was all downwards, it would be difficult to help our economic situation by injecting currency ?—I think so. I think that the situation is this, as I understand it; that it is all too easy to inject currency into the system when the trend of prices is upwards, and that is part of the trouble. It is all too difficult to do it when the trend of prices is downwards, and that is the whole trouble as far as we are concerned at the present time, and I make the inference from that, although it is of very little comfort at the present time, that every energy should be bent, when prices are rising, to see that they do not run amok.

So that, in view of the conditions you envisage—no confidence, no profit-making opportunities—a vigorous public-works policy would not necessarily revive economic prosperity in New Zealand ?—No. I think that the public-works policy would act as a sort of stop-gap, that while business is itself because of its dependence upon profit-earning, reluctant to embark upon capital expenditures, that the State might do so, provided the objects selected were selected wisely. That would be beneficial in itself from the point of view of liberating a certain amount of purchasing-power, but if your question is, Would that public-works policy cause a revival of business activity, I do not think so. But I do think that it is a very useful device if ways and means can be found for helping things along, provided, of course, on the other hand, that the public-works programme is pared down when business is running right.

A good deal of our production depends for its profit on overseas price-levels. 40 per cent. of our production is exported, approximately. The question arises, then, how much of the local market is affected by export price-levels ? Perhaps I could put in this way: What proportion of our total production is determined or has its price-level determined by overseas price-levels ?—May I just invert the thing in this way by saying that my own estimates are that primary exports represent about 80 per cent. of primary production. That excludes items of primary production which are not exported. Wool, butter, cheese, lamb, mutton, and a few other grass products make up about 80 per cent. to 85 per cent. of our total exports, and of that primary production four-fifths is exported so that you can say that external prices affect not only the actual amount which is directly exported, but by repercussion 20 per cent. of that farming produce which is not exported, but which is sold locally. I think that is quite an important point really, because, where there is a fairly close relationship between the prices of exportable commodities and their domestic prices, the tendency is for the local price to rise and fall in rough correspondence with the rise and fall externally. If I may restate my reply to make it a little clearer: Taking the more important items of our farming produce, 80 per cent. is exported and 20 per cent. sold locally, and I think that, in taking account of external influences upon our national income, we have to consider its effect not only on the bulk which is exported, but also by repercussion on the amount which is sold domestically.

That brings me to my next point. If farm costs are more or less fixed, then sometimes the return to the farmer is much higher than costs, so that his surplus purchasing-power might be, in a boom, very great, in a depression would not exist at all, so that, would not the result be accentuation of conditions really, because costs are fixed but the return to the farmer varies tremendously ?—I personally look upon that as the A B C of any interpretation of the repercussions of external conditions on New Zealand conditions. It is perfectly obvious that it does not matter twopence what the level of prices is or which way they are going, if all series move in harmony. It would not matter if prices were a thousand times higher or if they were a tenth of what they are now, if all other costs were automatically adjustable; but they are not.

Mr. Langstone.] If we moved them like we move the clock we would not know any difference would we ?—No.

Captain Rushworth.] That is taking into consideration the existence of contracts ?—Yes. Contracts, customs, and that sort of thing, introduce that immobility into charges which prices do not experience.

But custom is much more mobile than contracts ?—Of course, contracts can give you absolute rigidity.

So therefore, a stable price-level would be the thing to aim at in view of the fact that contracts are fixed ?—Maybe. I have my doubts about that. Absolute stability of prices is, I think, very much more desirable than the instability which we have at the present time. At the same time I think a certain measure of subsidence, lowering of prices, is in the interests of humanity, if it comes about as a result of the advances in technical knowledge, invention, and science.

Dr. Sutch.] Do you think there is any such thing as a general price-level ?—The concept of a general price-level is a useful one to simplify our ideas, but it does not really exist of course.

Mr. Langstone.] Does a price-level exist at all ?—No. It does not.

Dr. Sutch.] Could you tell us what mechanism would be necessary on the monetary side to aim at a general stable level of prices ?—No. I am afraid I cannot. I seriously doubt the possibility of achieving such a thing. I think that some measure of control will be got through a wise manipulation of the exchange-rate plus such other devices as the central bank may be able to discover in the course of its experimentation, but I am afraid I cannot think of any way in which absolute stability could be got.

And in any case, if you had internal stability, would the external value of your pound remain stable ?—Not necessarily. Only on the assumption that there was absolute stability of prices in all other countries. That is, if you got a world stability of prices you would have both domestic stability and exchange stability, but I think that is rather remote.

You have a question here about deposits. In various articles that have been submitted to us, the sources of deposits have been the returns from our primary produce, and the deposits have also come from advances. In what sense do you mean that advances are lent against deposits ? I am not quite sure of your terminology. Question 16 : Do banks lend their deposits ? That is what some of us are not quite clear about. " Deposits are lent in the sense that the banks could not make the advances they do without having deposits in addition to their capital." Could you explain that a little more ?—There is the relationship between advances and deposits in this sense : that when a bank makes an advance some of those advances become deposits. There is that relationship from that point of view, and that the aggregate of deposits, in addition to the capital which the bank has, permits that bank, in certain circumstances, assuming that the deposits are abundant enough, to make further advances, because the bank naturally makes its money by extending those advances as far as it can safely do so.

Mr. Langstone.] There are economists who say they do not make money that way ?—That is very possible. Economists say all sorts of quaint things at times.

The question has arisen, what happens to fixed deposits in a bank ?—Do you mean, where do they go to ?

Yes ?—I do not really know, but normally the bank makes its own investments when profit conditions are appropriate. I do not know the internal history of fixed deposits at all in the present circumstances.

Do you think that they become fixed properly ?—In a really critical stage they are completely fixed in the sense that they are utterly frozen.

Dr. Sutch.] Internal and external borrowing has been mentioned, and you also mentioned that we borrow on our own capital when we borrow externally. Do we borrow physical things ?—A loan raised externally may come into New Zealand solely in the form of goods, hydro-electric works, engines, and so on.

Our national income over the last ten years has been augmented by external borrowing, which has meant that New Zealand has had more wealth at its disposal. If this borrowing had been internal, would the position have been the same ?—I would like to reflect over that question. At the moment I see no fundamental difference except upon the terms of our international trade. Could you give me notice of that question ?

Perhaps I could explain it a little further. In your paper you say that the limits of lending are sterling funds held overseas ?—Yes. The banks demand liabilities to provide sterling to meet importers' drafts. That is what it comes to.

So that, in the long run, if we borrow overseas we get more imports ?—Undoubtedly, if they come in the form of goods. That is, assuming that your loan is for that particular purpose.

If it is not for hydro-electric machinery or something similar, sterling funds are available for other goods, so that locally you would have consumers' goods brought into the country and a diversion from capital production, perhaps, within the country. That is with external borrowing, but with internal borrowing you have the diversion to capital production but not a similar amount of consumers' goods available as you would have with external borrowing ?—Initially, perhaps, that is so. There is always that distinction between the initial effect of a loan, whether it is internal or external. The initial effect of an internal loan, it it were for production purposes for the setting-up, say, of adequate woollen-mills or boot and shoe factories, would be a diversion of funds into capital requirements, but the ultimate effect is an additional production of goods.

I would like you to go into that. I would like your considered answer on the problem ?—I rather sense that I have not quite met your point upon the matter, and if you will give me the question I will think it over.

Mr. Clinkard.] I would like to say, in reference to your remarks on self-sufficiency, if we are to finance ourselves we will require a substantial excess of exports over ordinary imports, I take it, in order to provide a balance for the State to purchase materials and so on for internal expansion. Would not that be so ?—That is another way of saying that if this country were to aim at building up its non-primary industries, you would have to purchase, in the first place, the machinery and capital equipment.

In order to do that would it not be necessary to maintain a high exchange so as to reduce the importation of what we might call non-essential consumable goods in order to leave that margin ?—The effect of your exchange is the same on whatever class of goods, whether it is machinery or consumers' goods.

It would be, but the important point is this : That, in order to have that balance available for the State to utilize, the State might utilize it irrespective of the effect on the exchange, whereas the ordinary consumption would be more likely to be supplied by internal production ?—Yes, eventually. But is not the problem that you are facing at the moment the problem of getting your initial capital equipment ?

That is so.—Well, what exactly is the point ?

My point is that in order to do that we must maintain a good sterling balance on the other side to a comparative lack of the importation of consumable goods ?—I misunderstood you. I think you are quite right.

My point is this : There are two ways in which you can spend the proceeds of your exports, either in imported more or less non-essentials because they may be supplied internally, or the absolute essentials for the development of further capital goods, and the maintenance of the high exchange would prevent the importation of what I have termed the more or less non-essential consumable goods which could be produced inside ?—I think you are right up to a point, but are you not going a little far in suggesting that the high exchange in itself would discriminate between the classes of goods ?

No. I do not say that at all, but I say that the result of that would be to leave, as we have at the present time, an amount of sterling more or less accumulated which the State, more or less irrespective of its cost, could then utilize for the purchase, say, of hydro-electric machinery ?—I agree with that.

Do you think that it would be advisable for this country to endeavour to establish fresh industries, in order to provide more or less for its own sustenance ?—I very sincerely hoped that that question would not be asked. I cannot answer that in two or three words. I would have to make a more or less extended statement to do myself justice.

I should be very pleased if you would do that, because it is a very important question ?—I will put it this way : The question you have put to me is, Do I think that it should be a wise policy for New Zealand to encourage production in other than primary industries. Hitherto we have based our past prosperity, in common with the rest of the world, on what we might call the economics of internationalism, which has, in effect, meant the growing interchange of surpluses between nations. That was highly profitable to us and highly profitable to the rest of the world, because such surpluses, although they were increasingly great as the years went by, were still scarcity surpluses in the sense that the demand for them was growing just as rapidly as the supply, or perhaps more rapidly. So that, until the last two or three years, there was never any question from New Zealand's point of view of a limitation of markets. We could go along quite happily and confidently believing that the market for our primary products was an insatiable market, and that since nature had made us most efficient on the primary producing side through natural resources and climate, the wisest thing for us to do was to expand our primary production as much as we possibly could and as fast as we possibly could. That, I think, was a perfectly rational attitude to take in the circumstances. It would be unreasonable to have expected even economists or others to have foreseen that the trend of events which had lasted for over a century was going to be dramatically reversed ; but it has been reversed, and in the post-war years we have seen an increasing emphasis upon what I think is most properly called economic nationalism or increasing self-sufficiency. That is the essential change which has come over the world ; a development to a degree that is often frenzied of economic nationalism, and I have likened that to the situation which occurred during the war when isolation became more and more intense as belligerent countries became more and more efficient with their various systems of blockades. The world at the present time is developing a similar sort of economic isolation, and international trade is, to a very large extent, at a discount. It may turn out in the end that the new developments of economic nationalism may prove a great deal more lethal to standards of life and economic prosperity than the blockades during the War, but I am very careful not to be dogmatic on that point of view, because I believe that a carefully planned system of national economy might go a long way to protect us from the worst effect of economic nationalism. I would like most emphatically to present that as a rider to the general proposition that there are dangers inherent in a system of economic nationalism—the dangers of lower standards of living. It is possible that if we are sufficiently courageous and wise we may convert economic nationalism into a weapon of well-being. I would like to emphasize, however, the point that the dangers are there, and that it would be very unwise for us to ignore them when we isolate ourselves more and more from international trade and international specialization. We may get a great deal more security, but that is of little value to us if we get that security on a bread and butter diet ; so the task, from that point of view, seems to be to get not only your security, but some plum pudding with your bread and butter as well. Although those dangers are there, and although a properly brought-up economist shudders somewhat in his soul at the thought of the reversal of the world from the faith of free-trade, still we have to be realistic enough to admit that the tendencies of the world are in the direction of greater and greater self-sufficiency. It is of little consequence that we should dislike it ; it is of immense consequence that we should accept the facts when they are there and consider what adjustments we can make to those facts. It is a perfectly easy thing to say, as our farmers will say, that it is against nature, or pure folly for England to increase her farming when we are a vastly more efficient country, and in the sense of nineteenth-century philosophy that is perfectly true ; but this is the twentieth century and the thing that concerns us is the fact that England is doing it, Germany, France, and Spain are all doing it, and endeavouring to live more fully off their own resources, and becoming less dependent upon the outside world. I think that is a fair interpretation of the various great social experiments which are being made in Europe, America, and Russia—very different experiments in motives, spirit, and ideals, but all of them, for the moment anyway, concentrating to a unique degree upon home production and home consumption. We may distinguish fairly correctly between the emphasis which is now put upon the home market and the emphasis which was formerly put upon the external market. Nineteenth century economic evolution was based primarily upon the expansion of overseas markets and the control, financial or political, of overseas countries. At the present time country after country is giving its prior attention to domestic rehabilitation and looking upon the external market as a desirable but incidental adjunct to the rehabilitation of the home industries and the home market. Now, that change from the expanding nationalism of the nineteenth century to the developing nationalism of

the twentieth century carries with it quite a number of consequences. It carries a present diversion and a possible greater future diversion of capital from overseas investment to home investment. That is already dealt with in my answer to the question of borrowing. It is a matter of interest to observe that those countries which went further in the direction of internationalism are the countries leading now in the reverse direction of self sufficiency—America, England, and Europe. That is not entirely surprising, because the rich resources and large populations which prompted them to build up their great industrialisms and conquer the world's markets are precisely the conditions which enable them to support the cost of the change. They have huge home markets and many millions of people which are the most fruitful means of developing new industries. The various points which I have made up to date lead to the point I wanted to make: that this development towards economic self-sufficiency represents a substantial reversal of the whole of the nineteenth century and is therefore, I think, likely to be tenacious. I think it would be a mistake for us to assume in New Zealand that the policy which England has embarked upon, and which other countries have embarked upon, is a policy which they will reverse in a few years. Once any system is established, however illogical or bad it may be, it tends to survive far beyond the time when it should have collapsed. Institutions do not collapse merely because they lack logic; they even survive for that reason. And therefore I think that in New Zealand we cannot hope for any early return to expanding internationalism. This, of course, is a point upon which I may be completely wrong—you understand it is only my rough judgment of the course of events—but I feel that the farming policy of England is likely to see out the generation of farmers which it has called into being, putting the shortest possible time on it. If what I say is true, and if the world is heading harder and harder for self-sufficiency, and if that policy is likely to be maintained for a decade or a generation, then we have to face very seriously the problem of the reactions of that policy upon New Zealand. One of those reactions, and the one that concerns us most, is the possible limitation which it is going to impose upon our selling overseas an expanding volume of primary products. It is conceivable that we may have to face, before very long, a limit imposed upon the amount of primary produce which we can export. If that is so, it is clearly inadvisable for this country to spend capital and labour and hope and ambition on producing surpluses which are unsaleable. It would be far better for us to use that capital and labour to produce things which we are now importing. That is the point upon which I am most likely to be misunderstood, and I would like to be as careful about it as I possibly can. The production of surpluses which prove unsaleable is sheer uncompensated waste; there is no return for it at all. We might just as well load it all on to the wharf and push it into the sea, and recognize once and for all that it was not worth doing; that capital and labour put into the production of other things would at least be less wasteful than the production of unsaleable surpluses, and therefore if the trend of events I have tried to delineate has been correct, then it would pay us to consider nationally in what ways we might diversify our various forms of production. One other point in that connection: It seems to be that statesmen to-day, in looking at their unemployment problem, have to consider the following two alternatives—whether they prefer to have a body of people in jobs and reasonably secure in those jobs, enjoying a reasonable standard of living in those jobs, together with a body of people which has no standard of living and no jobs—that is, an army of unemployed people; or whether it might not be better, as an alternative, from a human point of view if not merely from an accounting point of view, to spread that unemployment more evenly through the whole community. That undoubtedly could be done by a multiplication of our industries. I want it to be very definitely understood that, so far as our aggregate national income is concerned, such a policy might mean a lower national income, but we could give every man a job and spread the cost over the whole of the community in a lower average standard of living. I am merely putting those two alternatives and not casting my vote in favour of one or the other—whether it is better to have a system such as we have at present or one in which the incidence of unemployment is spread throughout the whole community. If you choose the latter, then you advocate a multiplication of non-primary industries in the country, and that may turn out to be the best thing.

In connection with public works, I think you suggested that it might be wise, though not a cure, to increase public works during times of depression. Would you suggest that it would be essential in doing that that the work should be carried on at a reasonably low cost and not as competitive with ordinary industrialism? There are as you know two schools of thought: the one suggests that any such work should be at standard rates, the other is that any such work should always leave a sufficient margin to induce the industrialist to look for ordinary channels of employment. What is your view?—I favour the latter; either that or let us put the whole country on the dole.

Otherwise it would simply be restraining the tendency to re-enter commercial channels?—I think so.

Would you be in favour, so far as is possible, that the currencies and credit should be directed towards a rise in prices to an agreed satisfactory level, and thereafter maintained at that level? Would that be the objective?—As a broad policy, if it could be done; I would like to see no attempt at stabilization at the present level of prices, but a rise in prices at least sufficient to cover costs of production before any attempt to stabilize were made. You understand I am very sceptical of the possibility of doing so.

So far as currency and credit could do so, you think it advisable to get to an agreed level nad thereafter attempt to keep at that?—Yes.

Captain Rushworth.] I was particularly interested in your long answer to Mr. Clinkard's question about the economic nationalism, because that is becoming a very important world question. It has struck me—I do not know whether you have the same opinion—that the old ideas of free trade are advanced freely to-day by international finance. Have you observed that at all?—No, I have not.

From things I have read recently, it struck me that this development of economic nationalism is a kind of subconscious revolt against the idea of international finance. International finance in order to obtain the movement of its funds, must of necessity have free trade to follow it ?—I must confess I have not observed that relation which you suggest. It seems to me that the causes leading up to economic nationalism are of a different sort. I find myself completely baffled to put my finger on what you might call the first cause of any of these things, because there are such a mass of conflicting factors. But I think that at some stage or other this situation developed : After the war the heavily indebted countries naturally sought to pay their indebtedness by means of an expanding export trade, getting the necessary margin that way in which to pay their obligations, but unfortunately were met in the case of all creditor countries except England with very forbidding and in some cases insurmountable tariff walls, and that therefore their obligations to creditor countries could be met only either by the export of gold or by borrowing from their creditors, as Germany did from America, or in the last resort by endeavouring to get their surplus of exports over imports not by expanding exports but by limiting imports. By repercussion the high tariff walls of creditor countries compelled still higher tariff walls on the part of debtor countries, and once that set of forces was in operation the volume of world trade began very rapidly to contract, and countries which, like England, depend largely upon their export trade found their markets disappearing and were caught up in the same system and were obliged to turn to more and more local production and less and less external.

Economic nationalism carried to its logical conclusion means the cancelling of all international debts ?—Completely. It surely is the position that in recent years an expanding volume of debt has had to be carried on a decreasing volume of trade.

We hear a good deal of the dangers of another war developing. It is suggested on the one side that war would be brought about by the desperate endeavours of most, if not all, countries seeking to obtain a market for their surpluses ; that sounds logical ?—I do not think it is likely.

That is suggested in various quarters ?—I have not seen that thesis developed at all fully. It was the other way about : in the nineteenth century expanding internationalism was associated with a great deal of war.

It was urged that Germany was driven to war by her attempts to seek a place in the sun, where she would get more materials and find markets for her exports ?—The same thing as the " white man's burden."

Whilst I have heard that argument a good deal, on the other hand economic nationalism may be safe for those countries which produce enough for their own consumption but very unsafe for those countries which do not produce enough food ?—Unsafe for England, safe for us ?

Or for Japan, say ?—Yes. You are still assuming, are you not, that economic nationalism will be carried to extremes ?

Yes, carried to its logical conclusion ?—Yes. Carried to that extent, that is with international trade finished altogether ; all those countries not particularly well endowed with farming resources are open to the danger of famine.

I am personally very interested in that subject. Coming to more mundane affairs, you are a supporter of the 25 per cent. exchange New Zealand on sterling ?—Yes.

It was necessary for the primary producers ?—As a relief measure at the time.

Supposing that that is the case, that that is the best way of dealing with a desperate situation, would you go so far as to say that the exchange-rate should be raised sufficiently to provide the necessary support for the primary industries ?—You mean lift it, say, from 125 to 130 now ?

To whatever figure is required to enable them to meet their contracts ?—I think that there we run into a conflict between what seems perfectly valid and logical in theory and the practical reality of the situation. There is nothing in logic to object to a rise in the exchange-rate from 125 to 140.

Or to whatever figure is required ?—Yes, whatever would have been effective in closing the gap between farming costs and receipts, except this : That things are often quite good if done gradually, and very bad if done suddenly. That is the trouble.

If you were to increase the exchange-rate gradually, you think it might be a good thing ?—Yes, assuming the same existing disparity, because the necessary dislocations accompanying that, and the adjustments, are so much slower. It is just the same as a fall in prices of 50 per cent. spread over fifty years ; it is neither here nor there, but if it happens in three years it is a very different position.

By making it too drawn out—the application of relief—you are causing a great deal of distress and worry upon many of the primary producers ?—That is a question of a correct interpretation on the part of statesmen of the compromise between what is theoretically desirable and practically expedient.

Still, assuming that it is the best way of dealing with the subject, seeing that primary products are not all realizing the same prices—I have particularly in mind butter and wool—would not a higher rate of exchange on butter be justifiable than that on wool at the present time ?—As I have suggested in one of my replies, admittedly a general relief measure such as the exchange-rate or a subsidy does benefit some who do not really need it, and perhaps not benefit enough others who need it considerably. It is a clumsy weapon.

Could it not be rendered less clumsy by making the exchange-rate on wool 10 per cent. and on butter 25 per cent. ?—I am afraid I do not think it is possible.

It never has been done, but you would not say it passes the wit of man to devise something of that sort ?—I would not suggest for a moment that anything is past the wit of man ; he has been able to do almost everything except solve his own domestic problems.

If it were possible, it would be less clumsy ?—It would be a refinement, but I cannot conceive it. It is equivalent to having a series of independent commodity-moneys.

With regard to Question No. 16, the subject of the banks lending their deposits : It is of course the practice of the banks to make their advances in ratio to their cash reserves ?—I have indicated,

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.

Money has to be managed, does it not ?—Yes.

And you think that the management should still be left in the hands of private corporations ?—Yes, since the system functions on a profit-making basis; but here as elsewhere the State has supervising-powers even if it leaves the detail to private enterprise.

Of course, under those circumstances, it is quite understandable why you should think that the Government should go to a private corporation and borrow any money that it requires ?—Yes.

The private corporation being the fount of money ?—You understand that I am refraining from making any comments, and I ask you not to press me on the point as to whether I think other changes of a more comprehensive sort would be desirable.

My question to Mr. Fussell, representing the banks, was this: "Is there any physical difficulty to the banks creating and lending to the Government £100,000,000 if the Government were prepared to give them public securities for that amount?" Mr. Fussell answered, "No. They could do that" ?—What would the bank do with those public securities ?

That is the point. The point I was asking you was that as the banks do not hold £100,000,000 of deposits it is not the deposits that they lend obviously ?—I have no more to say on the point.

In your statement, referring to the £12 10s. that is paid in New Zealand as compared with £10 sterling, you go on, "But there is a larger national income in terms of New Zealand money to meet the extra taxation." I want to put it to you, is it not the case that a large number of individuals who received that £12 10s. were heavily in debt, and that that money was taken in liquidation of debt and did not percolate into the general community ?—Undoubtedly.

So that there would have to be an exception made there. That is not capable of meeting the extra taxation ?—Yes, in the sense that you are objecting to that statement on the grounds that £12 10s. is not spread through the whole body of the people, but may be located at specific points.

According to the information at my disposal, very few men did, in fact, have that extra 25 per cent. to meet their ordinary expenditure ?—You mean that it tended to pile up in institutional hands rather than go out as spending-power. That is perfectly true.

Mr. Langstone.] The wage-earners would not get any of it would they ?—That is not necessarily true. They might have got it indirectly. The indirect effects are there. It is not quite as simple as perhaps it sounds in my statement.

The Chairman.] Have not the dairy-farmers had it ?—To a certain extent, yes, but not to the full extent of the 25 per cent. exchange. As Captain Rushworth quite rightly says, those indebted farmers have had their income docked naturally by their creditors, and in the existing order of society, quite rightly. You cannot object to that.

Mr. Ashwin.] And to that extent it has been deflationary up to the present ?—Had those institutions concerned not received the income, they would have been more financially embarrassed than they are at the present time, and might not have been able to carry the farmer as much as they have done.

Captain Rushworth.] In some cases the money was taken even further back in the liquidation of debt to the banks, in reduction of overdrafts and was cancelled out of existence ?—At the present time that group of people whom I call the intermediate mortgagees (you understand the type of man I mean, who has perhaps been a farmer and who has sold his farm and is a mortgagee to the new purchaser but a mortgagor to the bank or to a stock and station company) are being squeezed, and squeezed badly; and in any financial system in which you have a chain of indebtedness from your producer up through a series of credit-issuing persons or bodies, you have a chain equally of indebtedness to some ultimate mortgagee, who, of course, under pressure, is legally (and according to your philosophy ethically) entitled to whatever residue is left when the final wash-up is made.

Under the present monetary system, where practically all money comes into existence as a loan, is it possible for individuals or nations ever to get out of debt ?—I do not think so. They do not want to. All business is run on debt.

In your statement you say, "It is at least probable that the deliberate lowering of the rate of exchange before the situation reached the danger-point might save us from the worst effects of too much prosperity." That strikes me as a curious phrase ?—I am not too sure whether it is an earlier reference in which I say that I think the most critical period in our history, and probably in the economic history of all countries is when everybody is well off. That is when you have your competitive scramble for money and the competitive scramble to give money, that is a competitive scramble to build up debt.

You do not really think we can have too much prosperity ?—Too much prosperity in the sense that men use it unwisely and convert prosperity into exaggerated debt. Put another way, they over-capitalize their prosperity into mortgages.

If we had too much prosperity it would be bad for ourselves ?—I admit that is a provocative phrase, but it need not be misunderstood.

Mr. Massey.] I would like to clear up this point. Do the banks lend their deposits ? Judging by what Mr. Fussell said the banks lend against deposits ?—No. I gathered from what Mr. Fussell said that they do not need to have any deposits at all. I cannot conceive of any banking system, not a commercial banking system, which did purely advance business and had no deposits at all.

Mr. Fussell said that if the Government could lend £100,000,000 of securities to the bank they would lend against those securities ?—I will take a modest little bet that they would not, because I do not think that £100,000,000 worth of securities would be acceptable at the present time. Assuming the securities were there, what would they lend on at the present time ?

If the Government of the country were to deposit £1,000,000 of securities they would then have made a deposit ?—That seems to me to be a reasonable statement. I do not know whether we are talking a different language or not. I think that what you say is correct.

The bank would then proceed to make an advance against the deposits ?—Yes.

I presume that you agree that there are many factors which come into the present discussion. The monetary factor is only one, and the various nations of the world are planning industry in order to try and get out of their present difficulties under the proposed or suggested schemes. Do you think it is advisable to establish an Investment Board in New Zealand in order to control the Government lending institutions, and also private lending institutions which are not actually controlled by the banks ?—It might be quite a good idea. It is the type of question that needs to be answered in the light of a detailed proposal, but the general idea of a Board to which Government proposals for borrowing for expenditure might be submitted seems to me to be quite reasonable.

You are aware of the fact that most of the Government lending institutions are in competition one with the other ?—Yes. There is a point there which I would like to make, one that I did not include in my answer to your questionnaire because it did not seem particularly relevant to the questions asked, and that is this: I make the suggestion that all Government lending Departments who are lending money against rural securities, and for that matter all institutions—banks, stock and station agents, and mortgage investment institutions, should have attached to them a staff of competent people to advise them upon the wisdom of the investment, In some cases they have such a staff, but the number in the country is far too few, and many institutions really have no effective staff of the sort that I mention. I contemplate the type of men who has had, say, the training involved in acquiring a degree, say as a bachelor of agricultural science, and then about ten years' practical experience, say, with the Department of Agriculture or elsewhere. That is the type of man who would be invaluable to those financial institutions, who, to a large extent, lend at the present time very much in the dark and very much upon what the applicant says. That type of man would be a man whose training had taught him not only what the farm could do at the present time under its present management, but what it might do under different management, and that is the type of man who could, I think, to a very large extent check the optimisms of lending institutions in good times and perhaps encourage them in bad times.

You are of the opinion that we should have more control over the Government lending institutions as well as the private institutions ?—Most definitely.

Would you link them up with the central bank ?—I suppose that would be possible. We are contemplating rather a different type of business in a way, because many of the Government lending Departments are dealing with long-term investments, which is not the function of the central bank or of the trading banks, but so far as short-term credit, and what we call intermediate credit is concerned, I think most definitely that there should be a link between the State short-term lending Departments and the central bank.

Why not the long-term ?—I would not at the moment definitely exclude it; but there is a big distinction between a loan which was for six months, or up to five years, and one which was for thirty-six years. And yet they might be linked if it were possible to tackle this question of farmer indebtedness through the possible amortization of short-term loans and amortize them into long-term loans. I make that suggestion to the Monetary Committee—that they consider the possibility of to what extent existing short-term indebtedness of farmers might be amortized into long-term indebtedness.

Do you not consider that there is a distinct difference between long-term and short-term ?—You have your shortest term of credit, which is providing for seasonal credit, your intermediate credit, which is providing for improvements, and your long-term credit which is providing for land-purchase.

And land-development ?—Yes.

At the moment I think you are aware of the fact that we have quite a number of State Departments which are competing one with the other ?—I think that they ought to be rationalized—brought together.

On the same lines, say, as the Local Government Loans Department ?—It is all very well to make that broad recommendation, but I fancy that in practice the rationalization of the Government lending Departments would involve quite a substantial modification in the existing structure of Government Departments. I think it would mean cutting across existing functions. It would involve more than merely taking the lending functions from one Department and giving them to another, but it is a most fruitful suggestion that ought to be explored fully.

Take a farmer who actually gets a loan from the State Advances Department on a long term. He would probably go to the Intermediate Credit Board and obtain a short-term loan ?—Do you mean for five years, say ?

Yes. For seasonal credit. We find to-day that, with the exceedingly low prices, the Intermediate Credit Board on the one side demands an order on the produce of the farm which actually leaves the State Advances Department in mid-air ?—Naturally. It does not matter, does it ? That is an inter-departmental quarrel, but it is analogous to the position I mentioned in the case of private creditors.

And then you will find the State Departments actually coming into competition one with the other when they sell their bonds ?—You are not asking me to put up a clear-cut plan at the moment ?

No ?—I am entirely in sympathy with your view that the whole lot should be brought together, and, if possible—the word I used before—the whole of State lending to farmers canalized through the one body: you know where you stand then. Here a man can get an advance on sheep, an advance on wool, and very soon will be able to get an advance on the hair on the wool.

In reply to a question put to you by Mr. Clinkard in connection with trade relations, also exchange, you dealt with the question of quota ?—I dodged the word as hard as I could.

I admit you did not use the word, but you got very near it. Do you consider that the New Zealand dairy-farmer is taking up the right attitude to-day in fighting against trade restrictions in Great Britain ?—I must ask to be excused from answering that question.

You admit that you got very near the point ?—Would you mind letting that point drop.

In connection with exchange you dealt very fully with that question. May I ask you, has the full benefit of the raised exchange been fully felt in New Zealand ?—I really do not know. It is by way of

being an impossible question, I think. There are no means of measuring that. Are you asking, Has the benefit of the exchange now reached its end? Have internal-cost adjustments reached the point where there is no further benefit of exchange?

I was asking the question as to the financing of the farming community. Take the farmer with a fairly big mortgage, Has he felt the full benefit of exchange?—You mean, if he sold his butter, has he received the whole benefit of the exchange?

Yes?—Oh, yes, he has received the whole benefit in some form or other, although not at all necessarily in the form of additional purchasing-power or spending-power. He has experienced the benefit either in the form of additional spending-power or in the form of decreased indebtedness.

That is one of the main points?—Undoubtedly. That advantage may not in itself have put him upon his feet again, but it has made his position less precarious than it was before. That particular point in itself, in view of what has happened subsequently, is not sufficient to make him entirely solvent, because we know quite well that in many cases the dairy-farmers of the country are to a large extent quite insolvent.

You state that it is not advisable to reduce the present pegged rate of 125 at the moment?—I think it is inadvisable.

Would you be prepared to advocate that it should be reduced slightly?—Not at the present time. My general attitude to the thing is that a definitive rise in prices should precede any lowering of the exchange, my interpretation starting from the price cost structure of the farming industry. When you are assured that he will not suffer by such a discount, may, in fact, benefit, then by all means lower it, and the time to lower it will be when rising prices start to stir the hearts of the farmers once more and they feel that they can commence, once again, the business of buying and selling lands instead of farming them.

Then you agree that the Australian farmer had a distinct advantage over the New Zealand farmer when the rate of exchange was pegged at 125 in Austraila as against 110 in New Zealand?—Quite.

And you are of the opinion that it would be much better to increase the rate of exchange than lower it at the moment?—That is so. I do not think it is politically possible to so so: I think it would be dangerous to attempt it from that point of view, but I am completely averse to any suggestion to lower it at the present time.

In effect it is one of the main factors of the monetary problems at the moment?—So long as New Zealand is so dependent upon her external trade, the rate of exchange must always be of particular importance.

Mr. Langstone.] If the exchange was such a good thing for the dairy-farmers. how is it that quite recently they asked for a subsidy of £3,000,000 to assist them?—It was most mistaken of them to do so, in my opinion.

They wanted it?—From the point of view of their individual interests, they no doubt needed it.

Evidently the exchange-rate was not a success?—Surely that is an incorrect inference from my remarks.

It was done to increase their income, but it did not?—There are two ways in which a thing may operate. If external prices had remained stable, then the additional exchange would have been an addition to the New Zealand prices; but if external prices fell, then the effect of the exhange was to prevent that fall in prices expressing itself as fully in New Zealand as it would otherwise have done. Had there not been the 25-per-cent. exchange they would have asked not for a subsidy of 2d. a pound for butterfat but for at least 4d. a pound.

It would have interfered with the ebb and flow of the trade?—A subsidy might have been more disastrous.

And it might have been the most beneficial?—I do not think so.

We have had to finance New Zealand on Treasury bills for which we have paid 5 per cent.; £20,000,000 of them: that is £1,000,000 a year. And that £15,000,000 overseas has been earning not 1 per cent. Is that good business?—There is a very good statement, I think, in the Treasury memorandum by Park and Ashwin on those exchange funds overseas, if you would content yourself with my support of that general statement.

I am not going to content myself with that. There are people in England making margarine and going into competition with New Zealand butter. If they can get cheap finance to reduce their costs, is that a good thing for the New Zealand farmer? Is that what is happening?—It may be, but what relevance has that got to any particular statement of mine?

The question is this——?—I am not responsible for what the British Government does for margarine.

We have to take into consideration all the possible consequences?—If I might convert your own statement into terms of subsidy, the application of a subsidy to butter in New Zealand is not going to affect the margarine policy in England.

Yes, it would. The money would not have been present in England for them to get it cheap?—The amount of money we pay does not economically affect the English policy in regard to dairying at all.

The question of the banks lending their deposits: The national debt of Great Britain grew in four years from £700,000,000 to £8,000,000,000, but the banks lent their deposits. Where did it come from?—You know as well as I do there were various devices by which that was financed.

I suppose Reginald McKenna is fairly correct?—I should say he is usually very correct.

He states definitely as chairman of the directors of the Midland Bank, that every loan or overdraft creates fresh deposits, and every repayment of loan or overdraft destroys deposits. Those are spent internally?—Our position seems to me to be the same except for our exchange position which complicates it.

When any one goes to a bank for financial accommodation, he must take securities along?—Quite so.

And the bank's process is only monetizing or liquefying those securities; it is not a question of the deposit there at all?—The inflationary procedure possible during the war-time when the war psychology favoured very definitely the expansion of enterprise and the expenditure of money is not necessarily possible at a time when business psychology is so averse to undertaking investment enterprises.

It may be good for destruction but not for construction?—Very possibly.

Do you mean that something can be put in force for destruction, but not for construction?—Yes; people do lots of things for destruction that they would not do for construction.

The principle could hold good either way?—We could wish it would. We could wish that the principle would operate the other way and be good for construction but not for destruction, but I am afraid it does not work that way.

Would it help the nation?—No one could be more anxious than I that it would work that way.

The question then comes to our immediate needs. Evidently New Zealand is short of income?—Yes, in relation to her costs.

If we take things by and large, taking wealth in its broadest sense, the assets and securities and real wealth of New Zealand to-day are physically as great as ever they were?—Yes, they may be greater.

So the foundation of finance is there; the people are short of income; farmers and others are unemployed. Why are they short of income?—I would explain it in terms I have already used: So far as business is concerned, it is the price that is put upon the thing or the service in relation to costs incurred which determines whether business is successful or not. In periods of boom or prosperity, it so happens that for those doing business the prices which represent their incomes move more rapidly than do those prices which represent their costs, and therefore there is to them a favourable margin which might quite usefully be called a surplus. In the reverse situation, which we are going through at the present time, the price which is their income has fallen more rapidly than the prices which represent their costs, and in that sense I believe that there is a deficiency in purchasing-power derivative from the deficiency in profit-earning due to that situation.

Somebody must have changed the gears from forward into reverse gear?—Once upon a time I did always look for the nigger in the woodpile, and I felt you could pin everything down to one person or one set of circumstances; but I do not do so now.

You think it is just like Topsy, "It growed"?—There are many factors involved.

There must have been some human factor that brought it about?—Undoubtedly. We work as human beings; but whoever brought it about probably did not know what he was doing or did not know he was doing it.

The question of every nation trying to get a favourable balance of trade: Is that possible?—Not quite.

If one country has a favourable balance, some country must have an unfavourable balance?—That is so.

Our money system in New Zealand, then, is linked with whether we can get a favourable balance of trade in the scramble for trade?—At the present time it is necessary to our solvency to have a favourable balance of trade.

You think that is the best idea—the very best of all possible things we can fix our money standard to?—No. I do not believe in the perfection of any existing institution at all. Why should I assume that any existing system which is obviously so imperfect is the best thing we could have?

It does seem that the only alternative to sterling-exchange standard is an internal price-level?—I think that the line of development is the one which I have suggested—that is, start with the fact of a sterling-exchange standard. I think we will remain on such a standard so long as we do any important overseas trading. From this basis see to what extent with rationalized banking institutions you can devise modes of control which will lessen the evil effects. In other words, I feel that there are no absolute certainties that any of us can point to at the present time; that it is a case of an institution such as the Central Bank doing its very best, by what I have called intelligent trial and error, to find which is the most effective, sound, and safe way of handling our monetary machine. And I will quite definitely say there is no man living able to say here and now what is the right and permanent policy for that bank to adopt. They have to find out as they go along.

Our external trade is about 40 per cent. of our internal trade?—Yes.

Our internal trade is about 100 per cent. Should the 40 per cent. control the 100 per cent. or the 100 per cent. the 40 per cent.?—It might seem very unfair for the smaller to control the latter, but to a large extent it does.

It does, I know. We are trying to find out?—By all means try and see whether through your central bank you can limit the effects of that 40 per cent. upon your 100 per cent.

But if your central bank works on a sterling-exchange standard, how can it be different from the ways we are working now?—In the ways I have suggested, through experimentation on the one side, with the exchange as a control weapon.

We are trying that now. The exchange is in operation now and we are still on the sterling-exchange standard on the basis of our monetary system. In what way is the central bank going to alter that?—Exchange is in operation now but in a very uncertain way, so much so that business people do not know what is going to happen to-day.

Even if they make it permanent, it does not alter the principle?—I am not suggesting for a moment that in our present circumstances the exchange-rate by itself is going to solve all our difficulties. It would be folly for me to say that. I do say that an intelligent use of the exchange is one of the weapons we must learn to use; but there are lots of other things beside.

Although the exporters' income is determined by prices overseas, my experience has been that the internal price-levels are not determined by prices overseas. It is determined by all sorts of things internally, and therefore we have disparity between an income based upon external prices to meet the very inflated or increased internal prices you have got now ?—I have said that already. We have spoken quite a lot about what we may call the rigidity of our cost structure. That is our position; we have an internal cost or price structure which is relatively rigid, while our external one is relatively fluctuating. That is our trouble.

How can cost go down unless you take money out of circulation ?—It can.

The Chancellor of the Exchequer says it cannot ?—I will take leave to disagree with the British Chancellor of the Exechequer, because it can go down, even if the circulation of money is increased—namely, through greater efficiency.

Could wages go down ?—Not necessarily; they may go up higher. The Chancellor of the Exchequer was incorrect if he said that: it is contrary to experience.

If you like to read the report of the World Conference, he made a statement there ?—Well, he made a mistake.

Do you not think you are making a mistake ?—I do not think so. One of the beneficial effects of the application of science and invention to industry is to enable production to be undertaken at much lower cost; but that does not necessarily involve a lessening of the amount of money in circulation.

If you take away costs, you take away some-one's income, and then they cannot spend ?—You are on to an entirely different set of arguments. I was speaking of one of the beneficial effects of the application of science on industry.

I am talking about taking New Zealand as a running concern, as it is to-day. What costs would you reduce ?—At the present time ? I would like to see interest come down.

We have reduced costs in this country fairly considerably, this last two or three years. Has that been a good thing for the country ?—Yes, in the circumstances; in this sense (we must be very careful to see that neither your questions nor my answers are taken out of their context): a higher level of costs would certainly have promoted a wider degree of insolvency than exists at the present time. I think that the devices which have prevented a wider spread of bankruptcy have been in the main beneficial. I find it difficult to believe that the thorough-going bankruptcy of New Zealand would have been a good thing; but I quite recognize that there are some people who think that that would have been the best way to get back to normal.

Putting up the exchange-rate did not reduce costs ?—Not necessarily. It might tend to raise some of them.

Getting back to the question of internationalism, I notice that Major Elliot, the Minister of Agriculture in Great Britain, speaking in the House of Commons, made a statement that they put 1,100 people on the land in Great Britain in the last six years. It was black treachery to put them there, and it was black treachery to those who were there, until they had a guaranteed market. If it is black treachery to put people on the land in the Old Country where there is a market at the door, it does not seem to be a good outlook here ?—It seems to me to be inadvisable to put people on the land here or to encourage production if we are certain that the markets for our products are restricted or lowered.

By a process of true reciprocity we are able to arrange a price for our exports ?—That may be a very good idea.

Or we are to fix an internal price-level here to give them the income ?—I do not think that is possible.

The present thing is breaking down ?—What do you mean by breaking ? It is pretty badly bent.

The farmers, and the nation, and some of the local bodies are in a very serious position financially ?—We remain solvent by not paying our debts; that is the position.

That is not satisfactory is it ?—No; it is a transitional phase, of course.

Mr. Murdoch.] There is one point you make in your statement about the co-ordinating of companies. You suggest that they should have a Board ?—Is that the Investment Board ?

Yes ?—It was a very qualified approval, was it not ?

I took it that the notion you had was that it would be advisable to set up a sort of Advisory Board or Inspecting Board if you like ?—Is that in reference to a question asked me by Mr. Massey, or in reference to a question in the questionnaire ?

It is a question in the questionnaire ?—The question in the questionnaire was whether I thought it would be advisable to set up a Board to advise the investing public on the economic merits of any proposal, and my answer to that was that I favoured the principle but doubted the possibility of getting a competent personnel outside the Associated Stock Exchange, and doubted whether it would be wise to constitute that Stock Exchange a judicial body, seeing that they were tied up financially in the decisions which they would have to make. I would like to see it done if it could be done.

The point I see is the danger of any Board or any representative of, say, a Government institution "OK-ing" any proposal ?—Yes; that is very dangerous. It might kill the Board and prevent anybody being willing to go on to it.

A public-works policy was tried in Great Britain to relieve the unemployment situation and it has been definitely turned down now as not being feasible or satisfactory ?—Somehow or other I feel that the question of embarking upon a public-works policy in New Zealand should not really be investigated as an isolated proposal but should be linked up to a much more comprehensive investigation as to what are the possibilities in New Zealand of enterprises of all sorts, and on a basis of such a comprehensive investigation to decide what would be the proper sphere, if any, of a public-works policy and what the proper sphere for the encouragement of private enterprise.

I assume, from your statement, when you say you want to encourage production in other than primary industries, that the indication given is that you would suggest that we promote more of our

manufactures in New Zealand and concentrate to a lesser degree on the agricultural side ?—I think it is probable that we will need to consider very carefully in what ways we can economically encourage other than primary industries, but there are so many qualifications to be attached to that, from my own point of view, that it is rather dangerous to pursue it. It is a part of my working philosophy that encouragement given to any private enterprise should have associated with it a definite responsibility on the part of the private enterprise to the body which gives it the help.

I quite see your point, and I appreciate it because I realize that we have got to come to that sooner or later, but here is the point where I see our greatest difficulty. Take a country like Japan, where they work the machines twenty-four hours a day and their money is greatly inflated. Assuming that they are manufacturing the same class of goods as we are manufacturing, what proposals have we to check them ?—That certainly is a difficult problem. I think it would become one of straight-out political policy if it came down to bedrock. I think there is a case to be made out, certainly at the present time, for prohibitions.

Do you not think that the tendency the world over at the present time is for countries to be self-contained ?—Yes ; I had that in mind.

We have coal in plenty in New Zealand, yet we have our coal-miners idle ; our fields not working to capacity. Of course, the answer is that we have substituted electricity and oil. Have you any suggestion for checking that ?—I do not think that it is possible to rectify that situation while you maintain the present *status quo* of industries. It might be very possible to rectify the position if, in conformity with a comprehensive national plan for the encouragement of other industries, you provided those coalfields with economic opportunities for use.

Mr. Schramm.] You had some objections to the State having complete control of the banking and credit system ?—An objection, you will understand, in the present situation. I think that, to repeat my answer to Captain Rushworth, it would be inadvisable for the State to be entirely responsible for credit in this country so long as the bulk of other economic activities was in private hands, and so long as other or Parliamentary institutions were still open to the impact of democracy.

You would not hand over the administration of justice in a democratic State to private control ?—No. There is no profit-making in justice—all loss, judgment summonses and things like that—different category of events altogether.

It is a most important function of the Government is it not ?—Yes. John Stuart Mill called it one of the necessary functions of Government, like defence, taxation, and so on.

You would not hand over defence to private enterprise ?—No.

And the Post Office ?—No.

And education ?—No.

And yet you would hand over the money machine ?—I think so at the present time. I am not going to be too tenacious upon the point because there have been so many transitions from private enterprise to State enterprise in other fields that through the medium, say, of a central bank, a gradual transition may be made from unco-ordinated private banking through co-ordinated banking up to State banking. All I say at the moment is that I would like to see, before the State becomes the State banker, further advances in the form of control over the non-banking economic activities of society. It is no good listing any more of those things like defence and rates and post-offices and that sort of thing.

I am with you there. So you will come along that road too ?—Yes ; I may be there before you.

You have studied the Reserve Bank Act ?—Yes.

Did you think it was a wise thing for the Government to allow private capital to come into that ?—I think it was a very expedient thing. They could have done the other, of course.

Mr. Ashwin.] Do you think that the level of the national income is now anchored with the present exchange-rate ?—I cannot tell that, because I have no exact means of measurement, but I should say this, if I may invert your question : that the present exchange-rate is a truer expression of the general level of prices than a lower exchange-rate would be.

By that I infer that all the readjustments to the rate have been completed ?—I have suggested in my answer to one of the questions that probably most of the adjustments to that higher exchange-rate have been made by now. It is very hard to determine.

I agree. But how much longer do you think it will take before those adjustments are completed ?—That depends upon the extent to which adjustments have already occurred.

We cannot really say they are complete until it will carry itself. That is what it comes down to ?—I would not be prepared to be dogmatic about that, but it is probable that some higher exchange-rate would more truly express the present situation than the present one. I would put it the other way round, in the negative way, by saying that the present rate is more truly expressive of the price situation than a lower rate would be ; and I would like to leave it at that because it is highly speculative ground.

The Chairman.] You were speaking about cheap money. You would like to see the rate of interest reduced by the banks ?—I would like to see it as low as possible—lower than it is.

Would you be in favour of the banks lowering the rate of interest to, say, 3 per cent. or 3½ per cent. providing protection was given in the matter of the deposits. The rate, of course, would have to be reduced accordingly ?—Yes.

And I may say that while the banks would bring down the rate of deposits, we would have to see by legislation that other institutions were brought into line ?—Undoubtedly.

And you would favour that ?—I would.

We thank you very much, Mr. Williams.

WELLINGTON, THURSDAY, 19TH APRIL, 1934, AT 10 A.M.

Witness: Professor A. H. TOCKER.

The Chairman: We welcome you to the Committee this morning, and I might say that your statement and questionnaires have been circulated among the members of the Committee, so it will not be necessary to read them over, but I take it that you will be referring to them as you go along with your speech. I would suggest to you that probably you might speak for an hour or something like that and then give the members of the Committee an opportunity to ask you questions on the questionnaire, and also any matters that you bring up.

Professor Tocker: Mr. Chairman and gentlemen, if I may, I think the best approach would be to read this paper that I have already submitted and to expound certain matters as I go along. Two questionnaires and a paper prepared by the Treasury have been submitted to me. I propose first to offer some general comment on the subject-matter covered in the Treasury's paper, in order to provide a general foundation for my evidence, and then to answer the questions in detail briefly. I find myself in substantial agreement with the general conclusions reached in the Treasury's paper, but I would like to offer a different approach, particularly to the subject-matter of the latter half of that paper. I would separate the first half of the paper, and agree upon the following conclusions:—

(1) That the New Zealand monetary system is a sterling-exchange standard based upon an approximately fixed par of exchange with Britain.

(2) Our external trade is unusually large and has a proportionately important effect upon internal conditions. Variations in the balance of external payments govern variations in exchange funds held abroad and these funds are an important factor in regulating the volume of credit in New Zealand.

(3) Banking is well developed in New Zealand. Cash money is subsidiary to credit money, and the note-issue is regulated largely by the demands of the public. The latter half of the Treasury's paper describes the development and operation of the banking system and particularly the methods by which credit may be created. I think that Mr. Ashwin, in his effort to be simple and clear, has followed the economist's usual practice of isolating those factors he meant to discuss, and has therefore had to omit much that is important. I would offer a different approach to this question. A survey of the bank records of the past shows clearly that no close relationship exists between the movements of bank advances and bank deposits in New Zealand. When the balance of payments with overseas countries is favourable, deposits increase and advances decrease. When that balance is unfavourable, deposits decrease while advances increase. I described this relationship in the *Economic Journal* nearly ten years ago, and have followed it closely quarter by quarter ever since. Exports from New Zealand are normally paid for by bills on London. The banks presenting those bills in London get money in London, sterling money of some sort, and credit their customers' accounts with the appropriate amounts at this end. When imports are paid for, something is taken from money at this end and is paid out by the banks with money at the other end. Therefore any excess of exports over imports means an accumulation of funds overseas and an increasing excess of deposits over advances in New Zealand. The relationship was very clear in the 1920–21 period, when we had a huge excess of exports which was built up during the war period, a big excess of deposits over advances also built up during the same period, and a lot of money was available to spend. Then we had a huge flood of imports come in. The excess of exports over imports went down and became very much a negative quantity. The excess of deposits over advances went down in turn.

Mr. Langstone: Did that include loan-moneys?

Professor Tocker: No. As recovery developed exports exceeded imports, more money flowed into the banks, and the banking figures went up in turn. A study of the figures for free deposits shows a fairly serious slump 1907–9, which reached its lowest point in March, 1909. There was a boom in the middle of 1920. The subsequent slump reached its lowest point in the first quarter of 1922. A high point was reached again in 1925–26; there was a falling-off in 1927–28; a high point occurred at the end of 1928, and a low point in the latter half of 1932. There has been a continuous increase since. Free deposits figures have fitted very closely on to anything else we have been able to get representing business activity. It is as good an illustration as you can get of booms and slumps in New Zealand. I think if one takes the actual figures over the period 1900–1933 there is abundant proof, which leaves no question at all about the operation of the exchange standard and the relation between overseas payments, advances, and deposits in New Zealand. Bank advances do not necessarily create bank deposits. The best approach to the relationship of advances and deposits is through a bank balance-sheet. The balance-sheet is a device used by accountants to show the distribution of the funds used in a business. On one side of the balance-sheet are set out the sources from which various amounts are drawn, and these are described as liabilities. On the other side are set out the channels through which funds are employed, and these are described as assets. Both sides of the balance-sheet, however, refer to precisely the same funds, the total funds used in the business, and the balance-sheet classifies the funds in accordance with the sources from which they are drawn and the channels through which they are employed. Since both sides describe the same funds, the balance-sheet must necessarily balance. Any increase or decrease on one side must therefore be accompanied by a corresponding increase or decrease on the other. The point I want to make is that the balance-sheet does describe the same funds on both sides, and it therefore must balance. An increase in advances, which is one item of the asset group, may therefore be balanced by a corresponding decrease in any other asset on the balance-sheet or by a corresponding increase in any liability on the balance-sheet. An increase in the banking advances, then, may be offset by reduction in discounts, call-moneys, securities held, or property and premises—that is, you may have an increase in advances

offset by a similar decrease in any other item on the assets side of the banks' balance-sheet. On the liabilities side an increase in advances might be offset by an increase in capital, in reserves, in the profit and loss account, in the note-issue, in the deposits (free, fixed, or Government), or in any other liability, and there is not that necessary connection between deposits and advances which so many people and so many text-books have assumed.

Mr. Langstone: Reginald McKenna has assumed so.

Professor Tocker: He is speaking there with certain limitations implied. Is it not perfectly obvious to anybody that, if a balance-sheet does balance, then an increase in advances may be offset by any other item in the assets side or by any other item on the liabilities side. There is no fundamental difference between the balance-sheet of a bank and the balance-sheet of any other business. It is only when all assets and liabilities other than advances and deposits remain the same that an increase in advances must necessarily be accompanied by an increase in deposits. In much of the modern talk about controlling the volume of credit in the interests of stable economic conditions, the instrument of control advocated and used takes advantage of the very fact I have been trying to explain. One of the methods of control is to control the total volume of deposits and notes issued by open-market activities, and a bank may extend its liabilities by buying securities in the open market. If it buys securities it usually gives somebody either notes or a deposit on its books for the amount, and it may extend credit or cash to that extent; if it wishes to contract the volume of credit or of notes it may sell securities, and the cheque paid for the securities will decrease deposits by that amount, or the cash paid may be withdrawn from circulation. Hence deposits and the volume of credit outstanding can be affected by methods other than by increase or decrease of advances, unless, of course, you include securities in your advances. In the case of Government securities, where they are real advances to the Government, that inclusion is perhaps justified, but where a bank goes into the open market and buys and sells on its own account they are scarcely advances in the ordinary sense. In the case of the banks operating in New Zealand, their assets and liabilities are distributed between New Zealand, Australia, and Britain. An increase in the assets held in New Zealand may therefore be accompanied by either a decrease in assets or an increase of liabilities held overseas. That is what usually happens. Conversely an increase of liabilities in New Zealand, deposits, for instance, is usually accompanied, not by an increase in advances in New Zealand, but by an increase of assets in the form of exchange funds held overseas. It follows that the view commonly advanced that advances and deposits must rise and fall together does not as a rule hold true for New Zealand conditions. I have the banking figures since 1919, and I can refer to any particular period if you like over the last fifteen years. Taking March quarters, bank deposits have increased during the past two years by round about £9,000,000, while advances have declined by about £9,000,000. The explanation lies in the fact that these changes have been offset by variations in funds held overseas. Over any short period no close relation can be found between changes in advances and deposits in New Zealand. It is seldom true that increased advances mean increasing deposits, or that decreasing advances mean decreasing deposits. Generally deposits are increasing when advances are decreasing and *vice versa*. Over long periods both deposits and advances expand with the increasing value of production and trade. Since notes are subsidiary to credit instruments, bank credit is the chief form of money in use and the volume of bank credit is important. This bank credit consists of the total liability undertaken by the banks to find cash when called upon. In New Zealand cash consists of notes, which are legal tender. Since there is no effective limitation on note-issue, the liability to find notes presents no real limit to credit expansion. But the real liability which the banks undertake is the liability to find cash abroad. Past experience has shown plainly that increasing credit in New Zealand is always accompanied, sooner or later, by an increase in imports. The increase in imports, if it goes far enough, must necessarily create an unfavourable balance of payments. The banks must then find money overseas for their customers in New Zealand, and this money usually has to be provided in sterling. The period 1920–21 might be quoted in illustration. A large accumulation of deposits in 1920 was followed by a heavy influx of imports, and bank figures show that between the June quarters of 1920 and 1921 the banks had to find for their customers £28,000,000 in overseas money. Similarly between the June quarters of 1925 and 1926 the banks had to find abroad nearly £7,000,000 to meet their customers' requirements. A bank's ability to extend credit is therefore limited by its liability to provide sterling, and its deposits must be kept within such limits in relation to exchange reserves held overseas as experience has shown to be safe. It is this relationship that fixes the limits to which banks can safely extend credit. On the other hand the banks depend largely on advances for their gross income. They are commercial institutions which have to find profits to cover operating-expenses, dividends, and expansion of reserves, and they usually want to advance as much as possible in order to maximize their gross income. But there is another limit on their power of lending, for they cannot normally lend beyond the amount demanded by their customers. Marshall, the father of modern economics, says that in every community there is a certain proportion of its wealth and income which the community finds it convenient to hold in the form of money. This proportion is determined, not by the banks, but by the users of money who are customers of the bank. These customers pledge their credit and obtain bank advances. Customers' credit in this sense may be regarded as the confidence which bankers have that those customers will fulfil their obligations when due. This confidence may rest on the pledging of assets or on knowledge of the customers' circumstances, character, and ability. Bank customers have to pay for the accommodation given them, and they therefore usually take no more than they can employ to return them something more than cost. The demand for credit, therefore, depends upon the demand of creditworthy customers, which depends upon the extent to which they can use bank credit profitably. It is to the banks' interests to provide as much credit as possible and so augment their own incomes, but their power is limited by their liability to find funds overseas as well as by the limited demand of their

customers. The price at which advances are made—that is, the interest rate on overdrafts—is usually determined by the conditions of supply and demand of bank credit. Among those conditions must be included the competition of other forms of credit such as long-term credit. That is, any person requiring money may go to a bank for it, but there are other ways of getting it, and if he can get it elsewhere on more favourable terms he probably will not go to the bank. His demand for banking credit is therefore determined partly by conditions in the rest of the money-market. These are the general conditions governing the volume of bank credit in most countries where banking is highly developed. The special features of the New Zealand system—that is, the exchange standard features—have developed mainly to meet the needs of the country and the community. The present system appears to be sound, flexible, and very closely interwoven with the economic life of New Zealand. Its adequacy to supply the volume of credit needed may be judged from recorded figures. I have had curves fitted to several statistical sources showing the rate of increase over the period 1870 to 1930. These figures show the general trend or rate of growth over the period and omit seasonal and cyclical deviations. They show the general rate of increase to be 4·4 per cent. annually for the value of total production in New Zealand from 1900 to 1930, and 4·4 per cent. both from 1870 to 1930 and from 1900 to 1930 for bank advances. That is the rate of increase per year. It is cumulative, of course—a compound-interest rate. Bank deposits, imports, and exports have all increased at an average annual rate of 4 per cent. The same is true of the general rate of the growth of advances; and advances have increased over this period at a slightly more rapid rate than deposits. The chief causes of the ups and downs are the differences in the overseas trade balance. With exports and imports again you have ups and downs, and the rates of increase are exactly the same, a 4-per-cent. rate of increase over the whole period. The fact that production has expanded more rapidly than deposits probably means that production is now financed to a larger extent with long-term credit, as might be expected with the increased mechanization of industry. From the fact that advances have increased more rapidly than deposits either of two conclusions may be drawn. First, the banking structure may be sounder because shareholders' funds bulk larger and deposits smaller in the total liabilities, or, second, there may have been a variation in bank practice whereby bank advances bulk larger in the total assets and other assets bulk smaller. Either of those would give the results that we have found. Figures show conclusively that over a period of thirty years bank credit has expanded in rough correspondence with the needs of production and trade. I know of no evidence, statistical or other, to support the view that arbitrary restriction of bank credit has ever been the cause of depression in New Zealand, and the view that it has been does not agree either with bank practice or with the published returns of our monetary system. During the period of the present depression, taking figures for the March quarter to avoid seasonal variations, bank deposits fell from £58,200,000 in 1929 to £53,300,000 in 1932, and have increased to £62,300,000 in 1934. Bank advances amounted to £45,200,000 in 1929, £53,200,000 in 1931, £49,500,000 in 1932, and £40,300,000 in 1934. These figures are taken from the bank returns from March, 1929, to March, 1934. Deposits fell by just about £5,000,000 over that same period; advances increased by £4,000,000. Deposits fell while advances increased. From 1932 to 1934 deposits went up £9,000,000 and advances decreased £9,000,000. There cannot be any close relationship between advances and deposits under those conditions. These figures show that deposits are by no means wholly dependent on advances, and that there is now no scarcity of bank money. There has, however, been a remarkable change in the amount of bank credit in active circulation. Taking March quarters again, in 1929 free deposits were £25,700,000, and in 1932 £17,000,000. In March, 1934, they had risen again to £21,600,000. There has been a big fluctuation in free deposits, the part of deposits which are being actively used in business. These variations have been due, however, largely to the fact that, under the conditions existing, bank depositors could not use as much of their money profitably in their businesses and have preferred to place more of it on fixed deposit. The total sum of free deposits has been falling since 1920, but more recently it has risen again, and the advance recently is very promising. The League of Nations once took the relationship of free to fixed deposits as the best indication there was of general fluctuations in business confidence. Where free deposits fell in relation to total deposits it was considered a sign of falling confidence. Where free deposits rose confidence was regarded as improving. In New Zealand the fall was from £25,000,000 in March, 1929, to £17,000,000 in March, 1932. The figures are back to £21,600,000 for the March quarter, 1934. The improvement is very striking. The lowest figure since 1929 was below £16,000,000. I turn now to the questions set me, and take the larger questionnaire first.

1. *In view of present conditions and the prospective outlook for the next few years, what should be the exchange policy of New Zealand?*

2. *On balance would devaluation at New Zealand £125 to £100 sterling be in the best interests of New Zealand? This question assumes that £125 would be the "normal" exchange-rate about which adjustments might be made if warranted in the future.*

Under present and prospective conditions I would favour maintaining the exchange at the present rate. Stability is highly desirable, and this is emphasized in an agreement signed by the British Empire Representatives at the World Economic Conference of 1933. Last year's increase in the exchange-rate created a considerable disturbance in trade, and any violent downward movement would create a similar disturbance. I discuss the advantages and disadvantages of a reduction in answer to the next question, but I consider that in the absence of any excessive rise in export prices it would be wise to maintain the present rate, and perhaps ultimately to devalue the currency to a level of 125. Should export prices rise so far as to threaten an undesirable boom, which would almost certainly be followed by an equally severe slump, a downward movement in the exchange-rate might modify the boom and limit the severity of the subsequent depression. But it is difficult to determine New Zealand's exchange

policy until we know what the rest of the world will do or what conditions will develop. When conditions are sufficiently settled, and when Britain has settled her own currency policy, we may be able to determine ours. It should be remembered that for most countries in the world the parities adopted when currencies are ultimately stabilized will differ from the parities ruling prior to the depression. For most countries the old pars of exchange have lost their significance. They were the pars under the old gold standard.

3. What would be the advantages and disadvantages of lowering the exchange-rate on London, from the point of view of (a) *the budgetary position;* (b) *the economic structure of the country?*

I would prefer to consider the effect on the economic conditions in the country first, as I think the budgetary position will be dependent on these conditions. The advantages to the country of a reduction in the exchange-rate would be to provide a temporary stimulus for imports and to lower costs in New Zealand money both of these imports and of some New Zealand products competing with imports. It would also reduce the exchange that has to be paid on interest, &c., due overseas, and the taxation necessary to cover that exchange. These reductions would lower some of the costs of living and of production. My own idea is that that fall in the costs of living and of production might be round about one-quarter to one-third of the falling exchange. The disadvantages of such a reduction include a corresponding reduction in all receipts from exports, in the prices of exportable commodities sold locally, and in the price that may be charged for local goods competing with imports. It would place New Zealand exports in an unfavourable position compared with those of our competitors in overseas markets whose exchanges are also depreciated below parity with sterling. These competitors include Australia, Argentina, and Denmark. It would increase the real burden of all internal debts and other industrial costs, most of which are rigid. It would contract the national income and the monetary demand for goods; it would lessen profits and turn some profits to losses. It would check recovery and might promote further depression. The first advantage to the budget would be to reduce the amount that has to be found for exchange on debt service due overseas. I think this is the only permanent gain to the Budget. The chief disadvantage is the fact that the national income, which is the source of all taxation, would be reduced roughly in proportion to the decrease in the value of exports, and the yield of taxation would also be reduced at least proportionately, and probably more than proportionately. Under present conditions, too, if the advantage of the present exchange-rate were removed, it would be difficult for the Government to withstand demands for subsidizing certain export industries. I have said here that I think the only permanent gain to the budget would be the cost in the exchange of debts due overseas. There has been some misunderstanding of the cost of high exchange to the budget. A distinction must be made between the cost of the high exchange-rate and the cost of the Bank Indemnity Bill. A reduction in the exchange-rate would not remove the latter cost. The cost of high exchange consists mainly of the increase in the cost of debt services overseas. Under the Bank Indemnity Bill the Government has undertaken to purchase all funds accumulated overseas since the rate was raised, and it borrows on Treasury bills in New Zealand for this purpose. If the Government has to take over, say, £10,000,000 sterling at 125, paying for it £12,500,000 in New Zealand, and has later to sell this amount at par in New Zealand, the loss will be £2,500,000. But if the present rate is maintained until that surplus is worked off, there will be no loss on account of this temporary surplus. The loss, if any, can not therefore be determined until the rate is ultimately stabilized, and it will depend upon the new parity of exchange and the amount of surplus funds outstanding at the time when parity is adopted. There is also a cost to the Government of the difference between the rates of interest earned by surplus funds held in London and the rates paid on Treasury bills for money used to buy those funds in New Zealand. This cost would not be escaped if the exchange-rate were lowered, and I do not think it can properly be regarded as an exchange cost. It has been stated, too, that loss of Customs and other taxes have followed the rise in the exchange-rate. The world has had abundant experience since the war to prove that inward and outward trade, including invisible items, will balance ultimately at any rate of exchange. The effect of a high rate, then, may be to cause a temporary decline in imports and a consequent temporary loss of Customs duty, but both the decline and the loss must necessarily be temporary and must be offset by later gains. I can see no reason for believing that any other taxes will be reduced by a movement of exchange which increases the income of the country expressed in its own money. They should rather increase at least proportionately to the rise in exchange.

4. In what respects can the Reserve Bank act as an instrument in securing national control of the monetary situation in New Zealand?

Answer: The Reserve Bank may act as an instrument of monetary control by—

(1) Control of the note-issue;
(2) Pooling and economizing both note and exchange reserves;
(3) Holding the reserves of other banks in New Zealand;
(4) Determining, in the light of the conditions prevailing, and with fuller knowledge of currency and finance throughout the world, as well as by close study of New Zealand conditions, what our domestic credit policy should be from time to time.

The Reserve Bank might express this policy through the rates at which it will buy and sell exchange, the rates at which it will lend to customers, on both old and new types of loans, through the development of a short-term money-market in New Zealand, and through the encouragement it might give to the better organization of long-term markets, as well as by its advice to the Government, the commercial banks, and its other customers.

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.

9. In New Zealand, is there any reason why the Government should pay interest on Treasury bills?

Answer: There are strong reasons why the Government should pay interest on Treasury bills. Neither money nor credit can be expanded arbitrarily without serious effects. The amount must therefore be limited. Interest is the means by which limited supplies are rationed amongst those who can use money to advantage. On the matter of inflation, I happened to be in England last year and asked quite a number of people what was European opinion about this. I asked Mr. Keynes, "Why did not a lot of the countries of Europe, which were maintaining the gold standard at tremendous costs to themselves, only by means of trade restrictions and so on, why did not these countries get off the gold standard and free their trade? They would get better prices in their own country for exports and could relieve their position tremendously." Mr. Keynes told me, and a large number of other people expressed the same opinion, that in Europe one of the strongest factors in politics is the objection to inflation. They said, "You cannot swindle a people twice in the same way in one generation." Most of those countries had had serious inflation during the war period; most of the people thought it had been a swindle. When they got back to the gold standard they looked upon that as the safeguard. I am merely reporting what Europe is said to think.

Captain Rushworth: As they have gone off gold again, it seems as though they are working the same swindle twice?

Professor Tocker: There are four countries still on the gold standard—Holland, Belgium, France, and Switzerland. Quite a number of other countries, including Germany, are attached to the gold standard by the same gold par of exchange, maintained by all sorts of restrictions on trade and exchange. I said, "Why do those countries not depart from the gold standard"? The answer was that they dare not; it was stated that no Government could stay in power in many of those countries if they went off the gold standard. That is the opinion of people who have experienced fairly serious inflation.

10. What limits do you place on the Government's financing construction schemes by non-interest-bearing Treasury bills or notes?

Answer: I do not think any Government should be permitted to finance construction schemes by any loans or bills free of interest.

11. Assuming normal conditions, has New Zealand reached a stage of development such that overseas borrowing will in the future not be necessary?

Answer: It is at present not possible to say whether overseas borrowing in future will be necessary or not. I do think that there has been unwise borrowing in the past, and that it should be avoided in future. After a recent examination of the finances of the Dominican Republic, a Board was set up containing both Government and private-business experts who had to approve of any scheme of construction involving loan-money before it could be submitted to Parliament. Some such safeguard may be needed in New Zealand.

12. Would you favour rigid exchange-rates with sterling?

Answer: I would not favour absolute rigidity of exchange with sterling. A fluctuation limited to 1½ per cent. either way would provide some flexibility and appears to be sufficient. This might reasonably be embodied in law when a permanent exchange policy is decided. A wider variation could then be permitted only in case of real emergency, when the law would have to be suspended. I do not want to be dogmatic about the range of fluctuation. It is customary in most countries to tie up the currency within certain limits, and it is realized that if a real emergency arose the legislation might be suspended.

13. Has the exchange-rate in the past been governed by the supply of and demand for London funds? Was the exchange-rate ever "free" or was it always "pegged"?

Answer: In the past I consider that the exchange-rate has usually been pegged within narrow limits, and that such wider movements as have occurred—for instance, in 1921 and 1923–24—were due rather to Australian than to New Zealand conditions.

14. What determines the rate of interest charged and paid by the banks?

Answer: This question was answered in my comment on the banking system.

15. If deposits and advances rates were lowered, would this tend to promote economic recovery?

Answer: I think a reduction in bank interest rates would tend to promote recovery. It would reduce one of the costs of industry and increase the margin of possible profit, thereby tending towards business expansion. I would expect a reduction when the Reserve Bank is established.

16. Do banks in New Zealand lend their deposits? Is there any fixed relationship between deposits and advances in New Zealand? What factors determine an increase in advances?

Answer: This question was also answered in my earlier comment.

17. The fluctuations in export values of New Zealand products are reflected in changes in economic conditions within New Zealand. What can be done by monetary means to ease the effects of these fluctuations?

Answer: There is really little that can be done to prevent fluctuations in export values of New Zealand products affecting economic conditions in New Zealand. Two methods suggest themselves. There is usually a shortage of money when export prices are falling and while imports are being maintained, and the balance of payments is unfavourable. During this period the crisis might be eased by

the extension of credit. Bank figures show that this is normal practice. When export prices fell heavily from 1929–31, bank credit in New Zealand did expand substantially. The same thing occurred in 1920–21 and in 1925–26. Bank advances generally expand in a period like that. During the development of a boom, too, it would be desirable to prevent unhealthy business expansion and speculation by tightening up credit. I do not know if this practice has been followed to the same extent. Some part of the effect might be removed if the exchange-rate were made to fluctuate, rising when export prices fell and falling when export prices rose. It would not be practicable to move the exchange-rate to the full extent of the variations in export prices, and any wide movement of exchange would create internal disturbances which might be less desirable than the effects of changing export prices. For normal conditions, including variation of export prices within a range of, say, 20 per cent., I do not think an exchange movement outside the 1½ per cent. either way suggested above can be justified. I might illustrate this a little. Some years ago it was suggested in Canterbury that we should move our exchange up and down in order to secure stable export prices; that is, if export prices fell 25 per cent. our exchange-rate would have to go up 33 per cent. in order to give the exporters the same prices in New Zealand and the advocate of that scheme claimed that it would stabilize prices in New Zealand. It happens that when export prices fall in New Zealand import prices and many local prices usually remain very much the same. One of the factors in changing conditions is that export prices do move widely, and import prices very much less widely. Suppose export prices do fall 25 per cent., we move our exchange up in the ratio of 75 to 100, we have got to make up the rate 133⅓ to give the exporters as much currency in New Zealand as before. We would also have to pay 33⅓ per cent. more for our imports if import prices had not fallen, and it would be equivalent to giving all our protected industries in New Zealand a 33⅓ per cent. tariff which would stimulate their expansion until export prices rose again. Then the exchange would fall, and immediately all that protection would be taken off. What you do in these conditions is remove the instability of fluctuating prices from the export industries and put it somewhere else. There is usually a wide disparity between movements of the two groups, import prices and export prices, and more so between export prices and internal prices. You cannot remove this disparity by monetary means.

Mr. Langstone: Should the lesser govern the greater?

Professor Tocker: Which is lesser?

Mr. Langstone: The total internal production is much greater than our external trade. Which should be the determining one?

Professor Tocker: I think they both have to be considered, and that what is wanted is to adopt such a plan as will give a minimum of inconvenience and disturbance over the whole. Naturally that plan would vary with every particular slump.

Mr. Langstone: The sun pulls the earth: the earth does not pull the sun?

Professor Tocker: Yes.

Questionnaire 2: 1. What was the originating cause of the violent fall in commodity price-levels?

Answer: I should say that the originating cause of the violent fall in prices was the wide variation in public confidence, in the period 1928–31. This included the speculative boom on the stock-exchanges and the subsequent collapse, and also the remarkable changes that occurred in the flow of short-term funds between the world's money-markets. There are, of course, many other underlying causes, including international differences of opinion about matters such as reparation and war debts, restrictions on trade, and the incompatability between the national and the international management of monetary systems.

2. What was the cause of the rise in price of gold?

Answer: The price of gold has not increased in gold-standard countries. In countries with depreciated exchanges the rise is due to the depreciation of the paper money in terms of which the price of gold is expressed.

3. Are booms and depressions an inherent part of the economic system rather than the monetary system?

Answer: I regard booms and depressions as an inherent part of the economic and political system rather than of the monetary system. A bad monetary system may, however, intensify them and a good monetary system modify them.

4. Does banking control or merely reflect conditions?

Answer: I consider that, generally speaking, and particularly in New Zealand, banking reflects rather than controls economic conditions.

5. Is the existence of money profits an inherent defect in the economic system?

Answer: I do not consider money profits an inherent defect in the money system. The counterpart of profits is losses. It is not practicable to estimate precisely what the returns of any business venture will be, and profits over and above that interest rate on shares are the result partly of erring on the safe side. If business men erred on the other side and losses were continuous, they could not long remain in business.

6. Does the fact that banking is often in private hands constitute a weakness in the banking system? Does this lead to a chronic deficiency of purchasing-power?

Answer: My answer to both questions is No.

7. Would it be possible, by law, to fix and stabilize internal price-levels irrespective of oversea price-levels?

Answer: It would theoretically be possible, by variations in the New Zealand exchange-rate, to maintain average internal prices at stable levels in New Zealand. The causes of dislocation lie, however, in disparity in the movements of particular groups of prices, which would not be overcome by this means. In New Zealand during the past five years export prices fell more than 40 per cent., while internal prices and costs declined much less. This dislocation cannot be overcome by varying the exchange-rates, and I think that particular cure, if generally adopted, would be worse than the disease.

8. Does the volume of money and credit determine the general price-level?

Answer: In the long-run and with variable exchange-rates, the general level of prices in any country might be determined by the volume of money and credit. In the short-run and with fixed exchange-rates, experience has shown that prices may move very widely, regardless of volume of money and credit.

9. What was the principal means of financing used during war-time in New Zealand? Did advancing by way of overdraft for the purpose of subscribing to war loan play an important part in inflating the currency?

Answer: I believe New Zealand financed the war by means of loan-money. I can find no evidence that the extension of overdrafts for the purpose of subscribing to war loan played any important part in inflating the currency. Throughout the war deposits expanded rapidly owing to the increase in the value of exported products, while advances expanded slowly. We had a very favourable balance of payments for most of the war period. Taking the averages for the years from 1914 to 1919, deposits increased by £23,000,000, while advances increased by only £12,000,000. Throughout the period the increase in deposits preceded the increase in advances.

10. To what extent does our oversea indebtedness link New Zealand to gold or sterling?

Answer: I do not think that our overseas indebtedness necessarily links New Zealand closely with sterling. Our connection with sterling is much closer than with gold, but both that connection and the fact that our indebtedness is to Britain are probably due in large measure to the fact that so great a proportion of our overseas trade is with Britain. At the present time very many countries are linked very closely to sterling for purposes of finance, because London is the chief centre through which international payments are cleared.

Mr. Ashwin.] So far as the mechanics of the banking system are concerned, I do not think there is any conflict at all between my statement and that put in by Professor Tocker, except that he has preferred a different line of approach. There are still one or two points I would like to clarify. You state that it is seldom true that increased advances mean increased deposits, or that decreasing advances mean decreasing deposits?—In New Zealand?

Yes. Your reason for saying that, I assume, is that deposits and advances are usually the reflection of external trade?—Yes.

You would agree, however, that an additional advance used solely for New Zealand purposes would lead to an increase in deposits?—No, not necessarily. It might be taken out in gold, might reduce call money, be used to pay off bills discounted, to buy securities in the hands of the bank, or to buy property and premises.

But the immediate effect?—No. If I go to a bank and arrange with the bank, all the other deposits and advances remaining the same, I get an overdraft of £100; the immediate effect is not necessarily to increase deposits. If I buy something from you and you pay that £100 into the bank, that increases deposits, but I may not do this, and my advance may affect any other asset on the balance-sheet. It may affect also any other liability on the bank balance-sheet.

Apart from the case where you used your £100 to buy something off the bank, it would have that effect? It generally does? I wanted to clarify that point?—I might pay it to you to repay your advance.

Yes, that is so?—The point I want to make is that advances do not necessarily create deposits. Admittedly they often do.

You draw attention at the present time to the large increase in deposits and the fall in advances. You would agree that this is a reflection of the surplus London assets, and not actually a restriction of advances in New Zealand?—Yes.

In fact, the first thing to occur is the favourable balance of payments, the increased London assets and increased excess of deposits follows, and, following upon that, we now get an increase of advances to the Government as an effect of the increased deposits, because the increase in deposits in New Zealand is a reflection of the increased London funds?—No. Would not the increase of deposits have been there if the Government had not purchased those funds from the banks, and therefore not issued the Treasury bills?

Yes, but the effects are that the Government has, and the effect of the increase of deposits under the arrangement is an increase in advances to the Government. To separate the two sides, the Government purchase of the surplus exchange has no effect on the deposits at all. The same causes that lead to the Government purchase of exchange create the deposits?—Yes, it is the excess exports that have created the deposits. If you include the Government securities as advances, they are not spent in New Zealand at all.

You have got the increase in advances, but that is only a reflection of the fall in the bank's holdings of London assets?—Yes.

Where you discuss the exchange policy, you state and elaborate the argument that stability is desirable, and therefore it would be wise to maintain the present rate. Do you not think the present position is inherently unsound in that we have not got that measure of confidence which is the main object in desiring stability. The lack of confidence that exists in the country as to the position—that is not an indication of the benefit that should be derived from stability ?—I think that an important part of the lack of confidence in the country is the lack of confidence in the stability of the present exchange-rate.

That is really my point. The present position is really inherently unstable ?—Not because the present rate is 125, but because the public fear that the rate might be reduced, and on that account many importers are deferring imports until they can be more certain, and many exporters to New Zealand are leaving funds in the country.

Does it not follow that we have not got stability until we get an exchange-rate in which the country has some confidence ?—I think that the lack of confidence in the stability of the present exchange-rate is due not to the level of the rate, but to the public's failure to understand how the Government is going to deal with its accumulation of funds in London.

Does that not mean that the lack of public confidence is due to the fact that they recognize that the rate at present is not a true one, but is a pegged rate ?—What would you regard as a true exchange-rate under present conditions ?

It would be one in which there was no surplus ?—You think there is now an exceptional surplus ?

Yes ?—In 1929 we had a certain amount of money in London. By 1931 we had lost £11,500,000 of it. I am quoting this from bank figures. Since then the banks have got back £4,500,000 of it. From the 1929 levels we went down £11,500,000, got back £4,500,000; the banks themselves are £7,000,000 worse off than in 1929. I do not know what amount is outstanding in London funds, but supposing it is £11,000,000; the banks are still £7,000,000 below 1929 levels; if they took over £7,000,000 from the Government they would be back on 1929 levels. If £4,000,000 is being left in New Zealand by British exporters, our balance of payments is exactly as in 1929.

Do you think that if the indemnity arrangement was not in existence the rate would be maintained where it is ?—I think it can be maintained where it is quite readily. I think that if at the present time the public were certain the rate was going to remain where it is for twelve months, if importers did not fear a fall in the rate bringing them loss, we would get a rapid increase in imports.

You would consider that if the banks themselves put this rate up to the present level, without the arrangement with the Government at all, they could have held it without any undue accumulation ?—Yes.

You would not expect the banks to accumulate funds purchased at the rate of exchange that they could not expect to sell it at ?—I feel quite sure that any monetary authority can fix its rate at any level, so long as it pursues the corresponding monetary policy. Either the banks or the Government could put the rate up to 200 per cent. The result would be that exporters would get very much more money in New Zealand. This money would circulate throughout the country and in due course it would create a demand for the imports which would balance the exports. That would for the time being accumulate a lot of money in London which would mean easy credit conditions. Easy credit conditions would mean easy rates for money and in due course conditions would adjust themselves to the new level of exchange. In the case of France you had 25 francs to the £1 before the war and the exchange after the war was adjusted at 125 francs to the £1.

Because that year it was about its true level ?—No, it was not at its true level. Its true level was probably about 70 or 80.

Nearer than that. They had slightly undervalued it ?—Not to that extent. The fact that they had fixed it at 125 meant that internal conditions still had to be adjusted to that rate.

Then you say you can fix the rate at anything you like, at 200 per cent., and you can hold it if you can stand the racket while the adjustments are taking place. You can eventually make that the true rate ?—Yes.

But you will agree that the country concerned might suffer considerably in the process ?—It might, yes.

Now, another point. You say that one of the disadvantages of reducing the rate would be that it would place New Zealand exports in an unfavourable position compared with those of our competitors in overseas markets. Do you not mean New Zealand exporters, not New Zealand exports ?—Actually I do not think our exporters do go to the overseas markets as a general rule.

Then where is the unfavourable position ? If butter is produced under any rate of exchange and sent to London and sold in an open market there is no marked disability in Great Britain ?—I admit it is badly stated. What is meant is that conditions of export production in New Zealand would be unfavourable compared with every other country with a more depreciated exchange.

In other words, you mean that they would find it difficult to carry on and maintain production at the level of exchange ?—Yes.

You were speaking of the chief disadvantages and of the effect to the national income if the exchange-rate, which is a source of national income, should be reduced. Do you thing the national income at present is in accord with the present rate ?—No. I think it is lower. The national income will follow the rate of exchange and other conditions, but it lags behind.

You agree that the national income has not risen to the rate at present, otherwise we would not have the surplus ?—No. You have to maintain the rate and the national income will go on rising towards it.

In regard to that same surplus, you stated that if the present rate is maintained the surplus will be worked off. How long do you think it would take to work off the surplus if we adhered to the rate ? In other words, how long do you think it would take before really the national income is in accord with

the present exchange-rate ?—I do not think the working-off of the surplus is the same question as bringing the national income in accord with it. At the present time we have had a rapid fall in advances and a rapid increase in deposits which means a rapid expansion in the excess of deposits over advances. The total deposits at the present time are just about the same level as they were in 1920 and the balances overseas I think are less than they were in 1920.

Oh no, I do not think so ?—In 1920 the volume of money in London and the volume of money in New Zealand got into circulation, was spent, and brought the biggest boom in imports in history. I am a little bit scared that we might get another boom in the not distant future, which might eat up the whole of this surplus.

You are basing that on an assumption that at present the additional income to the producer arising out of exchange is going into purchasing-power, I mean for goods ?—It is, in a way. It is going, first of all, into deposits. Up till quite recently the greater part of it has gone in fixed deposits. Now it is going back into free deposits. The Government takes a great deal in advances against Treasury bills, which are not being spent in New Zealand, but are used to buy London funds. With the establishment of the Reserve Bank I expect those advances to be repaid by the Government. I think the Treasury statement mentions the same thing. These advances are to be repaid to the banks and they will then have a substantial amount of money for which they will have to find borrowers.

On the other hand, the banks at present do not give us any money which they think they can find any other use for, so there is no actual obligation arising out of the transaction ?—They are lending you a certain amount of money at 5 per cent. and I doubt very much if they could lend that money in New Zealand at that rate if you would not take it.

No, but if they could get a trade demand for that money they would not sell it to us—in fact, that is the arrangement ?—I do not think there is any doubt that they could get a trade demand for it at a price, but not at the price you will pay them.

Mr. Langstone: The Government has to hold it in London for next to nothing.

Mr. Ashwin.] You say here in relation to this exchange arrangement that you consider the exchange has restricted the advances to the public ?—Yes.

And maintains the rate of overdraft on a higher level than you would otherwise pay ?—Yes.

The banks themselves stated that they were anxious to increase their advances to any one who could put up a reasonable proposition or present a safe security ?—Surely these things are dependent upon supply, demand, and price, and if the banks can sell one-third of their resources to the Government at 5 per cent. they are not going to sell the remainder of the resources at less than 5 per cent. If they would lower their rates they would get a demand for an increased amount.

That is the point I was coming to. You thought it was holding the overdraft rate up. I would have thought it would have had a tendency to put it the other way, in that the margin between their deposits widening they would have made an endeavour to increase their advances to bring their earning-power up ?—But they cannot increase their advances to the public at 5 per cent. The public will not take any increased amount at 5 per cent. and they can sell to the Government at 5 per cent., if 5 per cent. is the rate, and it is a very profitable rate for some of the banks for the time being.

Mr. Langstone: If they do not buy outright they can pay with an IOU.

Mr. Lye.] I have followed this paper fairly closely. I would like just a few simple definitions. What would be your definition of bank resources ?—I should say that the only way to define bank resources is to define them as all the liabilities shown on the bank's balance-sheet.

Is it correct or otherwise to say that every bank loan or advance creates a deposit ?—No. It might wash out another advance or any other asset.

Can banks make advances without a deposit ?—Yes. It is conceivable that you might have a bank the whole of whose resources consisted of shareholders' capital and that bank could make advances, but only to a limited extent.

Oh, yes ; but the extent is limited by its resources.

In that bank's resources, then, deposits are included ?—Yes.

Can it be said, then, with a certain degree of truth that the bank does lent its deposits because it lends its resources ?—I do not think the question throws any light on the subject. It seems to me that the money we have on deposit is used as a medium of exchange. When we transfer funds from one to another by writing cheques to pay debts, we are transferring bank deposits, which are debts from the banks to us. They are bank liabilities and the bank's power to extend those liabilities is limited by the nature of its assets. In New Zealand its real liability is to find abroad the cash necessary for trade purposes.

You deal with the question of what would be the advantage or disadvantages of lowering the exchange-rate on London. There is a school of thought in New Zealand which is advocating that we can fix our own internal price-level in New Zealand irrespective of the London parity. It is advocated at times that we could give the farmer to-day 1s. 6d. for his butter when it is only worth 10d. according to the London parity with exchange. In that event the fixation of the internal price-level would tremendously increase the exchange-rate would it not ?—It depends on the level at which you fix it. If it was very high, say 100 per cent. up, it would have its reflection in the increase in the exchange-rate and the increase in the rate would approximately equal the rise in price.

What actually happens is the artificial raising of the exchange-rate to a higher level. What effect does it have on the assets and securities held by people in New Zealand. Is it not equal to confiscation or levy upon those who have assets and securities by the depreciation of the external currency which permits debts and obligations to be met with a depreciated currency ?—I think you are talking about two distinct things. The currency appreciated in terms of goods before it was depreciated. The value of capital depends upon the earning-power of all these things expressed in

New Zealand currency. With the rise in prices in New Zealand currency the value of capital will rise also. Holders of claims to fixed incomes will lose by the rise in prices.

Therefore it must be unjust in that respect ?—It does affect a transfer of real wealth from the lender class to the borrower class. One must remember, of course, that any fall in price will effect the opposite transfer and if the exchange-rate is raised to offset a fall in prices, a rough measure of justice may be achieved for all parties.

Mr. Langstone.] Let us take a case. You say that the fixing of the internal price-level is reflected in the exchange. Supposing that we fix our internal price-level for butter—monetize the butter at 1s. 6d. but the prices went up to 2s. in London and we still maintained it at 1s. 6d. What would be the effect of the exchange-rate ?—The exchange on London would be 75.

What about transport costs ?—I am omitting transport costs, of course.

We give 1s. 6d. in New Zealand for butter, the world price is rising, and they get 2s. for it in London ?—Quite. You have to convert 2s. in London to 1s. 6d. in New Zealand,which is equivalent to converting at 75.

This is the effect, that you would be giving the farmers and the people of New Zealand by way of imports 2s. worth of value for 1s. 6d.?—1s. 6d. in New Zealand would be worth 2s. in London under the conditions you laid down.

New Zealand money can only be spent in New Zealand and English money can only be spent in England, and the respective price-levels of other countries is a matter for those countries to determine ?—Broadly speaking, yes.

But that is not done. Let us take your question of the buying of securities. Assuming that the Government have had to give the banks £20,000,000 worth of securities for sterling in London, now, in addition to paying that premium of £4,000,000 we pay 5 per cent. on it as well ?—You pay 5 per cent. on £20,000,000 ?

Yes ?—The premium on the £4,000,000 has never been paid and may never have to be paid.

Yes. But the £20,000,000 that you have got in London, what is it earning ?—About 1 per cent. I think.

Not 1 per cent.—nowhere near it ?—It is a low rate.

Not $\frac{1}{2}$ per cent.—$\frac{3}{8}$ per cent.—7s. 6d. per cent. ?—I have seen no statement of the actual earnings.

But in your profession it has been quoted there down as low as 5s. or 6s.?—Quite. But more recently, when that money has been accumulating rapidly, some standard has been taken by the money-market in London and the rates on Treasury bills, I think, now are about $\frac{15}{16}$ per cent.?

Dr. Sutch : 17s.

Mr. Langstone.] They vary from time to time ?—Well, that is the minimum rate.

Now ; but the minimum rate a little while ago was 5s. And do you think that the effect of the exchange-rate going up in Argentina, New Zealand, Denmark, and Australia, has been an inducement to those people to flood their goods on to that market, and that has depressed the price considerably ?—I do not quite get you. An inducement to what people to flood what goods on to what market ?

I should say, if you and I were farmers we would send our goods where we can get the highest price, and if there is a bounty on an exchange-rate given we will send our goods there to get that bounty. Australia will do the same, Argentina will do the same, and Denmark will do the same, and if there is the one class of goods going on to the one market the tendency is to glut the market ?—Quite. But why the one market any more than ever before, because the only exchanges that were moved were those of the countries you speak of, and their exchanges were moved in relation to all markets. The tendency is certainly to encourage their exports, but not necessarily concentrate them on any one particular market any more than before.

The actuality of it is that it has concentrated them all on the one market ?—I think that is rather the result of something else.

You cannot send to America. You find there is trouble in Canada with your butter going in there ?—Those are not exchange matters.

No. But they are trade matters, and if the trade was there they would be exchange matters ?—But are you not saying that the effect of the exchange is to concentrate them on those markets, whereas they are concentrated on those markets on account of trade restrictions in other countries.

But the effect has been partly to reduce the price-level, and if the price-level is reduced, then it has done away with any benefit of the exchange ?—The price-level was reduced very much more before ; the New Zealand price-level was reduced about 48 per cent. before the exchange was raised, and it made production for many people unprofitable.

But the big fall came in the prices after the exchange went on ?—It may have come anyhow. I do not think that is true.

Hon. Mr. Downie Stewart.] The week that the exchange went up 15 per cent. flax dropped 15 per cent. on the London market ?—In 1932 the index number of all export prices was 892. In 1933, 896. All export prices were very slightly higher in 1933 than they were in 1932.

Mr. Langstone.] Is that just New Zealand export prices ?—Yes.

Then we find this with regard to the exchange, because prices have gone up. We will say wool 18d. a pound. The exchange bounty on that would be 4½d., because the price has gone up, but butter at 6d. a pound is 1½d. because butter at 6d. a pound is not a paying proposition. So we find that the incidence of the exchange-rate is that those who need it most get least, and those who need it least get most ?—You are right that the higher the price received the greater the amount of the bounty. The bounty is proportionate to the price.

And the less they need it ?—I do not think you can judge relative needs in that way because wool prices were very much lower than butter prices have ever been proportionately over a period of three years.

I know that; but the point is here that the dairy-farmers are in a desperate position. You see that by their coming to the Government and asking for a bounty of £3,000,000 to assist them, so that really the exchange-rate has not been any benefit to the dairy-farmers. It has worked out that way?—I think the exchange-rate has given them 25 per cent. more than they would otherwise have got.

I think it was commonly known that all the things that were already in New Zealand in the stores and the warehouses and factories appreciated as soon as the exchange-rate went on?—I could not say. I have been told that some of it did and some of it did not. I could not generalize.

If you had been a storekeeper or a business man and you knew it was going on and you rushed to Wellington to get here as soon as the warehouses opened in the morning, and you wanted to buy things to try and get in before the exchange had been put on, and they told you that you could not buy them without paying that extra 15 per cent. you would have known then that prices went up, would you not?—Yes.

That is actually what happened. In fact, I was very closely associated with a very small book-selling business. The retail booksellers held a meeting and they decided they would try and keep the goods that they already had in their shops at one level, but the wholesalers were putting them up 15 per cent. immediately. Now, a business person could not have two books, one at one price and another at 15 per cent. dearer because one came in one day and the other came in the next day?—It is possible that different shops were selling at different prices under those conditions. One shop might have been overstocked and want to get rid of them.

They had a meeting and decided that they would all put up the prices, that it was not good business to have different prices for one article, so that we found that the effect of the exchange, first, was to raise prices in New Zealand not of everything, but of a lot of things. That would be deflationary, would it not, if you had a higher price and no more money in circulation?—Well, the tendency of anything that makes for higher prices, any monetary change, I think, I would regard as inflationary.

But if you had no more money to balance?—But we did have more money.

Where did you get it from?—From the bonus on exports.

But if the exchange-rate goes on to-night and to-morrow morning the prices go up, where do the exports come in?—The bonus goes on to the exports just as soon as the price goes on to imports.

But the price has got to be paid to-morrow for goods that are sold to-morrow, but the exporter will not get paid for a month?—He can generally discount his draft immediately, and in many cases I think he does.

Would not the dairy-factories discount their advances?

The Chairman: They get it as soon as the butter goes into the cool store.

Mr. Langstone: But the butter would not go into the cooler for a month.

The Chairman.] Yes, it does. It goes every day?—In the sense that the banks give a credit here at 125 for 100 in London, whereas formerly they had been given a credit for 100 here against 100 in London.

Mr. Langstone.] So the banks do create the money?—Yes. In that sense. When they create money they undertake a liability. That is all.

Just the same as when the wool-buyers come here to buy wool. They bring a letter of credit. That is their authority. The real money to pay for the wool is credit here in New Zealand based upon that letter of credit?—The real money to pay for the wool is in London, and the banks undertake liability to find a certain amount of money in New Zealand for a certain amount in London.

The point I want to get at is this, that if the banks are willing, and they evidently are, to give the credit to sustain the price that a wool-buyer is prepared to give, that is practically what it amounts to, why would not they do it for the Government or anybody else?—I do not think the banks are prepared to do that without limits. The credit the banks are prepared to give to the wool-buyer depends upon the amount of his letter of credit in London and on the exchange-rate.

But the price-level is a different thing. Suppose he has £10,000. He may be a Japanese and may have sold goods in London. He has got a Japanese bill in London. He sells it to the bank or the Government of New Zealand. I suppose they buy it now. The banks bought it. Therefore, that increases their exchanges in London, the sterling in London by £10,000. Then there is only a cross-entry in figures when that person comes here to buy wool, but the banks are prepared to give him £10,000 worth of wool whether he pays 1s. a pound or 2s. a pound. He fixes the price-level?—Quite. But his price-level means taking so-much from his credit in New Zealand, which means so-much from his credit in London.

He cannot go beyond the £10,000. I admit it is not the question of the £10,000 that is affecting the farmers here. It is the actual price-level that is affecting him. So much per pound and he wants a price for his wool just the same as the dairy-farmers want a price for their butter, and they are not getting it to-day, and the result is that every asset and security that was formerly based—if I take a farm to-day, while butterfat is 1s. 6d. a pound I could meet all my commitments, but when butter comes to 9d. a pound, then I cannot meet my commitments. The physical attribute of the farm is the purchasing factor. The cows have not altered, but the money factor has altered. Who controls money?—The money factor in one sense is controlled by the exchange-rate. You can give the dairy-farmers any amount of money you like for their butterfat by varying the exchange-rate.

To manufacture boots we have got a boot-factory. To manufacture timber we have got sawmills. To manufacture clothes we have got clothing-factories, and to manufacture money we have got banks. Banks manufacture money in exactly the same sense as boot-factories manufacture boots, do they not?—No. Banks undertake liabilities against assets held for the most part overseas.

I know that. A boot-factory could not make boots unless they had the leather. But the fact is that they make boots and the fact is that banks make money, and if a bank, as you have already stated, by buying securities had increased the money and by selling securities had decreased the money, can any other concern do that. Is there any other concern outside the banks can do that sort of thing?—Yes. There are others which can do it.

If you had a boot-factory, and you sold your boots, you would have either less boots in stock and more money in your account, or if you did not sell your boots, more boots and less money, but the bank is in a totally different position; if they purchase, then there is more money, and if they sell, there is less money?—Other things being equal, that is so.

They create and destroy money by that process?—They have the power to do that.

If it is in their power to do it, and that is the only source that money comes from, then, not in New Zealand only, because New Zealand is only a replica of the world, is it possible that the Bank of England have decided on a policy of deflation, therefore they have called in overdrafts, that demanded a huge amount of selling, and provided less money to buy those things, therefore there is a fall?—That is certainly not the case in the Bank of England or in any country connected with England by fixed exchange at the present time. It was the case prior to England's going off the gold standard in 1931.

You heard what Mr. Neville Chamberlain, the Chancellor of the Exchequer, said at the World Conference?—I heard him, but I do not know what you are particularly referring to.

He referred to the fact that going back on the gold standard had been a most deflationary policy; it brought about a tremendous amount of hardship and suffering, and he went on to say that prior to the war England would assist its customers by lending, but after the war, that position had not obtained, and therefore they had a period of chasing prices downwards, trying to establish equilibrium. It would have been all right if prices had remained stable, but as they took money out of circulation, prices began to fall just as rapidly, and therefore they had this vicious spiral in an endeavour to obtain equilibrium?—I think, and many people now think, that England made a mistake in going back to the gold standard in 1925.

He goes further and says that it is a monetary factor of raising prices, and he said it rests with the banks. He said that definitely in the statement he made at the World Conference. You had a meeting there, as well, trying to deal with the monetary factors?—We had two Committees.

And that was his statement definitely that it rested with the banks. Was he right or wrong?—In the long-run he is right. In the short-run, there are other things that take charge at times.

I do not know whether there is much difference between the short-distance run and the long-distance run. With regard to the lack of confidence, I suppose that must be something; I do not suppose there is any lack of desire among the great bulk of the people of New Zealand to buy things?—There is no lack of desire to consume things.

No; there is a lack of money?—Over New Zealand as a whole, no.

I was referring mainly to the working-people?—Amongst many of the working-people, yes.

The banks in their operations never touch the great bulk of the people; they are practically confined to business relations, people with assets and securities dealing with goods and the distribution of goods. The person who is working for wages or a salary has very little to do with banking?—I think on average most people on, say, more than £300 a year have a bank account. Or they did until the bank charges were raised.

How many banking accounts are there in New Zealand?—I could not say offhand.

I remember asking that question in Parliament at the time the charge for account-keeping was raised. I thought in the Post Office there were about eight hundred thousand accounts, and there should be something similar in the other banks, but according to Sir Henry Buckleton there are less than two hundred thousand in New Zealand, and some people have three or four accounts?—That is a good proportion. There are only about 550,000 breadwinners in New Zealand.

Taking the women, too? Many women have banking accounts. There must be seven hundred or eight hundred thousand adult people in New Zealand?—Two hundred thousand banking accounts is a very large proportion.

It is not as great as the proportion that have not got accounts?—That is so.

The point is that the system of banks as we understand it to-day cannot possibly reach that class of people that we are very desirous should be reached?—It is reaching them indirectly, because it is financing the industries in which they are employed, and the trade through which they buy their goods.

Do you not think that the only way in which they could be reached—it is not a question for the bank at all, other than that they are the instrument through which the thing may be done; the initiative really needs to be taken by the Government. The Government have legislative power which a bank has not, and a Government can pursue a policy which would be totally incompetent for a bank to do, by way of a policy of public works, or giving national superannuation, or increasing old-age pensions. The bank could not do that?—It is not the bank's functions.

But the Government could?—Yes; if it could get the money.

This is the point we want to come to; Do you think there is a void somewhere between the authority of sovereignty and the lesser authority that the banks have? Do you not think there should be some continuity of control between the Government itself as an issuing factor of the money necessary to stabilize prices and to give incomes to the people so that they can become effective consumers of the goods in the country?—I do not think you can run any economic system on a basis of giving any one anything for nothing. What you give to any one in the form of money must be return for some value, otherwise you are producing money without producing goods, and prices rise. You take from one set of people what you give to the other set.

Do the banks not get anything for nothing?—They render certain services to the community.

If people make a profit over and above paying for those services, we assume the ordinary services rendered to be the counterpart of that profit they have made?—The value that they receive for the services they render is determined like everything else by conditions of supply and demand.

That has all been paid for. That is not represented in profit; the profit is over and above that?—The people are willing to pay for the services the banks give.

It is not a question of willingness to pay; it is a question of what you have to pay. You were dealing with the bank balance-sheet, and say it showed the relationship between advances and deposits.

I am going to repeat what I said the other day; the bank balance-sheet need not be just a correct statement of the real position, need it?—It is very difficult to say what the real position is. It is a statement of the position as it appears in the books of the bank.

Is that position in accord with the real physical things outside?—The value of the real physical things can only be estimated, and the estimates may err.

If they write off to secret reserves, they demonetize real assets?—Yes?

If they demonetize, they take money out of circulation?—That would be so, if they did that.

Let us see whether it is: I went into the bank figures from 1900, and I found that the landed property and premises in the year 1900 was valued, in round figures, at £420,000. In 1932, thirty-two years afterwards, notwithstanding the huge increase in values, notwithstanding the huge increase in the number of buildings, and the fact that the buildings were much more palatial, the valuation was £480,000. I found that four buildings in Wellington belonging to the bank, valued by the Government Valuer for ordinary rating purposes, totalled £206,000. Do you think that is a fair statement of the position?—That probably means that the banks are not disclosing the whole of their assets in property.

They are demonetized?—No, they are reducing the value on the asset side, the money value of their buildings; on the liability side they are reducing the amount of reserves held. That does not affect other advances or deposits directly.

We will assume they write it up into their balance-sheet at somewhere near the real figures, and pay a dividend on those figures; there would be more money paid in dividends and that would mean more money in circulation?—That is another matter. If they increased the figures for property assets on their balance-sheet they would have to balance them with an increase in reserve liabilities. The paper entry would not affect the amount in circulation.

It would increase the amount of dividends?—That is a different matter, surely.

If they monetized their secret reserves and brought them into money form and distributed them, that would make more money?—They can increase the circulation by distributing the reserves they at present hold without doing that, but the process would lessen the soundness of their position, because they have certain liabilities to customers that are backed by assets, and they have shareholders' funds backed by additional assets, so that their assets exceed their liabilities to customers by the amount of their capital and reserves.

Is share capital necessary?—It is certainly necessary. In banking, generally speaking, a customer of the bank who has put his money on deposit wants something else against that amount than an equal amount to bank assets.

How is it that the Commonwealth Bank of Australia got away?—It had the credit of the State behind it.

In 1894 when you had share capital in the bank and it went into insolvency, did the State of New Zealand have to put credit behind it?—Yes.

And would it not have to do it again?—Yes, in similar circumstances.

Mr. Lye.] The Reserve Bank has rendered that unnecessary?—The bank capital and reserves make that unnecessary.

Mr. Langstone.] The value of the services is only the value of the opportunities obtained. If this position went on much longer you would not be able to monetize your reserves in the bank at all. If everything came down in price, the investments that the banks have there would not be worth anything?—Quite. Is that not one of the reasons for the secret reserves and for writing down their assets.

No. That shows the stupidity of it. You cannot put away a sinking fund. We live on current production?—Yes, mainly.

You cannot save up to-day what you are going to consume twenty or thirty years hence?—But we do.

That suit of clothes that you have on was not left you by your father?—No, but I can buy to-day the house I am going to use twenty years hence.

That simply is because it is longer in consumption, but there are some things which we consume over a longer period and there are other things we consume over a shorter period, but in the main we live on food and things, and we cannot live on those things that will be produced in the years to come. We live in the main on current things. How can you put away a sinking fund or reserve?

Mr. Massey.] Professor Tocker, Mr. Langstone drew attention to the fact that in his opinion the pegging of the exchange at the high level did not have any effect on the New Zealand dairy-farmer. I would assume that the Dairy Control Board have all the facts at their disposal. Would you say that they have set the facts out correctly?—What particular set of facts.

May I hand this to you? It is a "Table of approximate Values of Butter and Cheese based on London Prices," issued by the New Zealand Dairy Produce Board on the 1st September, 1933. I think that table shows clearly the effect of pegging exchange at 25 per cent. has had on the New Zealand producer. Would you be good enough to read that out?—They have given a series of prices on the London market and equivalent butterfat prices in New Zealand. With butter at 75s. per hundredweight, and with exchange at par butterfat is 6·94d. per pound; with exchange at 25 per cent. premium butterfat is 8·61d. per pound. I think that is an adequate statement of the situation.

You would agree with that?—Yes.

There is just another point, that was that when we raised the exchange from 110 to 125 it had the effect of lowering the price of New Zealand produce in London. Do you agree with that?—It is very difficult to say. It happened that when New Zealand raised her rate of exchange Denmark did pretty much the same thing. I do not think the raising of the rate of exchange increased the supply of New Zealand or Danish butter in London. At that time Germany was imposing quotas and a surplus of a variety of things was concentrated on the British market. That could cause a decline in the price of butter. That decline would have occurred whether we raised the exchange or not.

I cannot give you the exact figures, but probably you might remember that on the 19th January in the year in which the exchange was pegged (1933) at 125 the cables showed that New Zealand butter was 2s. per hundredweight higher on the London market than the Australian butter. The Australian butter was then pegged at 125 and New Zealand butter was still 2s. a hundredweight higher. The day on which our exchange was lifted to the Australian level there was a similar position. I think if you studied the figures right through you will find that New Zealand butter is still 2s. per hundredweight higher than the Australian. If those are the facts, does that give the proof that the lifting of the exchange-rate in London had no effect on the sales ?—It is very strong evidence in that direction.

And you have stated on two or three occasions this morning that in your opinion the export price-level has a decided effect on the New Zealand community ?—Quite. It is the influence I think that makes booms and slumps.

That is exactly what I want. You have already explained this morning your opinion of the position of the London trade balance. Would you mind repeating your statement and show how they have operated over a period of years ?—What particular point is it you want ?

1929 ?—I cannot tell you at any time how much money the banks have in London, but I can tell you for any complete year or between any two quarters the changes that have occurred in the amounts held overseas on New Zealand account. Taking March quarters, between 1929 and 1930 the bank funds held overseas on New Zealand account declined by £8,300,000. For 1930–31 a further fall of £3,200,000 occurred making the decline in London funds £11,500,000 between 1929 and 1931. In March, 1931, the funds overseas would be considerably greater than they were in December, 1931. The exchange control scheme was started in December, 1931. I should say in December, 1931, the amount of funds held in London was at least £12,000,000 less than it was in December, 1929.

And if the British exporter received payment for the goods that he sold in New Zealand what effect would that have on the fund ?—You are inferring that some payments were held up at that time.

Yes ?—If further payments had been held up that would have reduced London funds still further.

And in your opinion if the exchange-rate is still pegged at 125 it will soon do away with the London trade balance if it is maintained at that rate ?—If the community here know that is is going to be maintained, then I think imports will recover rapidly and the amount of money held in London will get down to something like normal levels.

We might get a boom in imports in the near future ?—There is the possibility.

Did you deal with the position a few years ago when the New Zealand Government pegged the rate of exchange at 110 ?—The banks did that, did they not ?

Oh, the banks pegged the exchange-rate at 110. Have you analysed that position ?—No. But as far as I can see from figures, in the beginning of 1931 the rate went up to 110. By the beginning of 1932 there had been a considerable fall in London funds.

Can you give us any idea of the correct value at the time or the correct rate of exchange at the time ? Should it have been higher than 110 ?—That depends entirely on what you base the rate of exchange on. If on the availability of London funds, which had been the practice all along up till that time, then I think it could have been maintained for the time being at 110 in the beginning of 1931. It was maintained throughout 1931 and 1932 at 110.

Funds had time to accumulate then ?—Yes. They accumulated less when the fear of the high exchange came along and people were keeping money out of New Zealand.

But before the thing was mooted there was a tendency for funds to accumulate at 110 ?—Yes there was. Imports had fallen very low.

Was the 110 rate an artificial rate ?—I have the impression that the 110 rate was imposed in the first place largely owing to Australian shortage of money in London and not New Zealand shortage of money, and that it was more or less artificial. As far as maintaining the balance of payments in London went, New Zealand could have carried on at par, but there was an acute shortage of Australian money and the New Zealand money was used for Australian purposes.

What about the economic effects ?—The economic effects on New Zealand would have been that we would have had a very much worse slump that we have had.

In your opinion, then, the Government was quite justified in lifting the rate ?—In my opinion, yes.

Would the Government be quite justified in lifting the rate from 125 to 135 to-day ?—I think if the rate were to be raised to 135 there would be a tremendous amount of complaint throughout the country, particularly from importers.

Never mind about the importers for the moment. What effect would it have on New Zealand as a whole ?—If we could isolate New Zealand from the rest of the world and consider only the effects inside New Zealand, it would give another £10 on every £125 to New Zealand exporters, and some of them need it pretty badly at the present time. But we cannot isolate New Zealand. When we did this last time Denmark did it too, and a little later the Argentine did it. At the present time there is a tremendous lot to be said for maintaining stability of exchange throughout the world as nearly as we can, and we cannot ignore the rest of the world. The fluctuation in exchanges throughout the world which we might well start, might mean more drastic restrictions against our exports to other countries, which might do us more harm than the rise in the exchange would do us good.

But by bringing the rate of exchange from 125 to 130 or 135 it might give the New Zealand Government a profit on exchange balances ?—On the exchange balances which they hold overseas ? If they were to lift the exchange to 135 and later to sell at 135 all the money they bought at 125, the profit would be there.

Is the New Zealand pound the same as the English pound ?—No. The New Zealand pound is worth 16s. in English money.

Mr. Clinkard.] Owing to what ?—Owing to the depreciation of the New Zealand exchange.

Mr. Massey.] Was the New Zealand pound the same in value when they were at parity ?—They exchanged for one another at parity, so they were of the same exchange value against one another.

Then was it the same pound ?—It was issued under another jurisdiction. It was legal tender within another area. There are some senses in which it was pretty much the same, and some senses in which it was a different thing.

Mr. Ashwin.] But they were both based on a sovereign. You could get a sovereign for either of them ?—Yes.

Dr. Sutch.] But the dollar in Canada and the United States of America was 4·886 to the English pound. Were they different ?—They were of equal value.

The Australian and New Zealand rates in England are comparable. Then are the Australian and New Zealand pounds the same ?—No. In some senses they have the same value.

Mr. Massey.] If we were to suddenly reduce the rate of exchange in New Zealand and Australia continued at the present pegged rate it would place us at a disadvantage ?—Decidedly.

Captain Rushworth.] What is the cause of the depression in New Zealand ?—Primarily the fall in income received from exports.

The prices received in Great Britain ?—The price received in New Zealand currency, which is the British price converted at the ruling rate of exchange.

In your statement you say, "It would place New Zealand exports in an unfavourable position compared with those of our competitors and might promote further depression." Is that what has been happening during the last four or five years ?—Yes.

So that something has occurred somewhere. What has occurred and where ?—To promote the fall in prices all over the world ? That is what you want is it not ?

Yes ?—From 1920 to 1929 the world was trying to get back to equilibrium after the war, with a good many causes operating within it to promote further dislocation. One was the dissatisfaction and the impracticability of paying reparations and war debts on the scale which was demanded. Another was the fact that England was off the gold standard for a long time and a great deal of the gold of the world accumulated in France and America. Under the gold standard it has often been said that the gold standard game was not being played according to the rules. The gold standard exists mainly to maintain equilibrium. Under a gold standard, if gold flows into a country, and if that gold is used as the basis for further note and credit expansion prices tend to rise in that country. That country then tends to import more and export less, to have an unfavourable balance of payments, which will lead to an outflow of that gold. That will lead in turn to a reduction of prices in that country and a rise in the country to which the gold goes. The result is you will have price equilibrium throughout all countries operating a free gold standard. France accumulated a lot of gold, and, owing partly to French law on the subject, partly to the French way of looking at things, that gold was not permitted to raise prices in France. It was immobilized. To some extent the same thing happened in America and in other countries.

It was carried to secret reserves ?—No. It was simply not permitted to have its normal effect in raising prices and in adjusting prices throughout the world. It was, in effect, demonetized, and that tended to contract prices in those countries and to increase the international dislocation. Such dislocations multiplied and accumulated until there was a big break. The break came, as I said, on the Stock Exchanges in America. They had a tremendous boom. In America, the movement was due largely to the mass psychology of the American people. In America (I am speaking from memory now) between 1922 and 1928 the total amount of money in the country increased by about 50 per cent. There was 50 per cent. inflation consequent upon a variety of changes, including the inflow of gold. Prices of goods remained at about the same level. Prices of securities multiplied about four times. The increased money in the hands of the people was not used for purchasing goods and for increasing ordinary consumption, but was used by the people themselves for speculation. There was an enormous tide of speculation. I travelled through there in 1930 and practically everybody in the country appeared to have been speculating. Then they forced security values up to entirely false levels, far beyond the earning-power of the securities. There was a collapse on the Stock Exchanges. Prices fell tremendously. During that boom a great deal of money was attracted from Europe to finance the Stock Exchange boom in America. The same type of boom was going on in less degree in European countries, and the money was taken out of ordinary production and consumption to finance speculation by the people themselves. Then, when Stock Exchange values fell, confidence fell to a very low level, and individuals all over the country tried to hold more money in order to meet emergencies that might come or to meet commitments that were due, and so on. Consequently, of the total money in circulation, much less was circulating actively. I think that is the monetary aspect of these changes. We have similar results here in New Zealand, where deposits did not fall anything like the total value of commercial transactions, but where a much larger proportion of deposits was on fixed deposit and not in active circulation, and a much smaller proportion on free deposit and in active circulation.

That rather suggests that the commencement was the speculation on Wall Street ?—It was the speculation that precipitated the slump, but I think the slump must have come owing to the accumulation of dislocations after the war.

The depression would have occurred in any event ?—I think so.

Then what part did the speculation play ?—The speculation first attracted a lot of money out of commodity markets.

Was the speculation caused by the endeavour to pay war reparations ?—I do not think so. It simply happened. There was a great deal of prosperity, partly inflationary. Conditions promoting

prosperity encouraged people to speculate, and there was a mass movement towards speculation amongst the people.

What were the inflationary conditions to which you refer?—A large amount of the inflation was the attraction of gold to America owing to the very profitable part she played in the war and the expansion of money on the basis of that gold.

But the bank officials told us that it is not inflation so long as you have the gold. You do not agree with that?—No. I think you can have gold inflation as well as note inflation.

So far as the speculation is concerned if there are losses on one hand somebody gains on the other do they not?—I do not think so necessarily.

There is no total loss is there? No net loss?—I think there might be. Money was flowing into the American markets largely out of commodity markets. With the increased money flowing into the American markets the body of securities was growing, but the money offered against those securities was growing at a much more rapid rate, so a security which in 1922 was worth £100 in 1928 was worth £400 and people were paying £400 for it. Then the estimate of those securities in the market fell and they came to be worth less than £100 again.

Pretty well all the world authorities I have been able to get in touch with ascribe the commencement to a policy of deflation. Has there not been a general policy of deflation?—The policy of deflation I think, followed that fall in the value of securities, because most bank loans were lent against securities and they would be valued for purposes of loan at their market value.

But you told us just now that the policy of inflation caused the speculation?—It was one of the causes.

A policy of deflation would smash that would it not?—Yes.

So that the speculation was not the cause of the deflation, but the deflation was the cause of the smash of the speculation?—I think they are linked together, that that speculation was the cause of the deflation in the value of securities, and the deflation in securities was the cause of the monetary deflation which occurred in America.

Have you seen that formula which was issued from Columbia University by Dr. Walter Rauchenstrausch, showing that population is increasing as the square on the increment of time, production is increasing as the cube on the increment of time, and debt is increasing as the power of four on the increment of time?—I have not seen the formula.

It suggests a train of thought, because this question of war debts particularly has engaged a good deal of attention, and there is a tendency in some quarters to ascribe most of the troubles to those debts and the attempts to pay them. In reality, with the Young Plan and the Dawes Plan, and the moratorium that was established, those debts have not in fact been paid, have they?—I could not quote the figures exactly, but I think most of the payment that has been made has been balanced by fresh loans to Germany.

In other words, they have not been paid?—No. They borrowed the money to pay them.

So that it is not really sufficient for us to ascribe the trouble to the payments of the war debts, reparations, or whatever it might be?—A good deal of the trouble occurred when the flow of money from America to Germany for loans to finance construction stopped, because that flow of money was attracted into American speculation. Then Germany could not pay. Then difficulties came to Germany.

Is not there a better field for investigation there, the fact that it is not only since the war but before the war that national debts were increasing in progressively larger sums?—You mean State debts?

National debts, of course?—Public debts, not private debts?

I am not in a position to speak about that, but we have the information about the national debts. Statistical information shows that?—I do not know whether the national debts were increasing proportionately to our total value of production. That seems to be the important point.

Production has been increasing progressively for over two centuries?—Very rapidly.

And debt has been increasing apparently at least as fast?—I could not say.

The figures you give us here show that, so far as New Zealand is concerned, over a certain period there was an increase in production of 4·4 per cent., and an increase in advances of 4·4 per cent. Advances is only another name for debt?—Yes.

So that you have production and debt increasing proportionately?—Yes, but that production is financed in part by long term debt—that is, in part by the savings of the community (if it is a man's own savings there is no debt), and in part by debt to the banks, and our monetary system consists of financing trade in part by debts to the bank which are balanced by debts of the bank to other people.

It seems as every asset we create is treated as a liability?—Not every one. If we are pledging an increasing proportion of our total wealth, we will probably get into trouble.

If we did not pledge our assets in that way, the whole thing would come to a stop?—I said that in every community there is a proportion of its total wealth that it is convenient to hold in the form of money. That proportion is the chief factor governing the general level of prices.

Inflation can be brought about by a rapid increase in the issue of loan-moneys?—If those moneys are issued on creation of bank credit, yes; if they are brought about by simply borrowing money or the savings of the people, it is only a transfer, and there is no increase in money.

Most of the money is in bank loan-money, is it not?—At the present time we have £60,000,000-odd of deposits and round about the same amount of loans by the banks.

But the money in circulation is almost entirely loan-money?—It is money lent by the public to the banks on the one side, and by the banks to the public on the other side. It is bank liabilities.

I was talking of it when it was entirely metallic; it was then in permanent circulation?—Not necessarily; because a very important factor in money is the fact that individuals hold varying proportions of their total money out of circulation.

I am not talking about where it is held for the time being, but the money that actually comes into existence, when it was entirely metallic, was minted free of charge. If you took the bullion to the Royal Mint, they minted it for you, and it was yours; it remained in circulation?—I think that is true, generally speaking.

When it was worn out, it was reminted free of charge, and was in permanent circulation, but to-day is it not a fact that all money comes into circulation as a loan involving a debt on the community?—It is customary for the people to place their money for purposes of convenience in the hands of the banks. Against the money held the banks lend to others; they create liabilities; and we do a large amount of our business by the transfer of bank liabilities.

If the old system had been carried on, it would have been possible for me to have a piece of paper, take it to the Royal Mint, receive coin for it, and then for me to spend it and have it in permanent circulation?—The Mint might hold all the gold and undertake quite a mass of liabilities against that reserve of gold.

At the World Economic Conference they set out on a fairly exhaustive agenda, but all the non-monetary factors were subsequently held in abeyance until the Monetary Committee had been able to investigate?—Various committees were set up in the early stages of the Conference to deal with different sections of the agenda. There was the Permanent Monetary Measures Committee, the Immediate Monetary Measures Committee, and the Economic Committee. These Committees met simultaneously.

Ultimately the Monetary Committee made a recommendation that we go back to gold?—I think they recommended the ultimate re-establishment of the gold standard.

Arising out of that, a proposal of some sort was made to President Roosevelt. He refused to consider it, and thereby brought the whole thing to an end; the World Economic Conference was not able to proceed with its non-monetary projects?—It was considered by many people at the World Ecomonic Conference that the non-monetary projects could not be proceeded with except on the basis of some agreement regarding stability of exchange. Roosevelt refused to agree to stabilize the dollar exchange which is an important part of the total world exchange.

At that time Britain had gone off the gold standard and inflated her monetary system; America had not?—America went off gold in March, 1933, and the Conference was held in July, 1933.

But the British policy had shifted once again. They inflated their money still further in the sum of £300,000,000 for slum clearance. That was a further inflation?—Was it? I do not know. It depends how they raised the money.

Nobody knows that; they will not tell?—I do not know.

Supposing that were done by means of an additional issue of money from the Bank of England or elsewhere, that would have been a further inflation, giving Britain with a further inflated money system an advantage over the United States in the world's market?—Yes.

President Roosevelt said in effect, "No, you have had your move, it is my move next," and refused to stabilize on the basis Mr. Ramsay MacDonald suggested, because of that, perhaps?—He refused to stablize on any basis. There was a good deal of discussion among many people about the Conference as to what was an appropriate stabilization figure.

Under the existing system, is there any possible chance of any nation or the nationals of any nation ever getting out of debt?—Under the existing system? The existing system is one whereby most of our monetary transactions are carried on by means of transfer of debts; it has evolved over a long period, and is embodied largely in custom. It is an obvious impossibliity to get entirely out of debt under the system, because debt is an essential part of the system.

Can we not go even further and say that our present social order cannot survive unless we have a progressive increase in national debts and individual debts, for that matter?—I would not go so far as that, because I do not think there is any fixed proportion of our total wealth which is required to be converted into debt for monetary purposes. I would not therefore go so far as to say we must have a progressive increase.

We could avoid that by ceasing production?—We could avoid it also by increasing production without increasing debt. It would mean falling prices, which are liable to promote depression.

Governments are then not able to meet their liabilities, or nations, for that matter?—They could meet their liabilities only by consuming less goods or producing more.

Dr. Sutch.] I think your article is very much the same as the Treasury's except that, as you say, you have introduced one or two other factors which Treasury omitted intentionally with the idea of simplifying. At the bottom of the first page here, you say that, "when the balance of payments with overseas countries is favourable, deposits increase and advances decrease"; why do advances decrease?—In effect there is more money coming in and going out. Some use it to increase deposits, and some to repay advances. I simply record what happened.

In the converse case, where countries are depressed, I suppose advances would increase to expand credit to those poeple who would otherwise perhaps have more deposits available?—When the balance of payments is against us?

Yes?—Generally speaking, that occurs when export prices fall and when imports have been ordered on the assumption that export income will be maintained. Those imports have to be paid for, and importers have to borrow the money from the banks to pay for them.

Then advances that go up in times of depression are advances to importers?—I would not say that is the whole story, but that is my impression.

From your figures, we find that advances go up a certain time after deposits have gone up; is that a definite time-lag?—Yes. They generally move in inverse order. Deposits go up and advances down when the balance is favourable. The favourable balance seems to increase the amount of purchasing-power in the country; it creates a demand for imports; there is quite a big time-lag.

Do you think it might be a year ?—Quite. Possibly more than that.

The figures at the present time, then, point to the fact that in some months' time we should have a big influx of imports, so that our banking position is a very favourable one at the moment ?—Yes, on the figures alone at the present time, and ignoring relative costs, one would anticipate that we are moving towards a very big boom. Of course, we know that confidence in the country has not yet fully recovered, and one has to modify that conclusion accordingly.

Assuming prices were brought into line with costs through the exchange-rate, would that justify us in lowering the exchange-rate ?—You would immediately alter your level of the prices and costs.

To say we shall keep the exchange-rate up until prices are level with costs does not mean we should reduce it at the end of that time ?—No.

It would bring about no material adjustment ?—Yes.

Mr. Langstone.] On that point, if everything was to come into conformity with the exchange-rate, it would cease to be an exchange-rate internally ?—It would be the appropriate parity of exchange in view of New Zealand internal and overseas conditions.

Dr. Sutch.] Do you think that manufacturing in New Zealand, local industries, has been maintained or made progress other than it would have made if the exchange-rate has not gone up ?—I think the rise in the exchange-rate has helped local industries competing with imports from overseas very considerably.

Even if we have not an increase in local industry, the exchange-rate has prevented deflationary tendency and local industries going out of business ?—Yes.

If our exchange fell 25 per cent., how much do you think the cost of living would be affected ?—By round about one-quarter of the movement in the exchange-rate, I think.

So that, if the exchange-rate fell 25 points, the cost of living could be expected to fall 6 points ?—Round about 5 to 7, I think.

That is, other things being equal. For example, the exchange-rate has gone up 15 points, but the retail price-level did not go up at all ?—That is so.

It was offset ?—Possibly if the exchange-rate had not gone up the retail price-level would have fallen more than that.

If the country were to lower the exchange-rate to, say, 120, do you think that there would be much fall in the price of imports ?—Very slight, I think.

I am inclined to agree with you. They are very sticky, I think ?—Yes.

Have you had any evidence to show that English exporters have evaded the exchange costs in order to sell in the New Zealand market ?—I know of no positive evidence ; I have heard rumours.

I have seen one or two actual examples. I am still a little uncertain as to your attitude as to exchange depreciation as a competitive weapon ; what is it that determines a price in a country ?—Supply and demand.

So that the price of our butter in England is a result of the supply of that butter contrasted with the demand ?—Yes.

And subsidies at one end would not affect the price ? The Patterson plan in Australia would be an example ?—I think the effect of that plan is to give a better price to butter-producers in Australia for the same price overseas. The difference is extracted from the consumer and the butter-producer gets more than he otherwise would.

So that the Patterson plan has only affected the price of butter in England in so far as it has increased the production of butter or perhaps increased the amount of butter that has gone to the London market ?—It looks like it.

It is the supply in London that affects the situation ; then exchange depreciation has prevented some farmers going out of business ?—Theoretically, yes ; practically, farmers go out of business very slowly.

So that our exchange depreciation has affected the price in London only in so far as it has kept the farmers in production, who would otherwise have gone out of production, but as you say there would have been very few farmers who would go out of production. The possible effect would be that exchange depreciation has not affected the price of butter at all ?—That is the possible effect.

So that to say that the price of exports has fallen because of that is quite wrong ?—I do not know of any evidence to justify that conclusion.

That statement is often made ?—It is not borne out by an examination of price movements.

Coming on to question 7, you are aware of investment trusts operating in New Zealand ; long-term savings go into these concerns. Do you think they have been badly handled ?—I do not know much about them. I have not gone into it.

The Company Commission is of course pursuing that point. If we could have an investment trust in New Zealand which could guarantee a long-term rate of interest without abuse such as has been happening in New Zealand with investment money, would it be a desirable thing to set up such an institution ?—I think you have those institutions now, over the range of investment companies. You have probably got good and bad, and when this question was set I visualized the Public Trust, Savings-banks, building societies, and a great many others.

Company promotion is being investigated now, and the further protection of investors by setting up an impartial body on the lines of the Auckland Savings-bank which would pay out on long-term investments a rate of interest that was reasonably certain. Would you be in favour of that if brought down ?—I would like the concrete detailed proposition before expressing an opinion.

Question 9, Interest on Treasury bills : You say that interest is the means by which limited supplies are rationed amongst those who can use money to advantage. Do you think that the supply of Treasury bills is limited at the moment in New Zealand ; it is a difficult question, I know ?—Do you mean the supply of money for Treasury bills, or the demand for money on Treasusy bills ?

If the Government wanted further Treasury bills, could it get them ?—Yes, I think so ; only the bankers of course can answer that.

Do you think the rate of interest is a deterrent to Government borrowing on Treasury bills ?—Not to the same extent it is to private borrowers.

So that the rate of interest mentioned in question 9 would not be a material factor in Government borrowing on Treasury bills ?—To some extent it would. A higher rate, of course, would increase the charges against the Budget, and *vice versa*.

There is no doubt it is a big charge. When the Government is in the mood to borrow the interest-rate does not seem to weigh with it ?—Yes.

Do you think the Treasury bills that have been held against the exchange overseas have held up advances other than by the fact of 5 per cent. interest-rate ?—I do not think so.

So that there is a plentiful supply of credit in New Zealand ; the difficulty is that there is too high a rate ?—The difficulty is that the demand is not sufficient at the price.

Why should the banks charge 5 per cent. to the Government on the best security in New Zealand, and at the same time charge a smaller rate to much less secure private and local-body enterprises ?—I am afraid the banks would have to answer that question.

You think they are charging what the market will bear ?—I do not know what the details were when the arrangement was made. It is possible the arrangement was a 5 per cent. arrangement.

Some of it, I think, was 5 per cent., some £5 8s. 9d. per cent.—although I would not be sure. You stated that your fluctuation of $1\frac{1}{2}$ per cent. either way on 125 was not a fixed thing ; you did not fix that because it was the margin of gold points ?—There is something to be said on the gold points. Between England and America, both on the gold standard, the gold points were narrow.

Three-quarters ?—Much less. In New Zealand the margin is much wider largely on account of interest. I worked it out at $1\frac{1}{2}$ per cent. ; I do not know that any one else has done so.

It covers all those costs ?—Yes. Between England and America, if a favourable balance of trade occurs, it may be corrected quite speedily by the people concerned, because the distance is short. Here it takes much longer to correct, because of the much longer time it takes goods to come to New Zealand.

On a gold standard ?—On any standard, but there is additional justification for a wider range because we are so dependent on exports. The prices are so variable, and we might use a wider range to correct balances and to modify the effects.

You do not think a gold standard held in New Zealand even before the war ?—I have no doubt that the system was practically a gold exchange standard.

Gold movements do not affect price-levels in New Zealand ?—No.

So that, even though we had gold sovereigns circulating, we were not on a gold standard ?—No. It depends how you define the gold standard. Our balances were corrected by expansion or contraction of funds held overseas, and not by expansion or contraction of gold held here.

I am wondering whether our system is going to change materially when the trading banks hold reserves in the central bank rather than overseas, but we will leave that. Do you think the exchange-rate which was so long at parity was at times held there artificially ; in other words, was pegged ?—I think undoubtedly it was held there.

By the banks—pegged ?—Yes.

And that pegging is what the banks call " natural " ?—Yes.

So that the present rate which the chambers of commerce have described as " artificial " is no more descriptive of it than the parity rate which the banks enforce ?—I should say, without examining the figures, that in 1920, owing to the fact that the banks held considerably more money in London than they do at the present time and did not alter the rate then, our rate is a more natural rate now than the parity was in 1920.

That is true, and the changes that the banks have made in the rate have been artificial changes as far as New Zealand is concerned, in so far as they have been affected by Australian conditions ?—There is no doubt about that. In 1923–24 there was a shortage of notes in Australia and the banks were not in a position to give credits in Australia to the full amount of funds in London. The rate there went to about 96. There was no limitation whatever in New Zealand, and full credit could have been given in New Zealand for funds in London, but our rate went to 97 purely in sympathy with the Australian rate.

The whole of our trading community was penalized because of Australian conditions ?—Our exchange-rate moved entirely on account of Australian conditions.

It has been stated by the banks' representatives that the exchange-rate is a result of the interaction between supply and demand of London funds, but the banks themselves did not know what London funds they held on New Zealand account. They were not segregated ?—Quite.

So that it is a sort of artificial definition, to say that it is determined by demand and supply of London funds.

Mr. Langstone.] But that would presuppose that there would be a returning trade from Australia eventually to balance it ?—I think so. It is three-sided really—London, Australia, and New Zealand.

Dr. Sutch.] If our exchange were put up to 130 it might conceivably be in the national interest, but as you pointed out formerly there are disadvantages that might lead to a depression as between countries ?—That is one possibility. It would also create disturbances in New Zealand.

But we would take it that the ultimate result of those disturbances would be in favour of New Zealand rather than adversely. If overseas conditions were equal the outward advances might be in favour of New Zealand ?—It would be in favour of some people, of course, against others.

But any such funds which the Government have taken over have been financed by Treasury bills. The issue of these Treasury bills has not been inflationary ?—No.

The money has been spent in London in investing in the short-term market ?—The money borrowed by the Government on Treasury bills in New Zealand has not been spent in New Zealand.

It has been used to buy funds in London and, in effect, both those funds in London and the advances on Treasury bills in New Zealand immobilized.

But the deposits against those funds are available and are being spent ?—Yes.

They are represented in bank debits ?—The deposits are available ; a big proportion of them is being held on fixed deposit still.

Do you think, in view of the fact that there are enormous balances from year to year in sterling funds, that it is a fair thing for the banks to ask the Government to take over all surplus exchange ?—I do not think that arrangement is fair at all. There are three separate sections to that surplus exchange, which ought to be distinguished in discussing the arrangement. (1) Funds in London were increasing at the time. That increase would have gone on for some time at least, regardless of the rate of exchange. (2) The exchange was fixed on the 20th January, just at the beginning of the export season, and there was a big seasonal accumulation due which would have occurred regardless of the rate of exchange. (3) There was the accumulation which did occur as a result of the exchange. Added to that, the Government took over the lot at a low rate on London and paid a high rate here, and they took over unprofitable assets from the banks and gave in exchange assets profitable to the banks.

When the Reserve Bank takes over, that will be wiped out ?—Yes.

If the exchange had not moved, if we had stayed at parity, I take it that local manufacturers and the whole economic fabric of New Zealand would be damaged by the effect of the slump ?—Yes. Damaged to a greater extent than if the exchange-rate had not been raised.

So that if importers are slightly set back now by a rise in the exchange it only means that later they would have had a greater setback owing to the lessened national income which would have come about through parity of the exchange, so importers were going to suffer any way ?—Yes. I talked to lots of them and they have failed, I think for the most part, to distinguish between the effects of the slump and the effects of the high exchange.

Mr. Lye.] Are they not getting an added advantage in that additional protection by the increase of the exchange-rate ?—Not importers. Manufacturers are, but I think we have had the exchange long enough for the importers to be suffering not at all from the high exchange. I think the additional money that has come into the country and been circulated throughout the country has had time to get back to the importers, and their customers have got more money to spend on account of the high exchange.

Dr. Sutch.] What percentage of our total production is exported ?—35 per cent. to 40 per cent.

But a good deal of the price fluctuations overseas are reflected here, so that even though 40 per cent. of our production is exported a much greater percentage of our production depends on overseas price-levels ?—Round about 55 per cent., I think.

So that we must take account of overseas price-levels in our national economy ?—I should say that round about 55 per cent. of our production is either exported or governed by export prices ; in addition, some of our prices in New Zealand are governed by import prices. The wholesale-price index in New Zealand has little meaning. It is composed of three distinct elements, the export-price element, the import-price element, and the purely internal sheltered price element, and they move very differently.

So, to make up an index of those three would not help us if we wanted to peg prices at that level ?—You might peg prices or adjust your exchange in such a way as to maintain stability in an index number of wholesale prices, but that would not prevent wide disparity in the movements of the different groups.

So that you could have unemployment and depression despite a stable level of prices ?—Yes.

You could have a falling level of prices and prosperity, too ?—Yes.

The 110 rate was fixed by the banks. That would go to prove, would it not, that just because the exchange-rate goes up the banks do not suffer necessarily ?—Certainly.

Would our lowering of the exchange-rate from 125 down to parity be comparable with England's going on to the gold standard in 1925 ?—It would be a step of the same kind. The movement in New Zealand would be greater, I think.

So that it would be a deflationary action on the part of the Government ?—It would be about a 20-per-cent. deflation. I understand that Britain's going on to the gold standard was about a 10-per-cent. deflation.

So that ours would be a greater deflation to get back to parity than it was for England to get back on the gold standard ?—Under present conditions, yes.

Agriculture was depressed in the United States during 1920, despite an inflation. Do you think that was a factor in the world depression ?—Very probably, because a large amount of the trade of the world was trade between the agricultural producers on the one side, and the manufacturing producers on the other side. And I think manufacturing production was maintained in America by a short-term demand for construction of various kinds, while the long-term demand for agriculture was falling most of that time.

So that you had a maladjustment on the production side helping on the depression ?—Yes.

There were a good deal of investments in Germany during that period also. That would be another factor ?—Yes.

The World Economic Conference, I have been told, would have failed quite apart from Roosevelt's action in not agreeing to stabilize ?—I think it would have.

What difference is there between the minting of a sovereign and the printing of a note. Is not value given in each case ?—The printing of a note is a promise to pay in value. A sovereign is commodity value.

Do you think that the change-over from minting of sovereigns to printing of notes had any material effect on our economic situation ?—No material effect other than that by going from

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

other reasons. Clause 1 of the explanation in the memorandum sent in by the Associated Chambers seems to meet the case, "The primary causes of the present economic stress arise from conditions which are beyond the control of the monetary system, such as economic nationalism; war debts and reparations; political inflation of currencies during the war and after; tariffs and their effect on international trade"?—I agree with that.

Do you think that the trouble we have been passing through during the past three or four years could have been dealt with and obviated entirely by monetary action?—I think they could have been modified if England had gone off the gold standard before, but she had to hang out as long as she could.

Particularly in view of the fact that she was a great debtor nation?—And in view of the fact that London held a tremendous amount of money as balances for other countries, who would have lost heavily when England went off the gold standard.

She had a double responsibility, the maintenance of her own stability and the maintenance of other stability, or an attempt to maintain it?—Yes.

Mr. Munro.] In reply to a question as to the possibility of the Reserve Bank being able to control the monetary position in New Zealand, you state that the Reserve Bank may act as an instrument of monetary control by—"(1) Control of the note-issue; (2) pooling and economizing both note and exchange reserves; (3) holding the reserves of other banks in New Zealand; (4) determining, in the light of the conditions prevailing, and with fuller knowledge of currency and finance through the world, as well as by close study of New Zealand conditions, what our domestic policy should be from time to time." I take it that (3) is the reserves held in London at the present time?—I do not know how much of the reserves of the other banks the Reserve Bank will hold. 3 per cent. of their time liability and 7 per cent. of their current liabilities must be deposited; they may deposit as much more as they like; that is the minimum. If the other banks transfer to the Reserve Bank the funds they now hold in London for exchange purposes, and take in exchange deposits at the Reserve Bank in New Zealand, they can convert those deposits into notes which will be available for lending in New Zealand to a great extent, and the Reserve Bank will be able to provide the money that is necessary with a smaller reserve than the individual banks would be able to do each holding its own reserve.

There is an economy?—A decided economy.

The fourth clause, "By determining, in the light of the conditions prevailing, and with fuller knowledge of currency and finance throughout the world, as well as by close study of New Zealand conditions, what our domestic credit policy should be from time to time"; and "They might express this policy through the rates by which they will buy and sell exchange, the rates at which they will lend to customers, on both old and new types of loans, through the development of a short-term money-market in New Zealand, and through the encouragement they might give to the better organization of long-term markets, as well as by their advice to the Government, the commercial banks, and their other customers"; what do you mean by that?—By "Lending to customers"? I understand that the bank will be prepared to do a discounting business. There is one thing not expressed clearly in this which I would anticipate from the Reserve Bank—not quickly, but as a slow development—that is, the building-up of a short-term money-market. In New Zealand practically the only form of commercial loan is the overdraft at the overdraft rate. In developed money-markets there is a great variety of different rates for different types of loans, most of them below the overdraft rate. I know businesses which have big demands for money for short terms and know perfectly that they will have money to repay in two or three months; if they can borrow from the Reserve Bank by rediscounting at a lower rate, they can get money cheaper, and that cheapens the cost of production. Those bills could not be renewed, they must be paid. If we can teach the business community that they can get money cheaper so long as they stand fast on their obligations, we will get rid of a great deal of long-term debt.

As far as I read the Reserve Bank Act, there will be no private customers?—I am not sure how this will work, but I think a real effort will be made to build up the short-term market, which will be based on discounting. It may mean that business men can discount with their own banks who in turn can rediscount with the central bank, but I anticipate that the central bank will do a good deal of discounting or rediscounting business at low rates for short-term money.

It is all part of the same explanation—through encouragement they may go to the long-term markets?—I think there is decided room for better organization in the mortgage market. A group of people with a knowledge of finance might be able to give useful information.

We hope that will be so. Question 10: "What limits do you place on the Government's financing construction schemes by non-interest-bearing Treasury bills or notes?" Answer: "I do not think any Government should be permitted to finance construction schemes by any loans or bills free of interest." Will you give us your reasons for answering in that manner?—In the first place, they cannot borrow from the real savings of the community free of interest; the community will not lend to any one free of interest while there is some one else in the market who will pay interest, therefore that must mean creation of that money. If they create that money, then they are creating spending-power; they create no equivalent value in goods. In doing that they are increasing the purchasing-power against the goods without increasing the goods, therefore increasing the price-level. They are inflating their money, diluting their money, and reducing the real return to every one who has money.

If the Government were going to carry out capital or construction works, therefore creating this money in this way, they have the power to do it through the Reserve Bank; would not that be simply a temporary inflation until such time as their values of the commodities or the works they were commencing—would that not mean that when that work was completed they would have the equal value, and it would take away the inflationary effect?—It might be comparatively harmless on a small scale, but it would be a very dangerous thing to introduce. It would be said, "You did it once, do it again."

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 consitute 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 judical 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.

Would you agree that inconvertible notes having a backing of law behind them are just as good for all purposes and perform the same function as the ordinary convertible notes ?—So long as they are properly administered and not overissued. Their value falls if they are overissued.

In answer to question 5, you say, "I do not consider money profits an inherent defect in the money system. The counterpart of profits is losses." Of course that is logical. Whom do the losses fall on at present when the bankers reap the profits ?—But do the bankers reap the profits ?

I am putting it to you. This is your answer. "I do not consider money profits an inherent defect in the money system. The counterpart of profits is losses." The banks at the present time make a profit. Who do they make it out of ?—I think the profit is a fair return for the services rendered. I do not know what the rate of profit is, but I have it in mind that I saw the other day that over the whole of New Zealand 3·4 per cent. was made on shareholders' funds.

Would you say that that, directly speaking, is a profit ?—Profit is simply the name given to it, and it is from that that the return to shareholders for the use of their money has to be made.

That is the view you take ?—Shareholders are entitled to a return for their money just as much as if they invested it in industry.

The shareholder only puts his capital in. He does nothing to earn his money, except leave his capital with the bank ?—Yes. But our system is such that capital can be used to increase production. In a sense banking is production, and some part of the return goes to the person who puts capital in.

Can a bank be started without capital ?—A bank has been started without capital in Australia.

It functions all right ?—Yes.

And the same, I suppose, could be done here ?

Mr. Lye.] Was it not only a saving-bank in the first instance ?—I could not say.

Did they not first get some capital through operating purely as a savings-bank and not as a commercial bank ?

Mr. Schramm.] No. Now there is this phrase often used "political control." Do you think there is really anything in it after all ? Do you think it is a bogy ?—I do not think it is a bogy. I am afraid that certain matters might be controlled in the interests of political parties. Our political system is founded on the assumption that you will get a swing from one party to the other. The danger is that you will have things controlled and influenced in one direction because one party thinks they ought to go that way, and then the other party comes into power and it thinks they ought to go the other way. The change is bound to create maladjustment in the economic system, which is undesirable.

Captain Rushworth.] Has that happened since the Government have had the majority on the Directorate of the Bank of New Zealand ?—No, I think not. I think it has happened in America.

But not here ?—No, not here.

Mr. Schramm.] But you have political control now, have you not ?—A good deal of it, yes.

The party in power, of course, to the best of their ability, makes appointments to the Public Service, and they control the highest positions in the land judicially and when you come down to the last analysis it is a political appointment is it not ?—Over the whole field of our activities there are some that are best controlled by the public authority.

Do you think that anything done by the party in power, in the final analysis, is a political matter, taking it right to its logical conclusion ?—Politics certainly influence everything more or less.

For instance, they would not appoint a professor to the University who was absolutely antagonistic and hostile and had used his position as a propagandist bitterly opposed to the Government ?—If a person did that he should not hold a position as a professor under any Government. If he is a propagandist pure and simple he should not be a professor.

Sometimes it is a question whether a man is a propagandist pure and simple ?—I am assuming he is not even a teacher.

That might be just a small part of the business. Do you think it is a good thing to borrow money ?—I think it is a good policy, if you have to borrow money, to borrow it in the cheapest market.

Do you not think it would be better to create it here ?—I would rather not see any money created in the sense that it is simply inflation.

If you deposited Treasury bonds in a bank and you issued currency with that backing, would you call that inflation ?—It depends entirely on the purpose for which it is used. Borrowing on Treasury bills to buy funds in London at the present time—that is not inflationary : that is deflationary.

What would you call the process by which the Bradburys were issued in England during the war ? Would you call that inflation ?—The Bradburys were not directly inflation. They were issued in response to the demand of the public, but the credit inflation during the war was highly inflationary.

And it was highly profitable for the Government and did the job, and the war was financed that way ?—The war was financed largely out of inflation.

And do you not think, if you use the term "inflation" in a time of national stress and danger, if they used such a measure, then such a scheme during a time of economic war would equally serve the purpose ?—I think the war gave us ample evidence that inflation, if carried too far, brings very grave difficulties in its train ; it should be as moderate as we can manage.

I agree ; there is a limit ?—We have inflated considerably in New Zealand.

We have deflated ?—Raising the exchange was inflation, and balancing our Budget by borrowing on Treasury bills.

Cutting down wages was deflation ?—That is a deflationary method. We had it on both sides.

Mr. Murdoch.] You say "The special features of the New Zealand system have developed to meet the needs of the country and the community." Do we take it from that that you think the system we have in vogue in New Zealand is a thoroughly satisfactory one ?—The system is generally satisfactory. Incidentally, I have pointed out some things as weaknesses, but as a general system of working, I think in the main it is thoroughly satisfactory, or as satisfactory as we are likely to get. It has grown up side by side with and is an essential part of, the economic organization of the country.

On a previous page you say, " since there is no effective limitation on note-issues, the liability to find notes presents no real limit to credit expansion." You have heard it stated that we issue our own credit here in New Zealand; we have had such things mentioned as costless credit; will you give the Committee any enlightenment on this costless credit?—I think I might have convinced the Committee that I at least do not believe in costless credit; in fact, there is no such thing; some one has to pay for it. There is nothing of value that some one does not pay for somewhere.

Captain Rushworth.] Could you say " costless creeds " ?—That is better.

Mr. Murdoch.] Do you approve of the establishment of a Reserve Bank?—Yes.

What effect do you think that will have on the general banking of New Zealand?—I think that it will economize the reserves of the banks and enable them to undertake more liabilities, to give easier—perhaps more—credit on a given amount of reserves, and it will be able to guide and direct the monetary policy of New Zealand more effectively than has been the case in the past. I have detailed certain points.

It has been stated before the Committee that the Reserve Bank was to be established under the domination of the Bank of England. Do you think there is anything to that?—I do not think there is anything in it at all.

You think it would have come naturally, that it would have naturally evolved?—While we retain our trade and financial connections with London there must be some connection between our monetary system and the London system. I think that is as far as it goes.

You mention that the internal price-level could be maintained by a variation in the exchange; do you think that is a practicable solution?—Theoretically it could be done; I do not think it is really practical. I think the cure would be worse than the disease.

And what would be the effect on, say, the traders in the town when you were manipulating exchange?—If you got a fall of 25 per cent. in export prices, and you pushed up the exchange to equate those prices in New Zealand, if import prices had not fallen at all, you were paying an additional $33\frac{1}{3}$ per cent. tariff on imports. When the import prices came back you put the exchange down again. You do not stabilize, but transfer the instability from the farmer to some other group of people.

Do you think business people can work under those conditions?—I think the farmers can stand instability, within reason, better than any other group of producers.

With regard to the question of war debts: Do you care to express an opinion on the cancellation or otherwise of the war debts?—I think most people agree that, in the interests of world recovery and a sound economic system throughout the world, it would be better if the war debts were cancelled or reduced to amounts that might be met reasonably easily.

The Chairman.] Yesterday we had a gentleman here who principally advocated the Government purchasing the whole of the trading banks. Do you think that would be a wise step?—I think there is a lot to be said for competition, and while there is some monopoly in the present banking system there is also some competition. Further, it is quite probable that different banks operating do so on different lines. I think that variation and flexibility, and a certain amount of competition, are necessary.

You would not favour it?—No.

Do you think that the Government acted rightly in taking gold from the banks by the central bank at the price it did?—Quite rightly.

In the course of his remarks, Mr. Langstone was referring to butter, and the price he mentioned was 6d. a pound. We have to take the price of butter over the whole season, and I suppose it is safe to say it would be 8d. or 9d. That is a better approach. He said the exchange had been of no benefit to the dairy-farmers; have you any figures as to what the exchange has meant to the dairy people?—I have no figures, but surely it is fairly obvious.

I have a statement here made up, and I thought it might interest you. The total of the twenty-five per cent. is given since the introduction of the rise in the exchange, 20th January, 1933, to the 31st March, 1934, as £4,353,525?—To all exporters?

No; butter and cheese only, so that it has been a good thing for the dairy-farmer?—Yes.

On behalf of the Committee, I would like to thank you, Professor Tocker, for coming up from Christchurch, and also for the statement you have put in and the ready replies you have given to the members of the Committee.

Reply to Committee's Questionnaire by Professor H. Belshaw, Auckland.

1. 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?

In principle I would reply to this question in the affirmative, since if such institutions are uncontrolled the capacity of the central bank to control currency and credit policy in the general interest will be weakened. In certain circumstances the policy of stock and station agents might be a source of serious financial danger, especially through the acceptance of a large volume of short-term deposits and the granting of a large volume of advances during conditions of boom. With the advent of depression the " freezing " of advances would endanger the liquidity of deposits. In practice, it might be difficult to exercise such control without hampering the non-banking business of stock and station agents; and I should not be prepared to give a final opinion without a comprehensive investigation

into the affairs of such companies. Tentatively, I would suggest that your Commission should inquire into the desirability of—

(*a*) Preventing such concerns from accepting deposits for a shorter period than, say, two years.

(*b*) Providing that the rates offered should bear a definite relationship to the deposit rate of commercial banks.

2. *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?*

This question trenches on the ground of the Commission into Company Promotion, of which I am a member. For this reason I should prefer not to answer it.

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

See answer to question 2.

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

(*a*) Notes: The volume of notes in New Zealand is determined by the demand for currency to make small payments. An increase in note-issue would lead to temporary expansion of purchasing-power, but in the main the new notes would replace existing notes or other means of payment, and it is unlikely that there would be a net increase in purchasing-power.

(*b*) Credit: The present ratio of advances to deposits is extremely low—64·64 per cent. for the week ending 19th February, 1934. This indicates that there is a considerable volume of funds available for lending. It suggests also that there is not the demand for credit from borrowers with adequate security. Hence the effective utilization of the surplus deposits appears to require action by the Government and/or local authorities, preferably by way of expenditure on public works. This might be financed either by way of Treasury bills or loans for a longer term. The choice between the two would be influenced by (*a*) relative costs at the time; (*b*) prospective changes in short-term and long-term rates and the Government's policy in regard to these. My present inclination would be in favour of the former, since the entry of the Government into the long-term market might raise long-term rates or prevent them from falling. It would probably be cheaper in the long-run to finance by Treasury bills and fund these when long-term rates are lower. A decisive answer would require more information than I have at my disposal, and the Treasury would be more competent to judge.

The extent to which recovery might be facilitated by these means is limited by the effects of internal credit expansion on internal prices. Up to a point, internal credit expansion might be expected to "take up the slack" without causing a rise in internal prices. Beyond this point, prices would rise and prejudicially affect export industries through the increase in costs.

Such a point cannot be determined in advance, but is a matter of rough practical judgment and experiment. I do not think that an expenditure of £5,000,000 to £6,000,000 per annum would be unduly high. To the direct increase in purchasing-power would be added an indirect increase due to the stimulus given to other trades. Mr. Keynes estimated for Great Britain that this would amount to one-half the direct expenditure. On a similar basis the total increase in purchasing-power in New Zealand would be £7,500,000 from an expenditure of £5,000,000 and £9,000,000 from an expenditure of £6,000,000. While the national debt would be increased, there would be a countervailing advantage to the Budget due to increased taxable capacity. Probably 20 per cent. of the total would return to the State by way of taxation, unemployment taxation, and other receipts; or £1,500,000 on a direct expenditure of £6,000,000 and £1,125,000 on a direct expenditure of £5,000,000. In addition, the pressure on unemployment funds would be reduced.

Provided that the expenditure was limited to such an amount as would not cause internal prices to rise, such a policy would facilitate an upward movement in economic conditions and ease the situation pending an improvement in world conditions or internal reconstruction by other means. It might of itself lead to some permanent improvement by stimulating confidence and by the indirect fillip which it would give to local industries. It could not be regarded as a permanent measure, because it would involve an increase in debt charges; nor would any policy of interal credit expansion be of itself sufficient to bring about complete recovery.

5. *In New Zealand, is there any reason why the Government should pay interest on Treasury bills?*

As long as banks pay interest on deposits, the Government should pay interest on Treasury bills. I think, however, that the rate should be substantially lower than the present rate.

6. *What limits do you place on the Government's financing construction schemes by non-interest-bearing Treasury bills or notes?*

The limits to the financing of construction works by means of Treasury bills, whether interest-bearing or not, are indicated in reply to question 4. If the central bank took up Treasury bills the limits would also be affected by the legal ratio of reserves to liabilities.

7. *Assuming normal conditions, has New Zealand reached a stage of development such that overseas borrowing will in the future not be necessary?*

This question cannot be answered in the form in which it is put; nor is it of immediate importance. At the present time, in view of the excess of deposits over advances, of an accumulation of exchange funds, and of heavy unemployment, there should be no need to borrow abroad. Whether or not overseas

borrowing or local borrowing is to be preferred in the future will depend on the circumstances of the particular time when the projects for which borrowing is required are contemplated, as well as on the relative costs of borrowing in New Zealand and abroad.

The effect of overseas borrowing will be different according to whether the sum borrowed is to be spent overseas or in New Zealand. In the former case there is an immediate increase in imports to the extent of the borrowing, but no effect on the London balances or on currency and credit in New Zealand. In the latter case there is an increase in London balances to the amount of the loan. This is credited to the Government's account in New Zealand and increases the ratio of deposits to advances. The expenditure of the loan-money by the Government increases purchasing-power, both directly and indirectly, as indicated under 4 (*b*). Imports are encouraged to the amount of the increase in the London balances, and the ratio of deposits to advances is again reduced. This tends to a restriction of credit in New Zealand. By contrast with internal borrowing, an overseas loan increases the capacity to import by the amount of the loan. It therefore makes it possible to free the labour which would be required to make such goods for the works for which the loan was raised.

The effect of an internal loan is to divert labour and capital from other uses, unless such labour is idle in the form of unemployed workers and capital in the form of a substantial excess of deposits over advances.

Part of the additional purchasing-power will be expended in imports, which will reduce the London balances. If the ratio of deposits to advances is low and exchange funds are low, there will tend to be a restriction of credit by the banks which will react prejudicially on private industry.

The case for internal borrowing would be strengthened—

(1) When a surplus of saving was indicated by a substantial excess of deposits over advances :
(2) When there was an accumulation of exchange funds in London :
(3) When interest rates in New Zealand were low relative to those overseas :
(4) When prices were falling and were expected to continue falling.

The case for overseas borrowing would be strengthened—

(1) When the ratio of advances to deposits was high :
(2) When overseas interest rates were low relative to those in New Zealand :
(3) When exchange funds were low :
(4) When prices were rising and were expected to continue rising, since this would reduce the real burden of overseas loan.

My general opinion would be that, while the above circumstances should influence the decision at any particular time, the policy should be to rely less on overseas borrowing and more on internal borrowing than in the past because—

(*a*) Assuming the return to " normal " conditions, it should be easier than in the past to maintain a reasonable standard of living and at the same time engage in capital works out of savings within New Zealand :
(*b*) Internal debt is less burdensome than external debt if prices fall :
(*c*) Reliance on annual overseas borrowing as a normal policy increases the problem of readjustment if the source of overseas borrowing suddenly dries up.

8. Has the exchange-rate in the past been governed by the supply of and demand for London funds? Was the exchange-rate ever "free," or was it always "pegged"?

No. The rate was always " pegged," or " artificial," prior to the crisis. This is demonstrated by the fact that it remained at or near to parity with sterling despite considerable fluctuations in the London balances. The mechanism of control was not fluctuating exchanges, but changes in deposit and overdraft rates.

9. What determines the rate of interest charged and paid by the banks?

Interest rates would be affected by a number of factors including—

(*a*) Rates offered by the Government and competitive institutions (there is perhaps some doubt as to whether the influence is other than psychological) :
(*b*) The ratio of advances to deposits and the state of the London balances :
(*c*) The rough practical judgments of bankers as to conditions of demand and supply :
(*d*) Rates offered in other countries—*e.g.*, Australia.

I believe that there has been a considerable arbitrary element in interest-rates. During the immediate post-war years, people became accustomed to high rates and for some years interest-rates have been too high. Apart from the influence of (*d*) above, I see no reason why interest-rates could not have varied about a substantially lower level, provided the Government, the banks, and other financial institutions had co-operated.

10. If deposits and advances rates were lowered would this tend to promote economic recovery?

Yes ; it would help. Lower deposit rates would force funds into more active use. Lower overdraft rates would reduce costs.

11. (a) Do banks in New Zealand lend their deposits? (b) Is there any fixed relationship between deposits and advances in New Zealand? (c) What factors determine an increase in advances?

(*a*) Yes.
(*b*) No.
(*c*) The demands of traders, manufacturers, farmers, and others for accommodation and the willingness of bankers to grant them having regard to (i) the volume of deposits ; (ii) the prospects of the enterprises demanding advances ; (iii) the nature of the securities offered.

The ratio of advances to deposits is determined mainly by the balance of payments, which in turn is influenced mainly by the balance of trade and by Government borrowing. The balance of payments affects the London balances and the ratio of deposits to advances in New Zealand. This has a bearing on (*b*) above. Since I am in substantial agreement with Treasury's statement in these matters, there is no need to develop the argument.

12. What would be the advantages and disadvantages of lowering the exchange-rate on London from the point of view of (a) the budgetary position, (b) the economic structure of the country?

The balance of argument is overwhelmingly against a reduction of the exchange-rate on London. I would summarize the advantages and disadvantages as follow :—

(a) Budgetary Position.

Advantages.—(1) The cost of transmitting interest overseas would be reduced.

(2) There would be a temporary fillip to imports and a *temporary* increase in Customs revenue.

(3) This would discourage the further accumulation of exchange funds in the hands of the Government.

Disadvantages.—(1) The Government would suffer a loss on the volume of exchange funds now held and bought at 125.

(2) Internal deflation which has been checked by the increase in exchange would be resumed. This would reduce taxable capacity and receipts by way of interest, rents, &c.

(3) The deflationary process would increase unemployment or at least make it more difficult for unemployment to be reduced. The burden on the unemployment funds would be greater and some assistance from the Budget might be necessary.

On balance there is little doubt in my mind that the budgetary position would be made more difficult.

(b) Economic Structure of the Country.

Advantages.—(1) The price of imported goods would be lowered somewhat.

(2) The volume of imports would be *temporarily* increased.

Disadvantages.—(1) The disparity between farmers' costs and selling-prices would be increased.

(2) The deflationary process in evidence before the exchange was raised to 125 would be resumed and purchasing-power would be reduced, with discouraging effects on production and employment.

(3) After a temporary revival in imports there would tend to be a check in imports as internal purchasing-power declined.

(4) With declining internal incomes the burden of debt internally held would be increased as also the burden of taxation required to raise a given amount of revenue.

(5) The reduced purchasing-power of farmers transmitted to the rest of the community would strengthen any movement towards wage and salary reductions.

(6) Local manufacturers would be faced with increased competition from overseas, in the first instance followed by a reduced demand as deflation continued.

13. On balance would devaluation at New Zealand £125 to £100 sterling be in the best interests of New Zealand? This question assumes that £125 would be the "normal" exchange-rate about which adjustments might be made if warranted in the future.

Yes. This question is partly covered in answer to question 12, but the following additional comments should be made :—

(1) It is argued in some quarters that the increase in exchange has been of no benefit to primary producers. For the year ended January, 1934, the sterling value of exports was £33,700,000, and the value expressed in New Zealand currency was £42,100,000. Hence New Zealand exports were valued at £8,400,000 higher than at parity. In 1930 the value of exports totalled £49,000,000, and an official estimate made in that year allowed 26 per cent. for the cost of materials in the index number of farm expenditure. If we assumed that the whole of the value of exports went in expenses, the cost of materials would total about £12,125,000. If the exchange had been at 125 in that year, and all materials had risen by 25 per cent. in price, the additional cost would have been about £3,100,000. The expenditure on materials at parity would probably be much less than £12,500,000 at the present time, and an increase in the cost of materials of £3,100,000 as the result of the present exchange premium of 25 per cent. would be a very generous estimate indeed. This leaves a net increase in farmers' returns of £5,300,000. A reduction of the exchange-rate would undoubtedly reduce the purchasing-power of farmers and through them of the rest of the community. In short, it would have a deflationary influence.

(2) At the present time there is an appreciable accumulation of exchange funds in the hands of the Government. This is much greater than is warranted by the balance of trade. The following figures give the sterling value of exports and imports for the years ended January, 1933 and 1934, respectively :—

Sterling Value.

Twelve Months ended	Exports.	Imports.	Excess Exports.
	£	£	£
January, 1933	32,700,000	22,300,000	10,400,000
January, 1934	33,700,000	20,700,000	13,000,000

The value of exports was £1,000,000 greater for the year ended January, 1934, than for the year ended January, 1933. Imports were £1,600,000 less, and the favourable trade balance £2,600,000 more. Allowing for overseas interest payments of Government and local bodies to the extent of, say, £9,000,000, this would leave a surplus of £4,000,000. I understand that the surplus is very much greater than this. In my opinion the accumulation of funds in the hands of the Government has been influenced by the following factors:—

(i) An unknown volume of funds was transferred abroad prior to the raising of the rate, in anticipation of a rise. This lowered the datum line above which surplus exchange would be calculated. Much of the money would be returned to New Zealand when the rate was raised.

(ii) Since the rate was raised there have been persistent rumours that the exchange was to come down "shortly." This has led to uncertainty and has—

(*a*) Discouraged imports:
(*b*) Encouraged overseas exporters to leave funds in New Zealand on account of goods imported into New Zealand rather than accept payment in London:
(*c*) Encouraged the transfer of funds to New Zealand in order to make a speculative profit by retransfer when the rate is lowered.

I believe that these factors are operating at the present time in the expectation that the rate will be lowered at the end of the export season.

My conclusion is that the accumulation of funds is due not to the raising of the rate but to the fear that it will be reduced. I am confident that, had it been generally accepted that the exchange would remain at the present level for some years, there would have been little, if any, surplus of exchange accumulated. Certainly it would have been less than £4,000,000, allowing for Government and local-body requirements. If the currency were devalued, imports would increase and the above practices making for an accumulation of exchange funds would cease.

(iii) Although there may be a gradual rise in overseas prices any rapid and considerable rise is extremely unlikely. Hence the shelter of the exchange premium is still likely to be of value to farmers in helping them to bridge the gap between costs and selling-prices.

I conclude that the currency should be devalued at the present level of exchange, at the earliest possible moment,—

(*a*) Because farmers still require its assistance, and are likely to do so for some time:
(*b*) Because it would remove uncertainty from the minds of importers, and encourage an increase in imports:
(*c*) Because it would remove the main causes leading to the accumulation of exchange funds in the hands of the Government:
(*d*) Because it would relieve the Government of the prospect of loss from the sale of exchange bought at 125 and disposed of at a lower figure.

It should be noted that while the prejudicial effects of a rise in exchange in public revenue were felt at once the beneficial effects by way of increased income-tax and other receipts is not yet fully felt.

14. In view of present conditions, and the prospective outlook for the next few years, what should be the exchange policy of New Zealand?

This question is partially answered in reply to questions 12 and 13.

Having regard to existing and prospective conditions, my opinion as to exchange policy is as follows:—

(1) The Government should immediately declare a new parity of exchange of £125 New Zealand = £100 sterling.

(2) It should announce that this parity will hold for at least two years, save as the result of extraordinary and unforeseen events.

(3) It should be the duty of the central bank to hold the rate between, say, £3 of parity either way—*i.e.*, between £122 New Zealand = £100 sterling and £128 New Zealand = £100 sterling. This proposal is, in reality, a proposal for a parity fluctuating within narrow limits. Any change in the rate during the next two years should require the approval of the Minister of Finance.

(4) In two years the rate might be reviewed in the light of the price situation and the general economic position at the time. It might then be desirable to declare a new parity, but the above margins should be retained.

(5) Since the responsibility for maintaining the rate will rest with the central bank and not with the commercial banks, and since the danger of loss to the commercial banks from a lowering of the rate will be removed by devaluation, the Bank Exchange Indemnity Act might be repealed or at least amended.

My present feeling is that it would be wiser to hold the rate at not less than 125 during the next two years because I do not anticipate that world prices will rise sufficiently during that period to permit of adjustment at a lower rate. The proposal to widen the margin of exchange fluctuation permitted by statute beyond the 30s. either way, originally provided in the Reserve Bank Bill, is made for the following reasons:—

(*a*) It would provide the central bank with a method of control over imports and exchange funds more elastic and effective than interest-rates:
(*b*) Occasions might arise when it was desirable to take action affecting the accumulation or reduction of such funds without raising or lowering interest-rates in New Zealand:

(*c*) A variation in the rate might be used as a cushion reducing the effects on prices and economic conditions in New Zealand of fluctuations in export prices—*i.e.*, the device would permit of a greater measure of price stability in New Zealand.

(Note that the old margin of 30s. either way was roughly representative of the gold points. There is no need to return to this particular margin if another is more satisfactory, because New Zealand is no longer on the gold standard.)

Reply to Questionnaire from a Member of the Committee by Professor H. BELSHAW.

1. What was the originating cause of the violent fall in commodity price-levels?

The fall in commodity prices cannot be attributed to any single cause. Amongst the major factors are the following:—

(*a*) Political insecurity and growing economic nationalism:
(*b*) Reparations and war debts:
(*c*) Increase in international debt for other purposes, which became burdensome when once prices began to fall:
(*d*) Different and changing monetary policies in various countries for some years after the war:
(*e*) Changed character of international lending, leading to frequent disturbing short-term movements of funds (and gold) from centre to centre:
(*f*) Accumulation of gold in France and the United States of America and the depletion of gold reserves in other countries:
(*g*) Deflationary policies in some countries, notably Great Britain:
(*h*) Inflationary policy prior to the crisis in some countries, notably the United States of America.
(*i*) Increasing rigidity of price, preventing adjustment to changing conditions and leading to marked price disparities:
(*j*) Increased tariffs and other hindrances to trade:
(*k*) Rapid changes in the directions of trade:
(*l*) Unbalanced production.

These were the main underlying causes. The event which actually precipated the crisis was the Stock Exchange boom and collapse on Wall Street.

2. What was the cause of the rise in price of gold?

The price of gold in countries on the gold standard—*e.g.*, France and till recently the United States of America—remained fixed, but the price in other countries rose in proportion to the extent of the depreciation of their exchanges on gold-standard countries.

3. Are booms and depressions an inherent part of the economic system rather than the monetary system?

In my opinion booms and depressions are inherent in the economic system, but a properly devised system of monetary control would mitigate the effects of cyclical movements due to other causes, especially if such a system of control were international in scope. Monetary factors undoubtedly exaggerate considerably the amplitude of the trade cycle.

4. Does banking control or merely reflect economic conditions?

Banking policy in large measure reflects economic conditions, but it also controls them in the sense that it may encourage or discourage movements due to other causes.

5. Is the existence of money profits an inherent defect in the economic system?

The existence of money profits is a defect in the sense that—

(*a*) The volume of profits is not always closely related to the performance of a social service:
(*b*) The pursuit of profits under competitive conditions may lead to misdirected effort and a distribution of resources not in the best social interest.

On the other hand, profits are the mainspring of effort under capitalism and may be said to be responsible for a great part of the achievement as well as of the defects of the present system.

6. (a) Does the fact that banking is often in private hands constitute a weakness in the banking system?
(b) Does this lead to a chronic deficiency of purchasing-power?

(*a*) The answer depends on what is meant by the question and on the type of social order which is visualized. As long as the economic organization is based predominantly on private profit, the balance is in favour of retaining commercial banking in private hands. In such circumstances the banks must pass judgment on propositions in terms of prospective profits, and not on the social desirability of the enterprises considered. In the case of publicly owned financial institutions, the latter consideration would be paramount, and this would not always be consistent with the needs of a system predominantly competitive and profit-making. If socialization were projected or imminent the socialization of banking would be an essential preliminary step.

If a considerable measure of planning were contemplated within the general framework of a capitalist economy, it might be found desirable to establish a separate public institution to finance the planned activities. Even under a system based fundamentally on private profit, commercial banks should not be uncontrolled. A central institution, or Reserve Bank, whose broad policy is laid down by the Government, is desirable to put that policy into effect and control the general conditions of currency and credit in the social interest.

(*b*) Sometimes it leads to an excess, sometimes to a deficiency.

7. Would it be possible, by law, to fix and stabilize internal price-levels, irrespective of oversea price-levels?

It would be possible by appropriate exchange policy to have a considerable increase of price-stability, but such a policy is not wholly advantageous. (See reply to questions 12 and 14 *ante*.)

8. Does the volume of money and credit determine the general price-level?

The general level of prices is determined by the combined effects of—

(*a*) The volume of currency and credit:

(*b*) The velocity of circulation of currency and credit:

(*c*) The volume of transactions for which means of payment are required.

This is perhaps an oversimplified statement, but to answer the question fully would require an intricate and extended argument.

9. What was the principal means of financing used during war-time in New Zealand? Did advancing by way of overdraft for the purpose of subscribing to war loan play an important part in inflating the currency?

The principal means of finance in New Zealand was the issue of war loans. I understand that arrangements were made with the banks to grant advances to enable persons to subscribe to such loans. The Treasury would know more about this aspect of the matter, but I am satisfied that such advances were relatively unimportant in relation to the total issue. The large volume of subscriptions to the war loans was rendered possible by the high prices then received for exports of primary products.

While the war demand was responsible for that rise in prices, I do not think the flotation of the war loans in New Zealand was directly responsible for the increase in the volume of credit in New Zealand. The explanation of this is contained in the Treasury statement wherein it is pointed out that through the operation of the sterling exchange standard our price-level moved in sympathy with that of Great Britain. As more was received in sterling for our exports more was added to deposits in New Zealand, while, on the other hand, more had to be paid for imports. Hence the large increase in deposits and advances during the war period.

10. To what extent does our oversea indebtedness link New Zealand to gold or sterling?

Overseas indebtedness does not "link" New Zealand to gold or sterling in the sense that it forces us to accept any particular parity of exchange. It does, however, strengthen somewhat the case for a fixed parity of exchange with sterling.

Statement submitted by THE ASSOCIATED CHAMBERS OF COMMERCE OF NEW ZEALAND (A. O. Heany, Secretary).

My association takes this opportunity of placing before your Committee the views of the business community, as represented by my association, with regard to the inquiry being undertaken by your Committee. Our views may be briefly set out as follows:—

1. The primary causes of the present economic stress arise from conditions which are beyond the control of the monetary system, such as economic nationalism; war debts and reparations; political inflation of currencies during the war and after; tariffs and their effect on international trade.

2. The confidence of the commercial community in the banking system of this country has not been shaken, and we are confident that it can and will adapt itself wherever necessary to any changes that may occur in the development of industry and commerce whether local or international.

3. Except so far as changes may be necessary in the circumstances suggested in the preceding paragraph, the commercial community is not prepared to forgo the present system in favour of some new system that is unable to command the same confidence.

Factors distinct from the operation of the monetary system which have to be borne in mind in connection with present conditions in New Zealand are—

1. We have suffered a severe drop in the prices we receive for our produce sold overseas, the proceeds from which are the chief factor in our prosperity. Our interests are therefore interlocked with economic conditions overseas.

2. Government and local-body borrowing has for years constituted no small part of what we have regarded as our income, and this source of supply has now been seriously curtailed.

3. Overborrowing and overspending by the public authorities, by private enterprise, and by individuals, aided in some directions by an overextension of credit facilities, have resulted in the inflation of almost all kinds of assets beyond their real value, and much harm has resulted from the efforts which have been made to sustain these false values.

Monetary measures—

1. The majority of the monetary-reform schemes that are being propounded are variations of inflation in one form or another, and it is unnecessary to remind the Committee how impossible it is to control inflation so as to avoid the disastrous consequences of such a policy, which are well illustrated by post-war Germany and other Continental countries. My association does not feel called upon to deal with the claims of these schemes, one of which can only be described as plainly confiscatory. The schemes do not, in themselves, impress the commercial community as likely to be efficacious in the important sphere of banking, currency, and credit, and they also lack completely that authority that would come from their operation elsewhere.

2. By no possible method of manipulation of currency can the Dominion break away from the inevitable valuing of its currency in terms of sterling, in which latter currency payment is made for our exported produce, sterling thereby still determining the basis and value of our income.

Further, the large sums payable overseas every year for the service of New Zealand debts, national, local and personal, form another unbreakable link between sterling and our own currency.

3. England has not dabbled in monetary experiments, but has adopted certain prudent modifications of its well-tried and almost traditional system to meet unprecedented international monetary conditions over which she herself had no control, and to-day London is more than ever the world's financial centre. New Zealand has a system similar to the English banking system, and the manner in which the banks in New Zealand have functioned throughout an unprecedented depression is ample evidence of their fundamental stability and soundness. The Associated Chambers of Commerce of New Zealand is therefore strongly of opinion that local monetary experiments should not be tried.

Remedies: Concerning the steps to be taken in our present position in New Zealand,—

(*a*) The present values of all inflated assets must be allowed to find their true level in the process of readjustment that has become inevitable as a result of both the public and the private extravagance of the past.

(*b*) We must guard against further waste and extravagance, balance our budgets, public and personal, and so bring costs into accord with the new standards of values that have been established.

(*c*) The commercial community believes that the only changes that should be made in the existing system are such as the banks, in consultation with the Government, deem necessary to secure stability of exchange between New Zealand and Great Britain.

The above constitutes the statement my association desires to make on the subject. We do not consider it necessary to appear before the Committee in support of the statement, but we are prepared to appear if the Committee requires it.

Correspondence between MAJOR C. H. DOUGLAS and GOVERNMENT MONETARY COMMITTEE.

Government Monetary Committee,
Parliament Buildings, Wellington, 14th February, 1934.

Major C. H. Douglas, Evening Post Building, Willis Street, Wellington, C. 1.

DEAR SIR,—

The Government of New Zealand has set up a Monetary Committee to inquire along the lines as set out in the order of reference enclosed. A copy of an advertisement which has been inserted in the press throughout the Dominion is also enclosed for your information.

Owing to the prominence given to your proposals, the Committee feels sure that you will welcome the opportunity of meeting a Government Monetary Committee, and is therefore very desirous that you should submit a proposal or any other definite scheme which might be made applicable to New Zealand.

The Committee would also appreciate your appearing in person in support of your plan, and will be glad if you will select a date suitable to yourself. Arrangements will then be made accordingly. The Committee has decided to commence its work on the 27th instant, but if, owing to your short stay in New Zealand, you would prefer an earlier date than the 27th, then the Committee will be glad to alter its present arrangements to meet your wishes.

The Committee, however, would be glad to have your proposals a few days prior to your personal appearance in order that the members may have the opportunity of studying them.

Yours, &c.,
D. BARKER, Secretary to the Committee.

Fifth Floor, Evening Post Building,
Wellington, C. 1, 19th February, 1934.

The Secretary to the Committee, Government Monetary Committee, Parliament Buildings, Wellington.

DEAR SIR,—

I am obliged by your letter of the 14th instant.

(1) It would be a source of pleasure to me, and I have every wish to render effective assistance to your Committee in obtaining information which would further the welfare of the people of New Zealand.

(2) In regard to the suggestion contained in your letter that I should submit a proposal or definite scheme which might be made applicable to New Zealand, and on which your Committee might report under their terms of reference, the position is complicated by the circumstance that, as I have been requested to assist at a somewhat similar Parliamentary Committee in Canada at an early date, and have inescapable commitments in the United States in regard to the same matters subsequently, I am obliged to leave Wellington towards the end of this week.

(3) I am confident that you will agree that, in order to deal with the subject in question in a manner which would provide a complete survey of the situation and would carry appreciable weight with responsible opinion, it is necessary that the defects, if any, of the current monetary system be established by a judicial inquiry. At such an inquiry suitable defendants of the existing system might be examined by agreed counsel for its critics, both sides being in a position to call witnesses as to questions of fact. A similar procedure would no doubt be applicable to any suggested means of rectifying any defects exposed. Such an inquiry on behalf of the New Zealand Government might quite suitably be held in London.

(4) Since, at this juncture, time does not permit me to assist at an inquiry so organized in Wellington, even should your Committee desire to take action along such lines, I can, perhaps, be most helpful if you would inform me—

(*a*) Whether your Committee is prepared to regard it as now being beyond reasonable discussion that the existing monetary system creates financial debts in excess of the capacity of the public to liquidate it, and that this situation arises from the lending and other disposition of financial credit, constituting purchasing-power, by institutions claiming the exclusive prerogative of its creation.

(*b*) Whether, on the contrary, your Committee does not wish to comment on or investigate the current working of the financial system, and is therefore precluded from a favourable view of proposals which would traverse it.

The suggestions I should be prepared to make in the latter case would, if carried out, naturally be less effective than those made on the basis of the assumptions contained in (*a*), but I am hopeful that you might, even so, find them of value.

(5) It is perhaps unnecessary to add that any suggestion would be made with a view to implementing the wish contained in the second paragraph of this letter, and not with a view to obtaining an expression of opinion as to their technical soundness. To deal with this latter aspect, a more elaborate procedure than that which your Committee has so far suggested is indispensable, as proposed in paragraph (3).

(6) In order to economize the small amount of time available, I am despatching this letter to you by hand, and should much value your reply, if possible, within twenty-four hours.

Yours, &c.,
C. H. Douglas.

Government Monetary Committee,
Parliament Buildings, Wellington, 19th February, 1934.

Major C. H. Douglas, Fifth Floor, Evening Post Building, Willis Street, Wellington.

Dear Sir,—

I have to acknowledge the receipt of your letter of the 19th instant; in reply, I am directed by the Chairman of the Committee to thank you for your offer to assist, and to express his regret that your engagements may prevent you from devoting more time to the subject-matter of the inquiry.

As set out in the order of reference, the Committee was appointed to consider any proposals for the reform or improvement of the monetary system that may be placed before it. Incidental to the making of a case for such alteration, it would presumably be necessary to expose the weaknesses in the system at present in operation. Thus answering your second question first, I am directed to assure you that the Committee will not exclude any criticism of the existing system, and will undertake such investigations or call such evidence as may be considered necessary to examine any proposals for improvement.

The Committee, of course, cannot approach its work with other than an open mind, and obviously cannot prejudge any issue nor at this juncture make any statement in respect of the existing monetary system or of any proposed system while the matter is *sub judice*. This answers your first question. The Committee are certainly not precluded from taking a favourable view of any proposal which is shown to offer advantages over the present system.

Further, I may add that if at all necessary, the Committee may co-opt further expert assistance, and no obstacles will be placed in the way of making the inquiry as full and complete as possible. It is felt, however, that any inquiry into monetary systems applicable to New Zealand should be held within the Dominion and not, as you propose, in London.

In view of the fact that time does not permit you to assist at an inquiry in Wellington, the Committee are prepared to meet you by endeavouring to arrange a hearing in any other part of New Zealand and at any time which may suit your convenience. In the meantime, could you submit to the Committee the suggestions referred to in your letter in order that they may give them full study before meeting you?

Yours, &c.,
W. B. Sutch, for the Secretary.

Fifth Floor, Evening Post Building,
Wellington, C. 1, N.Z., 21st February, 1934.

The Secretary, Government Monetary Committee, Parliament Buildings, Wellington.

Dear Sir,—

I have to acknowledge receipt of your letter of the 19th instant, and to thank you for the information contained therein.

1. From your letter I gather that you regard the proposition put forward in paragraph 4 (*a*) of my letter of the same date as still *sub judice*, to which attitude I cannot, of course, take exception. It will, I feel sure, commend itself to you that it is necessary to establish the facts of the situation before proceeding at any length to put forward proposals which, to have any value, must be relevant to the facts. I should prefer, therefore, with your permission, to await the publication of your conclusions in regard to the existing financial system before taking up your time with the consideration of more far-reaching proposals which assume that fundamental defects have been exposed.

2. I am therefore attaching certain proposals in outline, based upon the working of the monetary system in its present form which for these purposes is assumed (without admitting such to be the case) to be self-liquidating. This involves the assumption that sufficient purchasing-power exists at any time to buy the goods which are for sale, at prices which are reasonably remunerative to those concerned in their production and sale. Any observed defects in the industrial, social, and economic systems, under this hypothesis, are due to maldistribution of a sufficient quantity of purchasing-power.

3. For the purposes of reference, I would tabulate the major observed defects as follows :—

(*a*) Surplus (unpurchasable) production—*i.e.*, goods in excess of purchasing-power ;
(*b*) Consequent "unemployment"—*i.e.*, surplus productive capacity ;
(*c*) Consequent "poverty"—*i.e.*, lack of purchasing-power, accompanied by economic need ;
(*d*) Redundant industrial machinery and plant—*i.e.*, surplus productive capacity in relation to purchasing-power available ;
(*e*) Consequent cut-throat competition to sell—*i.e.*, to exchange goods for purchasing-power ;
(*f*) Disappearance of industrial profits (expressed in purchasing-power) ;
(*g*) Consequent business and industrial depression and failure (bankruptcies, &c.) ;
(*h*) Competition for foreign (export) markets to offset failure of home markets—*i.e.* pressure to export real values for purchasing-power ;
(*i*) Consequent international friction, threatening and ultimately leading to war.

It is possibly superfluous to observe that the attached proposals do not deal comprehensively with these defects, which in my opinion, result primarily from a radically defective conception of the proper function and ownership of "financial credit."

4. I would repeat my desire to render any further assistance to your Committee on the basis of ascertained fact, coupled with a statement of objectives to be attained, and I shall welcome any correspondence addressed to me in London for the purpose of proceeding further along the lines suggested.

5. I am holding myself at your disposal from 9 a.m. to 1 p.m. on Saturday morning, the 24th instant, in Wellington, for the purpose of elucidating any points in the attached proposals on which you desire further information.

I am, &c.,
C. H. Douglas.

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 six per cent. (6 %) 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 bank's 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 bank's 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 seventy-five per cent. (75%) 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. (50%) 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 five per cent. (5%) 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.

Government Monetary Committee,
Parliament Buildings, 22nd February, 1934.

Major C. H. Douglas, Fifth Floor, Evening Post Building, Willis Street, Wellington.

DEAR SIR,—

I have received your letter of the 21st instant, together with the proposals put forward by you for the better working of our monetary system.

The Chairman has directed me to reply that the Monetary Committee wish to take advantage of your offer to elucidate any points in your scheme which may not be perfectly clear, and for this purpose the Committee will meet you, as you suggest, at 9.30 on Saturday morning, the 24th instant. The Whips' Room, Parliament Buildings, will be used for the occasion.

As was indicated in my letter of the 19th instant, the inquiry into proposed monetary systems was set up with a view to examining all alternative schemes in relation to the existing monetary system. The Committee, therefore, cannot agree that it would be wise or logical to bring down a report and later take further evidence as to alternative monetary systems, especially in view of the fact that your presence in New Zealand gives the Committee an opportunity to discuss personally with you your social-credit plans. As you will be in New Zealand until 6th March, the Committee extend a further invitation to you to place before them the general outline and basis of your credit proposals. This, of course, may involve an examination of the working of the present monetary system; to this end, the Committee will call all possible evidence in order that there may be a searching examination of all proposals placed before them.

The Committee are, of course, prepared to suit your convenience and to meet you in Auckland or any other town in New Zealand in which you may have engagements.

Yours, &c.,
W. B. SUTCH, for the Secretary.

Fifth Floor, Evening Post Building,
Wellington, N.Z., 23rd February, 1934.

The Secretary, Government Monetary Committee, Parliament Buildings, Wellington.

DEAR SIR,—

I am obliged by your letter of the 22nd instant, and will be at the Whips' Room, Parliament Buildings, at 9.30 a.m. to-morrow.

I note your remarks in regard to the submission of further matter for the consideration of the Committee, and as stated, I shall be happy to render any further assistance at a somewhat later stage of the proceedings, should you find that your examination of the existing system warrants procedure which would traverse the general propositions upon which current finance is based.

I regret, however, that the whole of my time prior to my departure from New Zealand is now allotted, and any further assistance I am able to render will either have to be by correspondence or on a future visit to New Zealand. I will furnish you from time to time with my address, between my departure from New Zealand and my arrival in Great Britain, probably about the beginning of May.

Yours, &c.,
C. H. DOUGLAS.

WELLINGTON, SATURDAY, 24TH FEBRUARY, 1934.

Witness: Major C. H. DOUGLAS.

The Chairman: I am sure it is a very great pleasure to us this morning to be privileged to welcome Major Douglas at this meeting. We look upon him as a distinguished visitor, and one who has spent many years studying the question of social credit and purchasing-power, and all other monetary matters, and coming as he has done to New Zealand on this occasion and the Committee having been set up as the result of petitions that were forwarded to Parliament asking that the present monetary system should be considered, it is fortunate that his visit has taken place during the Committee's investigations. Unfortunately for us, from the correspondence that we have had from Major Douglas, while he has suggested that he could evolve a plan for New Zealand, he unfortunately finds himself in the position that there would not be sufficient time during his present visit and he has made certain proposals to the Committee for their consideration. However, I would say even now, at this late

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

with the whole of the difficulties which do arise in our opinion out of the existing financial system, but I have no doubt whatever that they will form a very considerable mitigation in New Zealand of the difficulties which arise from that system. Now, the idea in practical form is that this monetized reserve shall be applied by methods which are quite orthodox and known by bankers and other people familiar with financial processes to wipe off the overdrafts of the general community on a *pro rata* basis, that being done in accordance with the well-known principle that the repayment of a bank loan is the destruction of a deposit—that is to say, that the money which was created in this way by the monetization of these reserves would be destroyed by being applied to the repayment of an overdraft. The second provision is that any excess profits over the 6 per cent., which, incidentally, is the dividend paid by the Bank of England, therefore is a rate of payment of dividend which has a well-known precedent, should be applied to the reimbursement of those people who have provided, at any rate, one source of that excess dividend—people who have paid interest on an overdraft. That is merely a reimbursement of an excess earning of dividends. In regard to the Insurance Account, Suspense Account No. 1, the idea behind the monetization of the reserve is the same. The application of it to the payment for the allocation of shares on what you might call public funds is, of course, novel, but it does not in any way traverse existing canons of finance. The practical result of that allocation of shares is to provide or allow for or make preparation for the distribution to the general public of a national dividend without the nationalization of the industry—that is to say, that you have in this way a participation by the general public in all the benefits of shareholding allotted to a national source without any interference with the private initiative of the concerns involved, other than those which are involved in share ownership, and so far as preference shares and debentures are concerned, it is a well-known fact that so long as the preference shareholder or debenture-shareholder gets his interest he has no say in the management of the concern. And in order that he shall get his interest the dividend equalization fund provided in Suspense Account No. 2 is provided. In that way you provide an increasing interest, a most definite gain by the whole population in the industries, and the progress of the economic development of the country. It will be small at first; it will increase later; I hope that by the adoption of other far-reaching proposals at a later stage it will increase very much more rapidly, very much further; but the essential point I should like to make is that there is no interference with the actual management of those concerns, but what is involved is that the general population obtains an interest in the prosperity of the concerns involved and also more purchasing-power with which to absorb production. Those, gentlemen, are my main points.

The Chairman: We now have the privilege of asking Major Douglas any questions.

Mr. Holland.] This question is a very big one to grasp at the moment and ask intelligent questions, but I would like to ask this: The proposal allows the bank a dividend of 6 per cent., which seems quite reasonable, but in years of stress and difficulties if the banks or insurance companies make no dividend, what would happen if they had no reserve fund?—I find it extremely difficult to imagine any circumstances under which that would occur if we knew what the accounts of financial institutions really represent.

Then if this proposal is a good thing for the banks and insurance companies, why not make it cover the whole of the mercantile community paying over 6 per cent.?—That is quite easily answered. The ordinary mercantile community, the ordinary producing community, produces goods and services; it provides the real wealth of the country. The financial institutions of the country merely produce a somewhat erratic number of units which we call monetary units which the producing community scrambles for. It is not in the profit by the producing community wherein the difficulty lies; it is in the manipulation of the production of monetary units wherein the difficulty lies.

In this country we are suffering from an economic depression and it is commonly known that we are suffering severely in consequence. How can that be remedied in a land of plenty; and we have a land of plenty and yet there is poverty and stress everywhere. Can you suggest a remedy?—This scheme of mine is the beginning of the remedy.

I am not just clear on the point, but this is all information. Suppose a man wants to purchase an article for 15s. and only has 10s. in his possession. Would your scheme deal with him?—This particular proposition under discussion is specifically stated not to traverse the existing financial system, and therefore it cannot deal with the ordinary matter of prices. There is no provision in this scheme dealing with prices. The idea I have at the back of my mind is that if you proceed along these lines you will yourself see the necessity of dealing with the price problem, but I do not want to force that on you. This is simply a preliminary suggestion which does not traverse anything which would not be accepted as perfectly orthodox by any authority on the subject.

I understand that no scheme can be devised which will meet the requirements of all the world. Each country must have a scheme of its own, is that so?—No. I should not agree with that. I think that there is a desirable difference between the application of certain underlying principles to a comparatively new country, such as New Zealand, with very very largely undeveloped resources, as compared with an old settled country like Great Britain, but the underlying principles of any scheme would be satisfactory to both of them—as to principle the same; the application would be slightly different.

In your written statement to the Committee you mention that if you were residing in England and were asked to build a bridge in New Zealand, you would have to come to New Zealand to study the conditions and prepare all the details. Do I understand that to apply to the monetary system?—Not to the monetary system, but to the conditions under which the monetary system operates. I have quite clear views on the monetary system, but the application of those ideas and the principles underlying them to an undeveloped country and an old settled country is, I think, capable of adjustment. That goes into the range of politics rather than economics. It is quite justifiable, within my view of the problem, to have slightly different applications in different parts of the world.

Referring to my previous question regarding helping the man who has only got 10s. and wants to purchase an article which costs 15s.: I understand from correspondence I have had with supporters of the scheme that this scheme would help that man to get that article?—What it does straight away, if my scheme were put into operation, would be to give him a little more than 10s., perhaps only very little and indirectly it makes his 10s. buy more, because, by reducing the out-of-pocket expenses of the producer, by reducing his overdraft, reducing the amount he has to pay interest on his overdraft, and reimbursing him in regard to interest he has already paid, it should enable him to charge lower prices. If it does not enable that, then you will have to give effect to the second part of my scheme.

Mr. Langstone.] Yes, I will follow up that question. Suppose a man never paid any interest and never had a bank overdraft, how would he benefit?—He will apply for a proportion of the shares of every new issue of preference or debenture shares issued in New Zealand, and he will get a *pro rata* allocation of those shares for nothing.

It would be some time before they were issued; it would not immediately affect his 15s.?—It would not affect it this week.

In the next two or three months?—In order to affect him at once, you will have to traverse the whole of the tenets of the existing financial system.

I would like to ask you this: Is not price the keystone or the determining factor at all?—Yes.

Therefore in formulating any scheme you must have some definite form of price-level or price-fixation?—Agreed. You are now asking me questions which I am answering in accordance with my own beliefs, not in accordance with the existing financial system.

This Committee can consider things not just in line with the present financial system; we can discuss or get information on all proposed remedies for the defects and errors of the present financial system?—I feel confident—if you will let me put it that way—I feel confident, from my own experience, that no specific results are likely to accrue from that course. We almost immediately get into a maze of statements as to the positive fact. I might very rapidly say a number of things which would immediately be contradicted by traversing the existing financial system as it works at the present time. In order to proceed any distance along these lines it is necessary to establish the facts, and in order to do that I feel sure that only one method will apply, and that is an inquiry at which witnesses are produced and the matter is threshed out. The fact that I say such-and-such is so does not, I think, carry necessarily any weight, and therefore I am trying not to say anything which will be merely an expression of opinion.

You talk of the subscribed capital of a bank; you mean the paid-up capital?—I should not quibble over details of that sort. The subscribed capital or paid-up capital is so very small in the average bank in comparison with its operations that the difference is very slight.

One other question follows on: We will take the disclosed secret reserves of the banks and will assume it is £1,000,000. You are going to distribute £500,000 the first year, then half every succeeding year until it "peters out." How is that going to increase? You said they would increase their share. Seeing that the amount is a diminishing quantity each year, how would it increase the purchasing-power of the people generally, or their interests in the community?—The first comment I should make on that is that I should not judge these proposals on the assumption that there is only £1,000,000.

Make the figure anything you like—£10,000,000?—If it is only a figure, then we will say £1,000,000. The answer is that if it is true, as I believe it to be true, that under the existing financial system the whole property of the country must inevitably pass into the possession of the banks either directly or by lien, then there is a constant stream of properties under these conditions passing into the hands of the banks, and that will keep up the strength. The whole of the property of the country will be handed to the banks, but the difference between the disclosed and the real reserves has already been distributed in the form of a financial lien on the property, so that the country will gain.

One other question I would like to ask: Does the volume of various classes of goods in existence determine the variation of price between those various commodities? There may be an alteration in prices between boots and clothing, for instance—an alteration in prices so that one becomes more valuable and the other less valuable in relation with one another?—The answer to that depends entirely on what you might call a question of relationship of cost and price. If you take the assumption of the existing financial system—that the price of an article is what it will fetch—then quite obviously it is true to say that the price of an article varies with the quantity produced, and directly there is a scarcity the price is raised.

Following on that, then, the money and quantity factors determine the general level of prices for everything?—Not necessarily; the general level of prices can be varied, not according to the absolute quantity of goods produced—that is correct; but by the application of correct methods it is possible to apply a creation of credit to a reduction of price.

In your opinion, what percentage of the money or credit which we have and can use in the community originates by way of bank loans in one form or another?—I think that is a matter which is capable of very easy statistical proof. There is only one form of money which is not bank loan, and that is currency, absolute legal tender, and the ratio of legal tender in Great Britain (I am quoting very loosely from memory) is somewhere in the neighbourhood of £350,000,000 all told, and the bank credit of Great Britain per annum is round about £39,000,000,000. These figures are, of course, subject to correction, and are not exact, and the figures require intelligent interpretation.

I was coming to that point. Seeing that wool has gone up in price in New Zealand I do not know whether I am right in this contention. Assuming that a Japanese buyer wants to buy wool; he sells £10,000 worth of goods in London and gets credit there. He sells that credit to one of the New Zealand banks guaranteed by our Government. Then he has a credit of £10,000, but he wants to buy wool in New Zealand. He is able to buy £12,500 of wool owing to our 25 per cent. exchange

rate. If I am his buyer, I land in New Zealand with a letter of credit indicating that I am to purchase that amount of wool at any price I like to give for it per pound. There has been no goods or money sent to New Zealand, then who provides the money for the price that has been paid for the increase in the price of wool in New Zealand?—That is really outside the scheme I have put to you this morning; I could give you a snap answer; if you want a serious answer I will need notice. The orthodox answer is that his firm establishes a credit in New Zealand which exchanges with the credit in London.

It is admitted by bankers themselves or by anybody who studies the banking question that bankers do create money and that they destroy money, and it is the destruction of the money that is the cause of a great many of our difficulties to-day?—I thi k that particular way of putting the matter, while very important, has been overrated. The fundamental factor—I am asking for the indulgence of the Chairman for going outside my brief—is the fact that the actual creation of the money takes place at a point, as you might say, which is not that of the creation of the goods, and the creation of the money is regarded exactly as a creation of wealth is regarded on the opposite side of the ledger, and therefore when a bank issues this money and lends it, it claims that thereby wealth is created. It is quite true that the actual purchasing-power subsequently is destroyed, but the fact is that it creates a thing which at any rate in the eyes of the public is equivalent to actual wealth, and it is creating that at a point which is not the same as the point where the actual wealth it claims to represent is created, so that you have what is in effect a double-entry system which should in that conception be only a single entry. For instance, as I have very often given as a very simple illustration, if I own a railway company and some one entirely unconnected with me sets up a ticket office and sells tickets which will be accepted as good tickets for the seats on my railway, then quite obviously for all practical purposes, for the purpose of controlling the transportation on that railway, and for every other purpose, it is the ticket office which has got control of the railway. That is exactly the position of the monetary system in regard to general business; an actual service which is a physical system of actually turning something into something else. The ticket or monetary system is something else again, and it is plainly the rightful property of the people who produce the services which can be obtained by tickets, and that is, I think, proved beyond discussion from the fact that the creators of money make their claim to repayment on the ground that you can get real value with their tickets.

In other words, they are getting money wealth, but no values are produced?—Certainly, if we did not agree that that was the scheme under which we were to pay.

Mr. Schramm.] How would the wage-earner, under the scheme suggested, get the preference or debenture shares?—He gets those on their being allotted to him on his application, and paid for out of the fund which is created by Suspense Account No. 1 derived from the hidden reserves.

And if there were no funds credited to this Suspense Account, he would not get the shares?—I think you might safely leave that question until you discovered what the reserves were.

But if there were no reserves?—You would get no shares.

If there were reserves, you would have a provision whereby all those wage-earners would get preference shares?—Or debentures, yes. Perhaps it would clarify in your minds what I have in mind if I explained further.

What I am really interested in is: If a scheme can operate for any banking company in the world whereby the wage-earner can go along and out of the Suspense Account be allotted shares for which he has not paid?—He has paid, but not in money.

You mean the Suspense Account has paid?—The Suspense Account has paid for the shares in money, but he has or his predecessors have paid by creating the values to which these shares refer to.

I suppose your scheme would apply to all banks functioning? Would you outline the scheme governing the issue of the shares; what sort of a legal effect would it have, governing the issue of these preference shares to workers whereby they themselves would be paid the value?—I do not see anything in that question which is not provided for in this scheme.

The present banking system is governed by the present banking laws; you would have to alter them so as to allow them to get these preference shares?—You would simple carry out the proposals which are laid down in that scheme.

You would have to alter the present banking law, which makes no provision whereby preference shares can be allotted to workers and payment made out of a Suspense Account?—You have to create a Suspense Account in the same way as you have to limit dividends to 6 per cent. That is provided for in the scheme; there is nothing in that which traverses the existing financial system as a system.

I do not see how you can do it, seeing these banks are governed by regulations. You would have to come to Parliament and have a special law passed altering the provisions governing these various banks before you can issue those shares to workers?—You would quite obviously have to apply some supreme authority to the banks which would insist that these provisions be carried out. I am not suggesting that you immediately put that into operation, but presumably you want to get something done.

You would have a tremendous rumpus with the banking authorities if you put the scheme into operation?—I am suggesting that this is a way to have that rumpus.

To give the workers the shares out of the Suspense Account?—Yes.

There are 75,000 unemployed in New Zealand. Can you tell the Committee in what way those 75,000 unemployed would reap any material immediate benefit from your present scheme?—Yes, they would reap this benefit from this present scheme: That a large number of business concerns which are now on the verge of bankruptcy as a direct result of having overdrafts and having to pay large sums of interest on these overdrafts would be prevented from going into bankruptcy and would be

able to carry on, and would see their way to carry on still better, and, as a result, they would probably provide more employment, and in that way some proportion of the 75,000 unemployed would become employed. You clearly understand that it is not in my opinion the direct objective of the industrial system to provide employment. The proper objective of the industrial system is to provide boots and clothing, but this scheme is simply based on the existing ideas of the financial system and to the extent that it is possible under the existing financial system to benefit all sections of the community I believe it does. To say that it does not completely deal with the situation is entirely true. What I say is, that the only way to deal completely with that situation is to traverse the tenets of the existing financial system.

Would you allow the present banking system of private ownership and control to carry on, subject to what you put forward ?—Subject to the putting into operation of this particular scheme ?

Yes ?—I have very little doubt that the putting into operation of this particular scheme would disclose the necessity of acting further. It would be action upon lines which would disclose the necessity of going forward, but in my opinion, however far you go, does not necessarily involve interference with the existing administration of business, either of banking business or of any form of productive business. The only thing which will force the necessity of that, in my opinion, my own considered opinion, is that the administrators of existing business go outside their proper functions and interfere with the conditions under which the product which they produce and the administration and production of which they are in control, is distributed. The actual administration under private ownership of existing business, in my opinion, is at least equal to that under so-called public ownership. The question of the distribution of what is produced is an entirely separate problem, and is almost purely a financial and not an administrative question.

You do not agree that the banking system is breaking down ?—Yes, I do.

Well, if it is breaking down, there must be something wrong in it ?—There is.

If there is something wrong in it, seeing that finance and banking are the core of the system, you should alter and change it completely ?—I do not agree. I should suggest that the actual production system with its administration has produced wealth. There is nothing in the existing production system to suggest that it has failed to produce wealth. On the contrary, in practically every country in the world except Russia there is a surplus of actual wealth which is being exhibited in the form of unutilized productive capacity and many other phenomena of that description. As a producing system the system has been admirably successful. What is breaking down is the method by which the things which the producing system can and does produce get over to the public who have a need for them ; that is entirely a question of distribution, and distribution is entirely a question of finance and has nothing to do with administration.

That is your opinion ?—Yes.

In connection with the shares in the bank : There will be nothing to stop any one trading or dealing with their shares, or putting them on the Stock Exchange ?—There is a clause in the scheme to prevent that—*i.e.*, the flotation of additional shares.

The ordinary shares ?—Not the ordinary banking shares.

Under the present scheme of yours, is there anything to stop the ordinary holders of shares in banks dealing with them ?—Nothing whatever.

And they are guaranteed at 6 per cent. ?—Well, no, they are not guaranteed at 6 per cent., but limited to 6 per cent.

Is there anything to stop private individuals who have shares from being allotted shares ?—There should be nothing to stop them. I do not know what the capital of the New Zealand banks is, but the total capital of the British banks is comparatively very small. Of course, as I need hardly tell a Committee of this kind, a bank hardly needs to have any capital at all.

Mr. Munro.] I have only one question, Mr. Chairman. Presuming the scheme outlined by Major Douglas to-day was introduced at once—I mean with the present low price-level for shares in banking and so on—there would be very little in excess of the original share value. What benefit would it be ? What I mean is this : With the present competitive prices, the undisclosed wealth of these particular banks and insurance companies, the possibility is that to-day if that was capitalized by value as suggested in your scheme there would be very little for distribution directly or indirectly to the public ?—I think that if the valuation is properly carried out that is most unlikely to be the case.

You mention, of course, buildings and assets of the banking companies, presumably shares, and all that sort of thing. All these things are at a very low price-level to-day, and you think that there would be very little difference on that account in the scheme as proposed here ?—I do not think it would make any considerable difference to the scheme. I am confident that banks as operated at the present time either make very large disclosed profits or make a very large undisclosed profit, and by having both ends of the stick you are bound to get hold of a very large profit some time. I have no doubt whatever that by dealing with both the dividend and the undisclosed reserves you will have something very considerable to distribute.

Mr. Murdoch.] I take it from your remarks that you lay all the troubles of the world at the door of the banks and insurance companies ?—I regard the banks and insurance companies as being the main mechanisms of the financial system. I lay a very large amount—I should not like to say what percentage, but certainly a preponderating amount—of the trouble in the world at the present time at the door of the financial system and nowhere else.

You say that the banks are mainly responsible ?—I should like to keep to the form of the preceding answer that the banks and insurance companies are the chief mechanisms in the existing financial system, and I lay most of the trouble in the world at the present time at the door of the financial system.

You think it is a fair thing to dip into the reserves and profits of these banks and in a sense confiscate them ?—I do not think it is a question of confiscation at all. There is a Spanish proverb which says, " He who robs a robber earns a hundred years' remission," and I regard these undisclosed assets and many other assets as being quite unjustifiable.

Do you favour or object to the institution of the Reserve Bank ?—You would like my frank opinion ?

Yes ?—I regard the prime objective of the institution of the Reserve Bank in New Zealand or anywhere else as being one move in a project to take the control of finance from out of the hands of the Government of the country in which it is carried on and to link it up with international financial systems.

Do I understand that these proposals are applicable to New Zealand only, or would you apply them to England ?—No ; I should apply much more far-reaching proposals to England.

Have you put a proposal such as this before the authorities in England ?—Not in that form.

Or any other countries ? Have you tried them anywhere else ?—Do you mind if I suggest that that would be dealing with questions outside the present meeting.

You have very clear views on the monetary system, could you briefly expound them ?—You want a general sort of idea ?

Yes ?—The idea which underlies the whole of my contentions is that a correct monetary system should be a reflection of facts, of physical facts—that is to say, that wealth does not consist in monetary tokens, and cannot under any conditions exist in monetary tokens. A monetary system can powerfully and does powerfully affect either the production of wealth or the distribution of wealth, and impedes it, because of the assumption that the production of wealth is conditioned by the accounting of it, so that if you have a condition of affairs such as you have at the present time you can have the condition which we consider does exist, for which we have any amount of evidence in various ways, that you may have a world which is actually very wealthy from a physical point of view, but you may have people who are so possessed by an erroneous idea of things that they will say the world is very poor and that only economies are possible ; it is the only policy which can be pursued. From our viewpoint that is an obvious contradiction, and we should say that it does not point to the fact that the world is poor, but points to the fact that the accounting system does not reflect the facts. The first objective of anything in view is to make the accounting system reflect the facts. When it does reflect the facts we then say it is quite a legitimate object, or subject, for the exercise of sovereign policy as now normally exercised through the Government of the country as to what disposal shall be made of the ascertained wealth or the rate of production, which is a more accurate description of what goes on, but while you have a condition of affairs in which you have an accounting system which suggests poverty and stringency, while you have a physical system which contradicts that statement, you cannot get any further.

Hon. Mr. Downie Stewart.] I am interested in the philosophy behind this proposal, and I gather from what you said just now that you think the scheme justified because you are, as you say, robbing the robbers ?—Perhaps I should prefer to say that circumstances have put these organizations into a position in which, whether they have a conscious desire or not, they are in fact in the position of being the unjustifiable recipients of wealth.

Have you not accepted in your own writing the fundamental principles of British and New Zealand systems of society—namely, that you do not dispossess a man of his property without compensation ?—I am not proposing to dispossess any man.

Well, assuming that a small tradesman, a working-man, or a widow bought a few shares at the present market prices based on the present dividend in the Bank of New Zealand. You are cutting their capital down by half, are you not, by cutting down the present dividend of, say, 15 per cent. to 6 per cent. ?—As things are going on at present there is no possibility whatever of the present banking system continuing for any considerable length of time, even three, four, or five years, without a complete catastrophe—complete breakdown of the existing system—and in that case I am not taking away anything from that man ; I am preserving half of his capital from ruin.

That is on the assumption that your view as to the future of the banks is correct ?—The whole thing is based on my assumption of what really would happen to the banking system.

Then, in effect, that means confiscation whether you approve of the present system or not ?—No, it does not from my point of view. It will be quite possible for him to receive only 6 per cent. instead of 15 per cent., and if the price-level were to fall by a proportionate amount he would be just as rich as he was before.

Take it from another angle. Are you aware that the banks in New Zealand on either their subscribed capital or paid-up capital do not pay more than 6 or 7 per cent. now and their dividends are made up from the income from their reserves ?—If they do not pay more than 6 per cent. or 7 per cent. on the average now, the shareholders are not hit and they cannot have any objection to disclosing their reserves.

Then no benefit accrues to the overdraft owners, or the people who are holding the overdraft. If, in point of fact, the dividend on shareholders' capital is not more than the amount, how are you going to limit it ?—If there are no undisclosed reserves——

You are not touching the dividends earned on the reserves at all ?—I am going to distribute the reserves, the undisclosed reserves.

The limitation of the dividend is 6 per cent. If it is at that rate now on capital (excluding reserves) the scheme falls to the ground before it starts ?—No, I cannot permit that. The undisclosed reserves of the banks are appropriated to the reduction of the overdraft and in the main to producers—that is to say, farmers—to a very large extent.

But I am dealing with the dividend now. You limit the dividend to 6 per cent. Then you do not touch that part of the dividend which the shareholders received from the reserves at all as a

dividend ?—Yes, I do, most certainly. They have now in England a provision which is part of the company law that you only distribute as dividends earned profits. If they are distributing dividends which are from concealed reserve they are breaking the law.

The object of the limitation of the dividend to 6 per cent. is to prevent the banks from paying 12½ per cent. or 15 per cent., or whatever they are paying at present ?—May I rephrase what you are saying for the purpose of answering ? That the profits of banks are partly distributed in the form of actual money dividends, and they are partly put to disclosed and undisclosed reserves which are not represented by any money at all. They are represented by either correct or incorrect price values which are not represented in any way by money. You can monetize those price values at any time you like, particularly through the mechanism of the banks.

I am sorry to say I am speaking specifically on the proposal to limit the dividend to 6 per cent., but, in point of fact, you are not limiting that part of the dividend that makes up the present dividend which the public consider excessive. You are limiting that dividend to what should be paid out in respect of the subscribed capital. If, in point of fact, only half the dividend is paid from that source so far as the limitation of the dividend is concerned, you have not touched the main point. If only half of it is paid the other half comes from the reserves, and those reserves are the essential features of the banks' system ?—Well, in other words, you say that the amount earned by the charges made for overdrafts represents only half of the banks' dividend approximately, and the rest is monetization by the methods of the banking system, of the price values held by them as reserves.

It arises as an ordinary investment. The banks, in order to be secure, claim that they must have reserves about equal to the capital ?—Then, what you are saying really means that in order to pay half the dividend of the bank the bank creates money to the extent of half the dividend on the basis of its disclosed or undisclosed reserves and pays that away as a dividend.

That is your way of putting it; the popular way of putting it is that a bank earns half its dividends from the ordinary business and half from the reserves ?—Yes; but I am really wanting to establish a question of fact.

Well, mine is a plain statement of fact ?—Half the dividend of the banks is the creation of new money on the basis of disclosed and undisclosed reserves.

Well, that opens up the whole question of your theory as to banking, does it not ? I do not want to do that at this stage. You say it does not make any difference whether it is on the subscribed capital or the paid-up capital ?—No, but I think the question is very much wider than that. I am prepared to give you either you like.

You are aware, of course, that a great number of men trade on an overdraft for their own convenience, because they can make better use of the money—wealthy men—they would share in this reduction the same as any one else ?—I have no objection. This is not in any sense a class question. In my opinion everybody is almost equally hit by the present banking system, except the banker.

Assuming the case put by one member of the Committee that that amount that you are going to transfer to the Suspense Account is £1,000,000. Would it surprise you if you were told that it would not make a difference or more than 1 per cent. reduction in the overdraft altogether ?—That statement does not at the moment convey any very clear impression to my mind.

It is a question of fact; it depends on what the overdrafts in New Zealand are and what the reserves are ?—I defer to your superior knowledge of the actual situation. I should think it is extremely difficult for any person to say what the undisclosed reserves of the banks are.

Take this further question. You are appropriating the difference between their book values and the market values as marketed under ordinary business conditions. What if the banks write up their assets to the market value, then there is nothing to appropriate ?—In that case they will have to show a dividend of several hundred per cent. which will immediately be appropriated. The writing-up of your reserves will increase your profits.

No, why should it ?—They will put something to their assets in a given year which was not in the assets the year before.

You have no objection to writing up their values to what you call their market value ?—Not if one appropriates the difference between 6 per cent. and the value of what it ought to be.

It is not the dividend you are appropriating, it is the capital ?—Yes, but any increase of capital which is obtained from trading should be shown in the balance-sheet as between the 31st December, 1933, and the 30th December, 1934, as profit.

Do you mean to say that if your premises in Lambton Quay, instead of appearing in the balance-sheet as, say, £1,000, as they may have been written down to, appeared at £20,000 that they increased their earning-capacity ?—Not at all, but if you show that in the balance-sheet you would have a net profit of £19,000 in that year.

No ?—Then I am afraid I do not understand the meaning of a balance-sheet.

You say that this is a method of securing for the general public the property of the banks ?—No. May I make a more clear distinction on that point. I do not want to take the property of the banks or any one else, so far as the administration is concerned. What I do want is to provide the public with the purchasing-power which will enable them to use the production of those undertakings, and in taking away the purchasing-power from the banks I am not taking away their property.

No, but in explaining your scheme you suggested that this is part of a scheme for securing the property belonging to the public to the general public. When you were making your verbal statement I wrote down these words, " This is the property of the general public " ?—The property of the public, which is the only property it has, is in consumable goods, together with the right, in my opinion, to so direct the general assets of the community that they shall be supplied with the consumable goods that they require and which can be produced. That is not the same thing as taking away from the administrators of the capital assets of the country their powers of administration. What I am con-

cerned with is that they shall so administer this property that the general public can get the goods which they produce.

My point was that you are purporting to secure to the general public, but in point of fact you are only giving it to those people who happen to have an overdraft at that bank which is fluctuating. You are not securing it to the general public, except in a very indirect way ?—In order to secure it for the general public it is necessary to take steps which go considerably beyond these. Those steps have to be based on the acceptance of propositions which do traverse the accepted propositions of the existing banking system. These proposals are specifically said not to go as far as, in my opinion, one ought to go ; they are preliminary proposals.

I find it difficult to come to grips on the question because of the statements you are now making. When you referred to it before you spoke of securing the property of the general public to the public and writing off the overdraft to the general community ?—Quite obviously every one of these phrases requires definition and my definition of the property of the general public might possibly not agree with the orthodox accepted statement, and I should have to establish that and the way that I should want to establish it, if I were in a position to do so, would be that it is the way which will enable you to make the most practical use of those facilities which do physically exist.

Well, there is one other point : Dealing with insurance companies, I am not clear why this scheme is limited to banks and insurance companies. Take all the firms who take deposits from the public and who deal in credit which is drawn from the banks for the use of the public—the stock and station agents, for instance—they go free do they ?—Is that a local phrase ?

They finance the farmers and make advances to them and generally they conduct a banking business within their own boundary ?—Where do they get their money from ?

From the banks mostly ?—So that they are really agents for the banks ?

They are an enormous feature in New Zealand's economic life ?—As agents for the banks ?

Well, in so far as they are dependent on the banks. They are not touched by this scheme at all ?—Well, the scheme as put forward is a scheme in outline only. If it was generally considered that the people you mention ought to be brought within the range of the scheme I should have no objection.

You know the saying, " A true test of every reformer is to make him reduce his proposals to the clauses of the Bill." I am trying to see how it would appear if it were put into a Bill. Take this question of insurance companies, you suggest that they should rediscount their reserves with the Reserve Bank. What is the actual effect of that ? Assuming they have their money invested in mortgages due years and years hence, would it be proper business for the Reserve Bank to take every one of these more-or-less fixed securities over a long period in order to enable this dividend to be paid ?—Well, there are always two ways of approaching these things, perhaps three. The first is, " Has it been done ? " ; the second, " Can it be done ? " ; and the third, " Is it desirable that it should be done ? "

Mr. Lye.] Should not the third one come first ?—I think, " Can it be done ? " should come first, perhaps " Is it desirable ? " second, and " Has it been done " third. I think the answer in this case to all three is, " Yes." It can be done, obviously.

Hon. Mr. Downie Stewart.] It is not the usual business for a bank to do ?—It has been done and is being done in the United States at the present time, which is what is referred to as liquidating frozen assets and it is desirable that it should be done in order to give more purchasing-power to the public.

Perhaps I should say that it is the major policy of the banks not to tie up their funds more than necessary, to keep them as liquid as possible, and if you load on to them all these long-term securities of the insurance companies that is a new feature of business altogether ?—You see, one is always met with these difficulties in regard to this matter that the banking system at the present time seems to oscillate between the suggestion that it is an ordinary business concern with the sole object of making profits and that it is not an ordinary business concern, but is identified with the general interests of the whole community. Now, if you take the second point of view, with which fundamentally I would agree, that it cannot be considered at all as an ordinary business simply concerned with making profits, the answer to your question is that it is desirable in the general interests that it should take on that business.

Yes, but take the question of mutual insurance where the profits are distributed amongst the shareholders. Why should those profits be appropriated for the benefit of other people ?—Even those concerns which are mutual and distributing their money profits do not distribute sufficient money from the fact that they have undisclosed reserves to monetize the whole of their value. This question is not a question of distributing actual physical property so much as providing sufficient purchasing-power to enable that property to function as a producing concern.

Some businesses have accretions which will not be distributed for fifty years. Their business would be shot to pieces under this scheme ?—In saying that you force me to break entirely fresh grounds. The whole idea of setting up reserves or even creating debts in completely unscientific. There is absolutely nothing in the physical circumstances under which the present world is worked which can be remotely associated with the word " debt " or the word " reserve." The two ideas are completely separate. I began my remarks by saying that what we have to do in order to get out of this jam is to get the financial and accounting system to form a fairly close connection with the physical facts, and the questions that you are bringing up really traverse the whole of that idea.

Let us suggest that, going back to the banks again where they operate in other countries, there has got to be a proportion of allowance for external business ; do you anticipate any difficulty in segregating the operations and assets of a bank which is operating in both Australia and New Zealand ?—I do not think it is an insuperable difficulty by any means ; it is not a difficulty which is out of proportion to the results obtained.

I only mentioned it because in assessing it for income-tax we have found it so difficult to get a true distinction between the local earnings and the Australian branches. We may be able to assess on their capital without regard to any attempt to segregate the assets ?—That I think is very largely because, as somebody more or less connected with banking described it, " A bank is an institution which publishes a fraudulent balance-sheet at the end of each year."

The general principle underlying this is that the banks and insurance companies are in a peculiar position, but if it is that there are other agencies in New Zealand using what we will call social credit, would the same principle apply to them all round ?—Where any institution directly affects the actual amount of monetary tokens or purchasing-power at the disposal of the community, most certainly. The answer is " Yes."

You would not in any way compensate all those people who lose half their value in the operation of this scheme ; I mean the shares of the banks in New Zealand are held very widely by hundreds of people ?—Yes ; I gave you, I think, two or three answers to the bank question, and I think could give you two or three more, as a matter of fact, quite easily ; but the question really does go deeper than that, and that is, that at the moment we are discussing the question of altering or dealing with the monetary tokens which are involved in the existing financial system. Now, it is perfectly true, and I accept it at once, that this is only dealing with half a question. The other half, and probably the more important half, is the question of price, and the question of price of shares which you are discussing comes in there, too. But to deal with the question of price traverses the orthodox financial system, and anything I say about that would simply be met by possibly a flat denial on the part of others, so that I think it comes into the proceedings at a later stage.

How are those native-born New-Zealanders selected for the purpose of giving them the right to those new shares ?—On the basis of passport, over the age of twenty-one.

But I am assuming that there are hundreds of thousands of native-born New-Zealanders ; it would be a long while before every man had his share, would it not ?—That is so. You have involved in that proposal the opportunity to exercise a certain discretion. You may have an issue of preference shares in some undertaking, and a man says, " Oh, no, I do not think so well of that," and he does not apply for them, and will apply for the next issue, and so forth.

But assuming 20,000 people applied and there were only 10,000 shares to be issued ?—I should reduce the value of the shares and issue more shares.

To whatever number of applicants there were ?—If there were originally £10 shares, I should probably make them £1, so as to have sufficient shares to distribute.

Mr. Massey.] Following upon the Hon. Mr. Downie Stewart's question, in your opinion do the banks and insurance companies of New Zealand have a monopoly of credit in New Zealand ?—The complete answer to that, I think, would require a knowledge of the exact relationship between the banks not trading solely in New Zealand and the other banks and Treasury of New Zealand. That knowledge I do not wholly possess, and anything that I should say in reply to that would have to be conditioned by want of knowledge as to the actual facts.

Under your proposals you say that you would value the assets and reserves of the banks and of the insurance companies : how would they be valued ?—They would be valued where there are parallel assets at the value which is set against parallel assets, by which I mean, where you have 100 shares in A stock, those would be valued at the price which would be obtained for somebody else's 100 shares in A stock, assuming that large blocks of property are not thrown on the market at the same time.

Then, under your proposals, you would hand to the public 50 per cent. of the value of the assets ?—No. Evidently this is a matter which is not clear to you. You would hand to the public purchasing-power equal to, in this case, 50 per cent. of the unmonetized value of those assets. It is not handing over those assets to the public ; it is increasing the amount of money which the public have at their disposal by the amount of an undisclosed reserve which is under that condition only represented by a price value and not by purchasing-power.

When it comes to the question of valuation, in view of the fact that we are an exporting country and actually are compelled to accept the price-level of the world for what we export, do you not consider the price-level should have a direct bearing on valuation ?—Obviously.

I just want to follow that up, and ask what the immediate effect would be, if your proposals were adopted, on the wage-earner of the country and the producer of the country ?—Taking these particular proposals as they stand, it would have a tendency to raise the price-level, and so far as the wage-earner is concerned it would have a tendency to increase employment, and also it would put him in a more favourable position to buy what is available. In so far as the rise in the price-level was reflected in consumable goods (which in the first place it would probably not be), it would make it clear that proposals in regard to dealing with prices were also necessary.

Under your proposals do you actually distribute the reserves created by the mutual insurance companies ?—No, sir ; I am sorry that it seems so difficult to make this point clear to you. If you say that the power of creating money to correspond with existing price-levels resides in the owners of those reserves, then what you say is correct ; but you are making an extremely momentous statement if you make that statement. What I am saying is that I would put at the disposal of the public the purchasing-power represented by the difference between those two price values, which is something quite different.

May I repeat another question : What would be the immediate effect if your proposals were put into operation on the dairy-farmer, if you take into consideration the fact that approximately 80 per cent. of the dairy-produce in New Zealand is sold in the markets of the world ?—The effect would be immediate on the producer in so far as the producer is overdrawn. It would decrease his overdraft and would therefore release to him additional money which is partly required for the purpose of reducing the overdraft on many occasions, and further would mean that he would be charged less

interest on what overdraft remained, so that it would be of direct benefit to him, and, because it puts him in a stronger position, it obviously improves employment.

I am afraid I am not quite clear: If you take up to-day's paper you will find, according to the cables, that New Zealand butter is sold on the London market at 73s. per hundredweight; would your proposals have any effect on that price-level?—No proposals I am making at the present time deal with the price-level as I think it should be dealt with, but in order to do that I have to traverse the tenets of the existing financial system; that I am not doing. The answer to your question so far as it is confined to these particular proposals before you is that it would tend if anything to slightly increase the general price-level in this country, in my opinion largely in regard to consumers' products, and not secondary products, and that by releasing the producer from financial embarrassment it would enable him, in his turn, to provide more employment.

Yes; you will admit that approximately 80 per cent. of the dairy-produce is sold in the world's markets?—Yes.

Under your proposals you say it would tend to increase the price-level in this country?—Obviously not in regard to an article like butter, which, as you quite correctly say, is governed by a world price-level. That can quite easily be dealt with by proposals which do traverse the tenets of the existing financial system which we are not discussing at the present time, but the whole of the price-level in this country is not made up from butter.

Very well; we will take wool. Approximately 90 per cent. or 95 per cent. of wool is sold overseas: What is the effect on that?—The price of wool has risen so high, you do not need to bother about it.

You say that really, under these conditions, the banking system has no effect at the present time?—The banking system, to pursue a tangent at the moment, is obviously producing the conditions to which are due the rise in price, but I should not like to say that that was an advantage of the banking system.

The same argument applies to meat?—Yes, I said to the Chairman some time ago that one of the reasons why general fundamental principles would require a different application to that in Europe is that your produce is unquestionably unbalanced, and is governed by world prices at the present time, and to that extent the rise in price-level which would normally be produced by proposals of this kind would be less than normal. I do not regard it as an advantage that prices should rise, but this policy would tend to produce a rise in price-levels. To the extent it does not produce a rise in price-levels the ordinary wage-earner is affected.

If your scheme were only applied to New Zealand, it would not have a great effect on the present conditions?—These specific proposals are suggestions made to this honourable Committee which can be put into operation without traversing the existing financial system, and I think they would produce highly beneficial results, but they would not go to the root of the whole problem, as I think I have made plain.

It is admitted that we export the greater proportion of the primary produce from New Zealand and we accept the world's price-level?—You are not obliged to accept the world's price-level. You can put an export bounty on at the present time, or do anything you like of that kind. That is not accepting the world's price-level.

The initial money would actually be found by the people?—On the contrary, that is exactly the difference between a subsidy and a creation of credit. The primary trouble is that there is a great deal of unmonetized wealth in the country; these proposals are simply proposals for monetizing that wealth, and not taking it from an already insufficient amount of money for any specific purpose.

Very well, you get right back to the original question: How would you value the assets of the country? I think it has been made clear that we export the bulk of the primary produce, and that must have an effect on the valuation of the assets which are held by the banks and by the insurance companies?—That is really, if I understand the question rightly, an extremely involved question, because if you deal with this subject only from the purchasing-power end and leave the price end alone, proposals of this sort are going to affect the prices to some extent and therefore valuations are undoubtedly going to be affected accordingly. For instance, if you have by these proposals, as I firmly believe you would, a very general improvement in business, then quite obviously the value of businesses concerned would rise. The value of business concerns which cannot operate for lack of purchasing-power is nil. It is something else again if the business can operate. If that is suggested as an objective, I should say that is an argument for dealing with both the price end of the system and the money-issue end, but to deal with the price end you have to traverse the existing financial system.

Very well. I will put one direct question as a dairy-farmer of New Zealand: It is admitted that we export approximately 80 per cent. of the milk-products which are produced in New Zealand and we sell them overseas and accept the world's price-levels for those products; how much better will my position be if we accept your proposals?—Your position will be this much better, that I should assume if you are a dairy-farmer, you must be almost unique if you have not got an overdraft.

Unfortunately I have not that privilege?—You are not unique in that way?

Many dairy-farmers cannot arrange for overdrafts, but are financed by the dairy factories?—The only difference is that one is a fixed overdraft and the other is a fluctuating one. In this case you would be benefited by having your liabilities decreased.

By making some one else pay them?—Not at all; by creating something that was not there before.

One more question: In your opinion is it desirable to produce goods at a loss?—That entirely depends upon your definition of a loss.

Take a dairy-farmer's cost of production: The bulk of the dairy-farmers in New Zealand are producing dairy-produce and selling it at a loss?—Selling it at a financial loss, but you would not suggest that the production of those dairy-products is a loss to the world.

So far as dairy-produce is concerned, the value of dairy-produce is determined, I think, by consumption in other parts of the world ?—The value of it is determined, or should be determined, by what is the result of producing that produce, and by its being used by the population. The fact that you produce it at a financial loss whereas in fact it is a benefit to the general population is simply an illustration of the fact that the financial situation does not reflect the actual facts.

In effect, you suggest that the rest of the community in New Zealand should subsidize in some form or other the dairy-farmers of New Zealand ?—Not at all; if you ask the rest of the population of New Zealand to subsidize the dairy-farmers you are taking from the rest of the population of New Zealand part of an already insufficient amount of purchasing-power; but if you create by any method at all an additional amount of purchasing-power, which enables you to sell your produce and not to make a loss on it, then you are not taking it from the rest of the population.

Can we in New Zealand assist the people of Great Britain in finding additional purchasing-power in order that they in turn can purchase the produce ?—Yes, you could do it in two ways. We will attend to one part of it in Great Britain with a certain amount of luck, and you assist them directly by selling in Great Britain at a lower price. When you sell your produce in Great Britain it does not mean you have to receive a lower price, but when you sell in Great Britain at a lower price you assist the consumer to get more for his money.

I have already stated that the dairy-farmers of New Zealand are producing dairy-produce at a loss and selling the great bulk of it in the world's market. Do you suggest that the remedy is to keep on selling and producing more and selling at a lower price ?—What I say is that the remedy is to adopt methods by which you can sell at a low price and not make a financial loss.

Mr. Lye.] Will you agree, in the first instance, that we have no perfect system of banking and finance throughout the world ?—Certainly.

Very well, will you agree that the system of banking and finance is undergoing constant change, inasmuch as recently we had the establishment of a central Reserve Bank and that the change is for the betterment of the people as a whole ?—No.

You do not agree ?—No.

These proposals have been advanced by you not as a cure, I understand, of the ills from which we are suffering, but to assist in some degree in a more equal distribution of what you may term community created wealth. Is that right ?—Yes, I think I should be inclined to agree with that.

The next question is this: Under your proposals which have been submitted this morning you propose to limit, in the first instance, the earning-capacity of capital, and it is the reserves, disclosed or undisclosed, you propose to distribute, the profits over and above the amount that would be required to pay a 6 per cent. dividend on the invested capital in the bank ?—Before I could possibly answer that question I would want a definition from you as to what you call capital.

My definition of capital is the money employed in running the institution. Money that is required to carry on the business of banking and finance ?—The money employed to carry on the institution is got by the banks themselves.

Well, say the assets and securities of the bank ?—At the moment I do not follow that.

Will you agree that if the reserves of the banks do not provide sufficient to pay more than 6 per cent. there would not be any justification for this proposal ?—That appears to be obvious.

Supposing there is a distribution that has to go to the customers of the bank in reduction of their bank overdrafts ?—To one of the suspense accounts, yes.

It might possibly go to individuals, non-shareholders, who had taken no risks—there is a risk in finance and banking—carried no responsibility. What I want to make clear is this: Would all individuals have the same right under the distribution of profits from the Suspense Account No. 2 ? Would a person with no family responsibilities be placed in the same category or treated the same exactly as a man who had family responsibilities ?—It is for every New-Zealander, irrespective of station.

If the present system is responsible for many of our failures, you do not claim that your proposals submitted before the Committee this morning go the whole way in getting us out of our difficulties ?—No.

While it may or may not be admitted that the proposals which you have submitted will provide a more equal distribution of the community created wealth, the question I want to ask is this: Is it not a fact that the real wealth of the Dominion is largely dependent upon the exchange value in the markets of the world of our produce, of what we export, for we are an exporting country and not a manufacturing country, and that our real wealth is largely dependent upon the exchange value of our goods in the markets of the world ?—Not fundamentally. The answer to that is really very largely the same sort of answer as to the question, "Did the hen or the egg come first in the world" ? The exchange value of your products in the markets of the world is almost entirely governed by the conditions under which they are exchanged. Under the present financial system, and again I am being strictly orthodox, it is necessary for practically every country to establish what is called a favourable balance of trade—that is to say, it must compete for exports. The value of your exports under the existing financial system is mainly governed by the stringency of the competition, and it is the conditions under which you export rather than the actual facts of the exportation which govern the value of your exports.

Will you deny that the purchasing-power of the producer in New Zealand is governed by the exchange value of his goods overseas ?—It is not necessarily governed.

I do not like the qualifying word "necessarily." Is it at the present time ?—Unquestionably, even within the confines of the existing financial system.

Under the present financial system ?—It would not necessarily be under perfectly orthodox finance. It is powerfully affected by such things as import or export quotas and tariffs and bonuses, and so on.

Is not the question of the velocity of circulation, which in our present circumstances has largely been slowed down through the small margin between cost of production and the selling-price, an important factor in our troubles to-day ?—No ; I confess I do not quite see what is the connection between the velocity of circulation and the present question. The velocity of circulation has almost nothing to do with it.

Then you would say that velocity of circulation is not a matter of very great importance. Would it be a question of the quantity of currency and credit in the country rather than the turnover of goods and services ?—Absolutely, because the modern production system is not an exchange for goods and services ; it is a draft by the population upon the central pool of wealth.

This, I might say, appears to be a very important question, and I think it is of sufficient importance that we should have clarity. When I use the term " velocity of circulation " I do not necessarily mean the exchange of money for money ; but I mean the exchange of credits, the exchange of goods and services taking the place of credits in the banks, and the exchange of credits from one individual to another, and I was going to submit that that is a matter of very great importance in any scheme of finance ?—I quite agree with that.

You do not attach a very great deal of importance, unless I have misunderstood you, to this question of velocity of circulation—the exchange of credits from person to person ?—I attach a great deal of importance to the understanding of it, but not to the statement that velocity of circulation in itself is important.

Many of us have given this question a great deal of consideration, and I believe that the people of New Zealand would be grateful to receive something more than what we can get to-day. Of course, your time is limited, we recognize that, but could you, before leaving New Zealand, supply us with additional information showing us how purchasing-power can be made to equate to production ?—Well, the general principles by which purchasing-power can be made to equate production are available in quite a large number of books, simply as principles, and I do not think, personally, that I have got very much to add to what there is available in those books as to general principles. What I would repeat is that my services are at the disposal of the Committee to any extent and for any length of time, but I have quite definitely no available time between now and the 6th March, when I will leave from Auckland. I should even change that if I were not definitely committed to two Government Committees in another country, and that I cannot obviously interfere with. Still, there is the post.

Would you agree with the statement which I now make that whilst there are many books, as you have stated, dealing with the principles, there is not one book that I know of that lays down a definite plan for putting the theories into actual practice ?—No, I should not agree with that. I should say that there are in existence plans which require remodelling in various respects for particular circumstances, but it would be a very unwise thing to proceed further than I have proceeded at the present time with a final plan for New Zealand without going into close consultation with Ministers of the Crown and many other people before the thing was embodied in an Act of Parliament. Quite obviously, action along these lines, if possible, should be arrived at by reasonable negotiations, so long as the principles are kept in mind. That is a general answer.

So you think there are plans which require remodelling to suit particular circumstances. Do you know of any plan that is foolproof or perfect that can be put into operation with advantage to the people of this country ?—I should say that with very slight modifications which would suggest themselves to any one who dealt with it, this plan of mine could be put into operation and then built upon and proceeded further with.

I think it is right to say that the banks are trading banks or institutions ?—I am never quite sure whether it is right to say that or not, because at one time I am told that the banks are purely trading institutions and at various other times I am told that they are vitally connected with industry, that they have the interests of the public at heart, that they are practically identified with the country, that they are New Zealand, and that any attack upon them is an attack on New Zealand and so forth. I therefore find it very difficult to make up my mind as to what the banks themselves say they are.

Leaving New Zealand out of the question, would you say that the banks, generally speaking, are trading concerns ?—I think there can be no doubt about that, as a fact.

I agree with that entirely. If your proposals submitted this morning are sound in every particular, following upon the suggestion made by the Hon. Mr. Downie Stewart, is it not reasonable to suppose that these proposals must not stop at dealing with trading banks alone, but they must embrace practically every trading company, and particularly the Farmers' Trading Institution and the stock and station agents, who both accept money on deposit. They both lend money to the producers of this country. If these proposals are put into operation, would you raise any objection and would you agree that the other trading concerns of the Dominion would provide a profitable ground for an extension of the proposals which you have submitted this morning ?—If there is a very clear distinction. These proposals are directed to provide a means for increasing the monetization of wealth which is produced or is available. So far as I am aware, there may be local practices in New Zealand which come within what I am proposing. Do these concerns to which you refer increase or decrease deposits in the Dominion which are drawable upon by cheque ?

Yes ?—Then to the extent that they create those deposits they come within the scope of these proposals.

Mr. Clinkard.] A great deal of what I have to ask has been covered by previous speakers. I would, however, like to be clear on this point : Does your proposal cover both disclosed and undisclosed profits—that is to say, all reserves ?—Yes.

Banks were established in New Zealand unquestionably for profit the same as other institutions were, and they were closely allied with the public interests of the country. Shares have been transferred from time to time. The values of those shares have depended largely on the amount of their accumulated reserves ?—Quite.

Any proposal to annex those reserves and divide them for the benefit of any other persons, however worthy, would be an unjustifiable deprivation of those people who bought those shares, would it not ?—That involves the same question that I am so unable to make clear. The thing which is going to be divided under these proposals is the monetization of those reserves, not the reserves themselves. If you claim that you are taking away from those institutions the power of monetizing those reserves for their own benefit you are claiming that the owners of those reserves have the power of creating what, in effect, is currency. It is, I believe, an accepted fact of statesmanship that the power of creating currency, or that which acts as currency, is a prerogative of the supreme authority, the Crown.

You mean legal tender ?—Yes. Those undisclosed reserves, so long as they are in the form of price values, are not in any sense purchasing-power or legal tender. What I am proposing to do is to monetize those undisclosed reserves and distribute them. Your objection is based on the assumption that the power of monetizing those reserves is the unique prerogative of the people who hold the reserves. I say it is not.

It would appear to me that in any case, whether you take it for monetizing purposes or whether you take it for any other purpose, you are depriving the present owners of the free right and use of their property ?—Supposing I make that clear by an illustration. Supposing you had no money at all in New Zealand and that, as is freely admitted, you cannot carry on modern business in a modern world by barter ?

That is admitted ?—If I were suddenly to monetize the whole of the real wealth of New Zealand by a process of writing figures in a book or printing bank-notes, if I created purchasing-power equal to the whole value of everything in New Zealand, would you say that that was my property ?

I think that is confusing the position. I understood you to say you would be surprised to hear that a bank was unable to pay more than 6 per cent ?—Yes.

Have you any experience of bank failures ?—Yes.

It is rather a painful experience ?—This is a very good instance of what I mean. No bank ever failed in the whole history of banks because it had not got real wealth at its disposal. Why it failed was because it could not meet its demands for liquid purchasing-power. That is exactly the position in the United States. The commonly accepted explanation of all the bank failures in the United States is that they were loaded up with frozen assets. All that was required to prevent those banks failing was that they should monetize these assets, and I am providing you with a method of monetizing them.

We are told that the banks do that now ?—Yes, but not many banks are in a position to monetize their assets to the extent that is required.

Are you in favour of controlling prices ?—Unquestionably, on properly thought-out lines.

That is a very important point. There is one other question I would like to ask. In view of the close connection between New Zealand——?—Might I just amend my last answer slightly. I am in favour of regulating price-levels, which is not quite the same thing.

In view of the close connection between New Zealand and the Motherland, do you consider it feasible for New Zealand to pursue a financial system diametrically at variance with that in Great Britain ?—Well, that really requires an answer as to the highly ethical standpoint of the bilateral bargain, if you are suggesting that New Zealand would be penalized.

I do not mean that ?—Then I should say it is quite technically possible for New Zealand to pursue a different principle.

You know Sir Arthur Salter's view on that subject, that our close connection makes it more difficult ?—I should still have my own opinion.

Captain Rushworth.] The term "price-level" has been used this morning. Is there any such thing as a world price-level ?—I should very much doubt it.

Are you familiar with the formula of Dr. Walter Rautenstrauch, of Columbia University, in which is set out the conditions in the United States that production is increasing ; production is excessive ?—I think I have that available here. I think I can say I am familiar with it. Naturally I did not know you were going to ask that question.

That formula related to the conditions in the United States. Generally speaking, would you say that that is applicable to the whole of Western civilization ?—Broadly speaking, I think it is applicable to the whole of Western civilization.

You were asked for a specific plan for New Zealand. From a newspaper report which I have seen you were asked a similar question in Australia—New South Wales—and you replied by referring to a bridge. You said that it was quite possible that you could prepare the plans and specification of a bridge, even putting in each individual rivet if necessary, but a great deal of work was involved and you found that after all the trouble had been taken it was decided that after all the bridge was not wanted. Is that idea applicable to New Zealand at all ?—Yes. I think I might, broadly speaking, answer that in the affirmative.

The question of trading banks was raised. Until quite recently we had six trading banks operating here and they have performed the function of manufacturing money. That function has now been transferred to a Reserve Bank. Were not those institutions in the same position as the Royal Mint ?—Not quite. The Royal Mint, so far as it manufactures metallic coinage, manufactures tokens of purchasing-power which circulate between individuals and are not destroyed, at any rate until they are worn out. The difference between that and the operations of a bank is that the bank does create purchasing-power, having exactly the same function as that of the Royal Mint, but it periodically destroys it at very much shorter intervals, therefore the cycle of circulation of the bank's money is very much shorter than that of Royal Mint money.

That is what I was coming to. When the money was metallic in Great Britain, not so very long ago, the Royal Mint had the sole right of making money. There were severe penalties on any one who

performed the function of the Royal Mint, and the Royal Mint was regarded as the most powerful instrument of Government. Under modern conditions, who is it, or what is it, that performs the function of the Royal Mint, seeing that we have not a metallic monetary system ?—The banking system.

So the banking system has taken over, to a large extent, the powers of the Royal Mint ?—It has taken over the powers of the Royal Mint unquestionably, but it does not function very satisfactorily in the orthodox point of view, because its cycle of creation and production of money and the subsequent destruction by payment of loans is very much shorter.

Following up that point for a moment. In olden times when the Royal Mint made golden money, sovereigns, the discoverers of gold could and did take the gold to the Mint and it was minted free of charge. The sovereigns were handed back to the possessor of the bullion and they were put into circulation, not as a loan but as a gift. They were in circulation permanently. When, through wear, they fell below the standardized weight they were returned to the Mint and reminted and made up to the original standard free of charge, or at a small charge ?—Entirely free of charge.

The modernized monetary system is different in that money is not put into permanent circulation in the same way ?—That is correct.

Whereas originally it was in permanent circulation, to-day it has a period and at the end of that period is cancelled out of existence. Is it correct to say that the cancellation, in almost every instance, is premature ?—It is certainly premature from the point of view which I have taken up this morning—that is, that an accounting system should represent the facts of the physical system. It does represent cancellation of items in the accounting system which is not justified by the actual physical disappearance of the assets.

Could we go a step further and say that the cancellation should not take place in any case unless there is a net wastage of assets ?—Absolutely.

If you had a progressive increase of national assets there should be no cancellation but a steady progressive proportionate increase of the money ?—That is so, unless you have what amounts to the same thing, a progressive decrease in prices which would increase the purchasing-power of the tokens.

Dr. Sutch.] Will you deny that there is or has been a world price-level for wheat ?—I assume that the question of world price-level is in the sense that the question was asked by Captain Rushworth. It is really mixed up with the question of whether there is such a thing as world currency.

May I quote you earlier in the discussion; you said something such as "Private initiative is admirably successful"; do you still agree ?—Yes.

And again: "Nationalization of insurance funds does not mean interference with the present system" ?—Did I say that ?

I believe that was the gist of your remarks ?—It may have been the gist of them.

You say the whole property of the country must go into the hands of the banks. Under that assumption how is it that tens of thousands of banks failed in the United States in the last few years ?—I simply repeat, the explanation is frozen assets.

You are familiar with the New Zealand banking system ?—Fairly, in that I assume it to be substantially similar to the British system.

You know what we mean by stock and station agents ?—I confess I did not know until this morning; I have gathered more or less from what has been said.

They extend intermediate credit to the farmers to a much greater extent than the trading banks. Would you say there was a monopoly of credit in New Zealand ?—Yes.

Would you say that an exporting or importing house does not sometimes extend credit ?—I should like to refer you again to my sharp distinction between institutions which can definitely increase or decrease deposits which are drawable upon by cheque.

That does not necessarily include some of the institutions I am referring to. In the depression a good number of farmers in this country have been "carried" by storekeepers. The storekeepers have let the farmers have the goods. They have been sold on credit so that there has been a substitution there, you see ?—They are intermediate agencies between the original sources of credit. It must mean something which would create deposits.

Not in this case; the original source of credit was the goods forwarded to the English market. The price realized in London would pay off the country storekeeper ?—To the extent that money came into the question at all. We were speaking about what is technically known as financial credit.

Were we ? I suppose it is a matter of definition ?—The commonly accepted definition of financial credit is something which creates deposits drawable upon by cheque.

Would you agree that the strength of banks and insurance companies ultimately depends upon their capital and reserves ?—I would like to know what you mean by capital.

In the sense you are using it; there may be uncalled capital, but there certainly will be assets which could be "marketed in the usual manner" ?—Do you mean the physical assets ?

Yes, if you include securities which are a claim on physical things ?—What is your question ?

Would you agree that the strength of the banks and insurance companies ultimately depends on the amount of their capital and reserves ?—What do you mean by the strength ?

I am afraid if you are going to ask me to define every simple word we will have to let the question go. By strength I mean the financial soundness of an institution—that it will not default when quite legal and usual demands are made upon it ?—I should say that ultimately the soundness of any institution of that kind depends upon its powers of liquefying its reserves.

Under the scheme you have here, do you not think that the soundest, the most well-run bank, the bank that has the greatest reserves, will have to pay out the most in reduction of overdrafts ?—That probably means that it has taken most from the community.

If it is an efficient concern, and has prudently managed its reserves, it will pay out more ?—I would not agree with that definition of efficiency.

Banks which were not run very well would not have to pay out or contribute so much because they have not very large reserves ?—They do not have to pay out anything at all ; any of them.

Under this system of reduction of overdrafts, the biggest business will get the biggest concessions ?—I am assuming that they have got their overdrafts on the basis of the size of their businesses.

Take a man who borrows extravagantly and a man who runs his business prudently, the man who borrows extravagantly will get better treatment than the man who has built his business up by other methods than borrowing from banks ?—I would say that the answer to that is that you can fairly well depend on the average bank not to lend more money than it is assured of getting back.

A very good answer, too. As to the difference between borrowers there is an adjustment made there ; some overdrafts are charged 7 per cent., some 6 per cent., and some 5 per cent. The ones who are paying 7 per cent. on overdraft get a greater reduction than those who pay 5 per cent. The shakiest accounts get the best reduction and the best accounts get less ?—The objective of the proposal is to put all things on a sounder basis ; therefore what you want to do is to stabilize the shaky ones.

I see ; you encourage the shaky ones to borrow heavily because they know they will get a good reduction ?—You can leave that safely to the banks, I think.

Assuming a mortgage investment company : with whom would you invest, a mortgage investment company or an ordinary insurance company or bank ? Would there not be differential treatment ? One is going to have something happen to its assets and its dividends and the other is not going to be treated in the same way. The investor will therefore put his money into the mortgage investment company which is not interfered with ?—All the time you are suggesting that I am proposing to take from two selected forms of institution something to which they have a right, the right of monetizing their frozen assets. The whole basis of your questions is an assumption that they ought to have that right. If so, then, of course, I am taking it from them. That is indisputable. The whole question as to whether I am taking anything from them at all turns on whether they do by legal or actual or any other right possess the power to monetize their own assets. If not, I am taking nothing from them.

I quite realize you are taking nothing from the insurance companies in the sense that you are issuing a piece of paper as a preference share ; but you are certainly taking some of their dividends. Say you have a balance-sheet value and a market value ; the difference is £1,000,000 the first year ; £1,000,000 is put to Suspense Account. In the next year will there be another million ?—I should think it is highly probable from the rate at which the assets of the community are in the hands of the banks and insurance companies.

So that next year, even though we have the same market value, there would be another million available ?—Yes.

Put that £1,000,000 into Insurance Account No. 1 : you have £500,000 paid out in one year to these "natural born" New-Zealanders. Assume there are half a million "natural born" New-Zealanders over twenty-one years, they get £1 share each ?—Yes, on these figures.

So that, if they get 5 per cent. on those shares, they are getting 1s. a year ?—Yes.

If you have a slightly falling price-level and the market value of your shares goes down next year, what is going to happen to your Suspense Account ?—Which Suspense Account ?

The insurance one—Suspense Account No. 1 ?—Well, anything might happen to it. If the actual assets coming into the possession of the institution are not increased, there will be a fall between the balance-sheet price value and the market price value.

Why do banks keep reserves ? Do you think it is just a bluff ?—Very largely to conceal their enormous profits.

What is the use of these profits stowed away ?—To maintain what you call "their financial soundness."

So that it is of no immediate use to the banks really, in that it might have been purchasing-power ?—It is every use to the banks ; it puts them in control of the country.

Would insurance companies include life, fire, accident, and mutual insurance ?—That has nothing to do with the assets of the banks.

In the insurance scheme, a mutual insurance company, of course, will have no share capital in the ordinary company sense, would it ?—No.

How are you going to divide up what corresponds to 6 per cent. of the share capital ?—On a limit basis.

Insurance payable by insurance companies does not in some cases become due for forty or fifty years ; some of these inner reserves are to be realized in the future. It would be folly, of course, for the companies to get rid of those reserves now ?—There is nothing to prevent them being treated by discounting.

I noticed the term "rediscounting of reserves" ; what do you mean by that ?—Taking an asset which you cannot discount in normal institutions and obtaining money from the Reserve Bank on a very small percentage.

You mean discounting, not rediscounting ?—Not necessarily ; a great many of the things discounted by the Reserve Bank have already been discounted.

I am aware of that, but the difference between the balance-sheet value of the reserves and their market-value is not discounted as a usual practice, so that the term "rediscounting" is inapplicable. We assume that you discount with the Reserve Bank ; in turn you are using the proceeds to give preference shares to the people of New Zealand—pieces of paper—but you would not need cash proceeds. The difference between the value and the market value : you discount it in some way, but you would not "monetize" it ? You do not increase purchasing-power, but only issue a piece of of paper which is non-transferable and not security for loan. Why go to the Reserve Bank when you do not need liquid funds ?—Would you rather go somewhere else ? I have no objection.

I do not see why the Reserve Bank comes into it ?—All purchasing-power which is required in return for those shares is based on the assets of the companies.

Your scheme means that you are not going to sell the land and property of the banks and insurance companies, but there is a difference between the market value and balance-sheet value. This difference you are going to issue by way of shares so that you will pay dividends on the private assets of the community. You are basing these preference shares on existing assets; could not the scheme be extended to all the existing assets of the country?—It will in time.

So that you can have all the land and assets of the country and issue debenture shares on that?—That depends on how much you require purchasing-power.

Assume that I require two or three times more than I have?—The only fundamental question is, can it be provided out of the resources of the country?

You value your assets and get your scheme into operation; if prices rise, the value of those assets would rise?—I said that if a business was transformed from practically a dead business to one which was selling, by any process whatever, rise in prices or otherwise, obviously the value of the business does rise.

You assume that if the market price of the product rises, the market value of land would rise?—That depends on a lot of other things.

If the price of a product derived from land rises, then would not the land itself tend to rise in value?—Yes.

So you have a greater basis for preference shares and dividends?—That would be so.

Assuming your scheme increases the purchasing-power of the people, the value of all producing assets goes up?—If you do not deal with prices at all, it does.

Therefore you can issue more preference shares which will claim dividends?—I should not like to proceed as fast as that, but it sounds quite moderate.

You would like to equate the purchasing-power of the community to the goods available for consumption?—That is not involved in this scheme.

I am talking of your social credit schemes. You would like also to equate purchasing-power with all the second-hand goods in the community?—Yes.

Goods, and services also, should have purchasing-power equated to them?—Yes.

We will assume that a lecturer is holding a meeting in the Town Hall and charging 1s. for admission: what purchasing-power would you equate for his services?—What it costs.

We will assume a thousand people at the lecture; you would not assume that that was the cost of the lecturer? How would you arrive at the value of the lecturer?—It is not at all necessary to arrive at the value of a lecturer. I do not want to take up your time or mine by answering hypothetical questions.

You said you would equate the purchasing-power necessary for a lecturer by what it cost?—His cost is the part of the compensation of the community for that space of time.

How do you know whether the community is going to assume the cost at one thousand shillings or not?—What I can do is to find out quite easily to all practical purposes what is the average——

If Bernard Shaw comes to New Zealand there may not be enough purchasing-power available to hear him?—All you will do under a condition of affairs like that is to transfer one set of tickets from a certain number of people in the community to Mr. Bernard Shaw. That does not increase purchasing-power.

So that some of the smaller, not so popular, lecturers will suffer, so that purchasing-power has not been equated to services available?—That depends on the lecturer.

Let us take another illustration: locally there is a glut in tomatoes, and growers cannot cover costs. If by means of social credit consumers obtain more claims to wealth, would the tomato-grower now cover his costs?—Yes, he would recover his costs in prices.

And if good weather brings another glut?—That is outside the scheme under discussion.

One thing here: you say that any observed defects in the industrial system arise, under the hypothesis we have assumed, from the maldistribution of sufficient quantity of purchasing-power?—Did I say that?

Yes, in paragraph 2 of your covering letter of the 21st February covering your proposals: "Any observed defects in the industrial, social, and economic systems are, under this hypothesis, due to maldistribution of a sufficient quantity of purchasing-power"?—Yes, under this hypothetical system.

So that, under this hypothesis, the sole thing that is wrong with the world is maldistribution of purchasing-power?—You are misquoting me. I said, "I am therefore attaching certain proposals in outline, based upon the working of the monetary system in its present form which for these purposes is assumed (without admitting such to be the case), to be self-liquidating. This involves the assumption that sufficient purchasing-power exists at any time to buy the goods which are for sale, at prices which are reasonably remunerative to those concerned in their production and sale. Any observed defects in the industrial, social, and economic systems are, under this hypothesis, due to maldistribution of a sufficient quantity of purchasing-power." Would you mind quoting exactly what I say when you quote.

But I have quoted your exact words from paragraph 2. Would you say that there are no other causes than the financial system for the low prices existing in the country to-day?—I should not say that the low prices are due to any other fact.

Would you say that tariffs had anything to do with the problem?—Only to the extent that they affect the distribution of industry.

A technical change of industry; do you think that would have anything to do with it?—That would have everything to do with it.

Do technological changes make for low prices under the hypothesis on which your scheme is based?—Yes.

If we could have something like the Douglas Credit Scheme working, would we have better prices for dairy products?—You could.

Costs, of course, would be included in deciding on the price ?—Yes.

If you had a high price, then would some costs rise ?—Possibly.

If you got a good price for dairy-produce would rents rise ?—Not necessarily.

Would they be greater than now ?—Only so far as the amount of rent was a cost and was adjusted in accordance with the general principle of adjusting costs.

If you assume that system in New Zealand and put 80 per cent. of butter into foreign markets, what is the local farmer going to do ? He is faced with high prices here and low prices in London : where will he send his produce ? Would it not swamp the local market ?—If he exports it he is going to get a high price for the whole of the butter he produces under a scheme by which prices are regulated, adjusting this scheme.

Would they be fixed prices ?—No. I would crave the indulgence of the Chairman. We have been discussing the scheme suggested by me and then discussing banking, both of which I am pleased to discuss ; but we are now discussing something else quite apart from those.

Very well, then, I will leave that side of it. The discussion with the previous questioner, Captain Rushworth, was also on lines extraneous to the scheme under discussion. I would ask one further question : If we can assume that the purchasing-power is slightly increased by the proposals you have here, is there any reason for assuming that we will buy butter or meat ? Perhaps we will prefer radios or motor-cars ?—I cannot give any information as to the tastes of the New Zealand public.

Mr. Ashwin.] I have had the benefit of hearing the previous discussion, and probably many of the points which had occurred to me have been discussed. There are, however, one or two things I should like to ask. Your scheme, of course, is unorthodox, and would raise some questions of equity ; but I do not want to labour this now. I want to get on to questions of economic significance. The first point in that respect is this : Would not your proposal, which you admit can only be an instalment, undermine the psychological factor of confidence and make things a lot worse than they are now ? The world over, it is generally agreed that one of the things which has aggravated the difficulties, whatever their basic cause, is this shattering of confidence—of business confidence, in particular. Would not your proposals here outlined, partly owing to the fact that they would run entirely counter to the ideas in New Zealand, and partly owing to the fear of what was going to happen next, would they not undermine business confidence still further ?—The answer is fairly obvious. If you can assume that the world will recover from its present malaise by the process of restoring confidence, then of course your contention is perfectly right. If you assume, as I assume, that the difficulties in the world are due to radical defects in the financial system, restoring confidence is no good, and you are simply wasting time.

In other words, you think things are going to be worse before they are better ?—No ; I think you have to do something within a short period of time, but in any case no question of merely restoring confidence in something not worthy of confidence is going to be of much use.

I think you are not so much restoring confidence as destroying it. Business is on a more or less hand-to-mouth basis ; if you make it worse, are you not in danger of facilitating a breakdown ?—If you assume that by merely not examining the position with respect of the present crisis, and taking such steps as you can to remove the cause of the present crisis, things will greatly improve for any considerable time, yes ; but the whole of my contentions are based on the assumption that we are heading for a worse breakdown.

On that assumption, it does not matter if you do anything or not ?—It is simply a question of whether you are doing more by taking action to the removal of the cause of the breakdown, or whether you think that a fool's paradise is the best scheme.

That, of course, is dependent upon whether I agree with your contention ?—If you assume that there is nothing at all the matter with the world, that it is just contrariness, and that shortly things will be quite all right, it is obvious that confidence should be restored, but otherwise I think that restoring confidence is not necessary.

You intimated in certain of the remarks that these proposals will only show the necessity of going further, and on that point I was somewhat struck by the similarity of your proposals to your well-known scheme for Scotland. When it comes to the future steps, are you proposing to proceed on an application of that scheme ?—I think, as far as New Zealand is concerned, quite a lot of what would appear on the surface would be a considerable modification of that.

It would be necessary. I was at first at a loss to follow your basis of working in putting this scheme forward, but in the light of your remarks and in looking up your scheme, I find it is in principle very similar ?—The fundamental principles of what requires to be done are quite, as you might say, universal.

And they are the same as are underlying this scheme ?—This proposal I am putting forward to you is certainly much less far-reaching.

Admittedly ; it is only an instalment. I was just wondering whether—— ?—The proposal is designed for the purpose of enabling goods to be bought and at the same time to provide for the fact that the use of power and machinery is displacing labour.

I do not want to take you into opening up a broader scheme, but you will realize that from my point of view, as this is only an instalment of the scheme, I want to know how far to apply that instalment. I want to have some idea as to what the procedure will be ?—Quite so. The direction is along the lines that I suggested this morning, that we want to get a reflection in the actual financial system of the actual accounting facts, and take account of those facts in designing the scheme. That scheme is designed on the assumption that the facts are as they are stated to be.

From a practical point of view, can I assume that with modifications the future steps that would follow this proposal would be along those lines—the permanent steps you would take I mean ?—I think the actual form of anything I would suggest that you should adopt would take a great deal more detailed consideration. It would appear on the surface to be widely different to that scheme,

but there would be no radical difference of the principle involved. The difference would be based on the fact that New Zealand is a potentially rich and largely undeveloped country and that you have to pay a good deal more attention to development than, say, in Great Britain.

That really only affects our form of institutions rather than the question of trading. It affects pretty well all productive institutions in the same way as you are proposing to do here with insurance companies ?—No, I am afraid that is not correct.

However, you realize that the point is vital to me. When you are dealing with an instalment of a scheme, before you can give due consideration to the instalment you must know where you are heading ?—This proposal was not put forward as the instalment of a scheme, but as a scheme which does not traverse any accepted principles of finance. I think, as an expression of opinion, that it would enable you to see the necessity of going further, but it is not put forward as an instalment of a scheme at all. I think you will probably find that it is a thing on which you can build, but that would be entirely a matter for your own country.

You said that this banking proposal is to take the undisclosed reserves; that they represent the physical basis for the creation of credit. I cannot follow that, except on the basis of your other statement, where you say that the property of the country will pass into the hands of the bankers. To be quite frank, I cannot follow that. From a superficial point of view, the banks have been in operation for a long time, and have not acquired much of the outside property yet ?—In Great Britain 90 per cent. is in the hands of the bankers.

It all depends on what you mean by "in the hands of the banks." Do you mean by that that a lot of property has been used as security for loans from banks ?—Yes, either those loans have to be paid back—they never can be in the aggregate—or the property becomes the actual physical property of the banks.

Your statement did not mean that the banks acquired the freehold in fee-simple ?—Well, that involves a great step. Banks do not want to acquire the fee-simple; they would prefer to leave it in the hands of some one else to manage.

Again, you say that a great deal of this property has been put up as security for loans which can never be repaid. The question of whether they can be paid off depends on whether a business is successful or not ?—The question as to whether a business is successful is dependent on how many loans are paid off. The definition of success in business is more that you get money than property in any real sense of the word; that you have more money at the end of the year than at the beginning. Before you can do that the question arises as to how many loans you can pay back. I am speaking in the aggregate.

Coming down to a single business, if a business is soundly based and efficiently managed, and normally most of them are—you have your failures from many causes—but, taking the normal business man, it is carried on successfully. In other words, the proprietors of the concerns make sufficient out of them—their assets increase sufficiently—to provide them with a livelihood ?—That is because of the outstanding loans of the bank.

Any successful business is continually paying its loans off—a successful business can liquidate its liability to the bank. I cannot see how the liquidation of the asset places it in the hands of the bank ?—What an ordinary business man does when he carries on business is that he competes with other business people for a definite amount of monetary purchasing-power. The amount of monetary purchasing-power in the country is beyond all question simply controlled by the banks—that is admitted not merely by economists of any standing, but also by the heads of the great banks themselves, so that when business men are competing for a monetary profit they are competing for something over which they have no control whatever in the aggregate. They cannot themselves make any money with which to make a profit, so that if the amount of money in the country is stationary then one set of producers can only make a profit by another set of producers paying it. The only condition under which they can all make profits is that the amount of monetary tokens in the country is continuously increasing in order to provide the amount of the profit. If suddenly, at any moment, action from outside is taken to decrease the amount of those monetary tokens, every one of them will make a loss.

I do not agree with that. The basis of business is not juggling with monetary tokens at all; it is in the exchange of goods ?—You reckon the success of your business in money. Now, at the end of the year you consider that you have made a profit, you have more money at the end than at the beginning. Supposing there is less money for every one to have, how can you all have more money at the end than at the beginning ?

I do not agree with you. Are you not confusing money in the shape of tickets to facilitate exchange with money as a common denominator of value ?—No, but I think you are. You can create a lot more price values, quite obviously.

What I mean to say is that a person can have a profit at the end of the year. We will assume that the amount of cash at the start was £100 and at the end only £50, he can have the profits in the goods ?—No. When you are assessed for income-tax on those profits, do you pay in goods or money ?

You pay in money, but that does not invalidate my argument ?—It does not represent goods unless there is enough money to buy the goods. You are carrying on business for the purpose of increasing your credit with the bank.

No. I say you are carrying on business to accumulate money to get sufficient food for yourself and family ?—You get that by drawing cheques on the banks.

You get it by making butter and exchanging it for boots and clothing. Another point was that, even assuming we put your scheme into operation, it would appear to me that the economic effect is going to be inequitable. Having once taken the amount of the undisclosed reserves, whatever it might be, and distributing, say, 50 per cent. in the first year and a decreasing proportion in succeeding

years, I cannot see that that is going to have any appreciable economic effect at all if every £1,000,000 in New Zealand only represents 1 per cent. of the overdrafts ?—I do not agree with the figure of £1,000,000, but I should be inclined to put it this way, that if it makes so little difference, then why not try it and see.

That opens up a lot of questions of principle and equity. I could not follow you when you said there would be a constant flow into the Suspense Account ?—One of two things would happen. Either they would pay off all overdrafts, in which case you do not want a flow, or there would be a constant number of overdrafts which would not be liquidated and which would be called in, and would be satisfied by assets which would go into the hands of the banks, into the Suspense Account.

If the assets were worth more than the amount of the overdraft, presumably the owner of them could have disposed of them and paid off his overdraft ?—That is not the point. The question is not what the overdrafts have been taken in return for, but what is the price at which they are held in the balance-sheet of the bank when they are taken over.

You say, having acquired the assets they are going to create further credits, reserves, by writing down their assets out of profits so that you can take that away from them. They will hardly do that ?—Then we should have very large disclosed profits of the banks.

Your second point about the disclosed profits largely removes the possibility of making them by, in the first place, taking away a portion of their capital assets ?—You cannot have it both ways. Either they do take over the assets and write them down or they do not write them down, in which case they make a profit.

That, again, I do not think follows, because the profits are made up by the difference between what they are required to pay for money and the amount they lend it at ?—No ; they are made by actually creating the means of payment by banking processes.

In regard to the insurance proposals. It was not made quite clear as to why you brought insurance companies inside the proposal. They are not yet part of the monetary system. I cannot see why you should take insurance companies and not investment trusts or breweries ?—But the insurance companies are part of the monetary system. A great many of the undisclosed assets of the banks are in the insurance companies.

You say banks have their assets in insurance companies ?—I think it would take us too far to follow that up, but I think you can take it from me that there is a very close connection between the insurance companies and the banks.

I cannot see any closer connection than between the banks and breweries ?—Perhaps you will take it from me as a statement, not necessarily true, that there is a closer connection.

You put forward the assumption that the existing financial system does not operate successfully. If your assumption is incorrect, then would you admit that it would not be necessary to put your scheme into operation ?—I do not, in any case, assume that the existing system is successful. I should think that it was a matter of common observation that it was not. So, what I say is that there can only be two possible theories as to why it is unsuccessful, one is that there is a definite lack, a deficiency, in the total amount of purchasing-power available, which is my theory ; and the other is the orthodox theory that there is no deficiency in purchasing-power, which means that there is maldistribution. If we admit the second theory is true, then we proceed to deal with maldistribution where it occurs in the greatest obvious degree.

Then I can take it that it is really your belief that our economic troubles are caused by the defects in the monetary system ?—Yes, but that is not admitted, and, therefore, I will not press it.

Notwithstanding the other fundamental factors, such as are set out in great wealth of statistics in such publications as are put forth by the League of Nations, where they trace a tremendous number of factors, such as lack of balance, and disorganization in the production system ?—I should call them symptoms, not causes.

It is not the other way round ?—I say that the monetary system is the cause and those other things are the symptoms.

There was a point raised by Mr. Massey regarding which I should like to ask a question. As you are aware, New Zealand economics are based largely on export trade in primary products and it will be generally admitted that the depression came to New Zealand through the heavy fall in those prices. New Zealand has undoubtedly suffered from a contraction in real purchasing-power in the sense that a larger quantity of wool, butter, &c., is now required to cover our overseas debt charges, and owing to the fact that prices of goods we sell abroad have fallen considerably more than prices of the goods we buy abroad we are now able to buy only half the quantity of imports we could buy in 1929. Those are basic factors generally admitted here ?—I should admit them at once.

Having regard to those facts, this contraction of real purchasing-power is undoubtedly a vital factor in our present troubles. Now, what I want to ask is—bearing all those facts in mind, that the whole key of the situation is based on them—in what way can this proposal of yours, or your larger proposal which you have not elaborated here, be applied in New Zealand to overcome that loss ?—The only real purchasing-power you have lost is in regard to the things which have not been produced which could have been produced, and those which are in the form of exports.

Assuming that we are producing to capacity in regard to primary production ; where we have lost is that we have to give away more pounds of butter, more bales of wool, to get the same quantity of goods, and so the real purchasing-power of our actual production has gone ?—It has gone by a great many other things than that.

Can this scheme or any other scheme for alteration in the monetary system in New Zealand overcome that defect ?—I can tell you how to get more purchasing-power ; put your pound up to the parity of sterling.

We would not be any better off then ?—Why ?

Is it not a fact that the question of the exchange is entirely an internal question ?—You would not suggest that the mathematical and exact rate of exchange is 25 per cent. below sterling. You would not suggest that the mathematically ascertained purchasing-power of your New Zealand pound is really 25 per cent. of the pound sterling. May I shorten it by saying that what you have really done is to put an export bounty on sterling prices.

Quite so, but that is quite apart from the question. What I am getting at is that in the London market where we go to exchange our goods on a barter basis we get less than we were previously getting, and that is a vital factor in our present troubles, and I cannot see how that can be overcome by any juggling of the monetary system in New Zealand ?—Well, I am perfectly certain that the first step to improve your position in New Zealand is to increase your general purchasing-power, so as to broaden your general basis of production. By increasing your general purchasing-power you will ultimately tend to create a demand in New Zealand for things which can be produced in New Zealand. In other words, new industries would be started.

You are talking now of our internal industries, but what I am speaking of is the loss which we have suffered through a slump in the London market ?—It is only a monetary loss.

It is a real loss, we are so many pairs of boots less ?—We can go on like that for ever.

The Chairman.] Taking the value of bank shares originally purchased at par, a buyer goes along and buys them at, say, £4. You propose to allow a rate of interest at 6 per cent., does that mean that the person who buys the shares at £4 has to be satisfied with less ?—That is quite definitely one of those questions which come within the range of policy; it is not a matter of technique at all, if you feel that there is a question of equity involved.

Personally I feel that something should be done in regard to a matter of that kind ?—Where any question of hardship comes in I should certainly regard it as a case for compassionate compensation.

Many people in New Zealand have bank shares because they are their all, and they know that they are a very safe investment, and if there is a loss to them you would say that provision should be made to meet cases of that sort ?—I should think it would be highly desirable, but it is a matter of no difficulty whatever.

It might be a very serious matter for the Bank of New Zealand shares in regard to the profits which you propose to use ?—I do not think it is a serious matter at all, if you will recognize that what is intended is simply to increase the available amount of purchasing-power in the country. If a man has a share which is alleged to be worth £4, it only means he has something which has a price value.

He has paid for it ?—He has parted with purchasing-power to the extent of £4. If the amount of purchasing-power is sufficient in the country you can use some of the additional purchasing-power that you have created to compensate him. That is a matter of policy. Presumably if any one buys shares, unless they are speculators, they buy them for the return they get from them, and therefore if you cut his interest down on what he paid for the shares from 15 per cent. to 6 per cent., if that is a practical difficulty there is no difficulty whatever in creating sufficient purchasing-power to make up the capital difference between the price that he paid for the shares and the price which they will now fetch on the market. I gave two or three other points in regard to the matter in from the point of view that his shares so far from being worth £4 might, in two years' time, be worth only £2. I may say quite frankly that the whole of my propositions every time are with a view to changing over to a new state of affairs without shock, and it is my opinion that in changes of this kind, the interests which oppose them, if they do oppose them, should realize that there should be a change, but so far as this specific case is concerned, I can very easily make a proposition by which you can compensate the owners of these shares.

Another question: Assuming that action was taken on the lines laid down in your suggestions to the Committee, might not the banks limit their credit to their customers ?—You suggest that the banks would penalize the public as the result of these proposals. Well, it has happened before, in several well-known financial crises, by those means.

Another point: Assuming that the banks are paying 3½ per cent. and they find all of a sudden that certain moneys are to be taken by way of reducing interest and overdrafts, &c.—— ?—Certain moneys ?

Certain profits of the bank are to be utilized by your suggestion here to-day by way of reduction of overdraft and also by way of reduction of interest. Taking the fixed deposits, is it not possible they might reduce the rate for the fixed deposits ?—They have done that in England now—you only get 1 per cent. on fixed deposit.

But they have not adopted this scheme ?—Well, that is all the worse.

One other question: In regard to the insurance companies, you propose to use their frozen assets in the way suggested. This country is subject to earthquakes (fortunately we have not had one this morning) and these assets are held by the insurance companies against probable loss. Suppose we had a big upheaval in New Zealand and the companies were called upon to find the money, and it had been distributed in these shares ?—The physical assets of the country are the only basis for the existence of any monetary values at all. Money is of no value apart from physical assets; if there are no physical assets left in New Zealand, there ought to be no money in the hands of the public.

The Chairman: On behalf of the Committee, I should like to thank Major Douglas for the time he has given us.

AUCKLAND, MONDAY, 19TH MARCH, 1934.

Witness: COLONEL S. J. E. CLOSEY, M.C., V.D., on behalf of Douglas Credit Association.

Proposals of the Douglas Credit Movement submitted by Colonel S. J. E. Closey.

Assumptions :—

1. The science of production throughout the world, and here in New Zealand, has excelled its plan and is capable of indefinite increase.

2. The location of supplies and demand are sufficiently widespread and interlocked to prove that the troubles of the world are not due to its peoples being divided into classes who have and others who have not, but instead that the nations have no workable medium of exchange which can enable each producing group to trade its products with other groups.

3. This breakdown of the monetary system is manifested within the boundaries of New Zealand, where destitution prevails amidst unlimited stores of the essentials related to the provision of food, clothing, and shelter.

4. The external trade of New Zealand is the consignment of pastoral and other products in exchange for goods not economically capable of production here.

The foreign exchange value of these products has not materially declined in relation to the value of goods we import, and the tremendous increase in quantity has more than offset our increased foreign debt commitments.

In view of these facts the position emerges that if we could here in New Zealand contrive a controlled money system we should be able to accomplish these tasks :—

(*a*) The provision for our people of every reasonable material need in regard to food, clothing, and shelter:

(*b*) The preservation of the savings of the provident by steadying the token of value, and the restoration of creative industry by assuring a return for competent labour:

(*c*) A system of foreign exchange whereby the copious products of New Zealand shall be traded in quality and quantity with the world's goods, and the resultant value shall be transplanted into New Zealand currency for the recompense of the producer.

Intention :—

There shall be established in New Zealand a national credit authority with the sole right of note-issue. This authority shall be selected and elected, and shall be given the task of issuing money and credit to such an extent that purchasing-power equates with production, that the value of the monetary unit shall be regulated in terms of commodities and services, and that the shocks of foreign exchange movements shall be met by monetary adjustments, so that the effects are distributed throughout the entire national organization.

The first task requires that there shall be distributed in this Dominion an increased amount of purchasing-power to pass into consumption the accumulated supplies and to employ the powers of replacement.

Experience having proved that raising wages merely adds to prices charged, and therefore does not expand purchasing-power, the Douglas method of using credits to effect sales by means of the price-regulating factor shall be adopted.

A calculation will be made of the amount of consumption goods awaiting sale, and also a calculation of purchasing-power available. With allowances of depreciation and appreciation of national assets there will be declared a certain sum which is the shortage of purchasing-power, and this sum will be set down as a fixed and limited amount to be drawn against as a national credit.

The accuracy of the calculations will ensure that deflation is checked and that inflation is guarded against.

Just Price :—

As a main method of expanding purchasing-power, certain essential commodities will be declared subject to discount at a rate disclosed by the price-regulating factor. If this is assumed to be one-third, then such goods and necessaries as bread, clothing, boots, meat, bedding, vegetables, rent, domestic electricity, railway fares, coal, gas, shall be subject to this discount, and the rebates so given will be reimbursed to the retailer by the national credit authority from the sum previously ascertained and stated.

A first claim upon the above credit will be for a payment to all unemployed, pending the provision of normal employment.

In addition, the exporting primary producer will be compensated for the difference in level between local prices and those of the overseas places of sales to the extent that his reward for labour and capital shall be relative to that obtaining in other occupations in the Dominion.

The Chairman: We thank you for having responded to the invitation from this Committee to the Douglas Association, asking that some one should appear, and, while we have no set statement from you, I understand that you are going to refer to matters that were referred to by Major Douglas. So we would be very pleased now if you will speak in any way as to a formal statement or otherwise, but we will just leave it open to you.

Colonel Closey: Mr. Chairman and gentleman, I might say that, in accepting your invitation, the matter was somewhat difficult, as the presentation of our case must be somewhat different to the

ones you have had presented to you by others. I would like to tell you that there is here in New Zealand what we call the "Douglas Credit Movement" that consists largely of students of monetary reform, who are adherents of certain criticisms of the present monetary system by Major Douglas, which has taken the form of organized groups of study, and throughout New Zealand they have been linked together in what we term the "Douglas Social Credit Movement." Until Major Douglas arrived there was not much intention of having a definite plan here for New Zealand. The point is that Major Douglas during the war years put forward a most striking analysis of what he termed the defects of the monetary system. Now, those defects have come to be accepted more or less by ordinary or orthodox economists, but more particularly they have been accepted by this organization, which is supporting him in his proposals here in New Zealand. We have for many months been broadening this circle of study, and we were awaiting the arrival of Major Douglas to make something of a detailed plan to put before New Zealand. The coincidence of this inquiry and Major Douglas's visit made it desirable that Major Douglas should appear before you, and we are indebted to you for the opportunity of having his instalment plan made the subject of consideration. When we received your invitation to be present we were in this position: we were just forming our national executive, giving ourselves the necessary machinery for the propagation of this plan, and we had to improvise more or less in order to get this necessary authority. However, it appears that possibly my evidence before you to-day might be of particular value in view of the fact that we are now crystallizing our ideas with regard to the plan for New Zealand. I would like to put it to you that we are not bent upon asserting a concrete line of action so much as pursuing a line of investigation. We are a group of students who have fixed, more or less definitely, to our own satisfaction, that the cause of this depression lies in the monetary system. We are pursuing a cure along the lines set out by Major Douglas, but we are not in the least doctrinaire reformers, and I appeal to this Committee that possibly your deliberations may assist us in the final aspects of the cure. Now that, I think, is necessary to set out, because I may disappoint you in the fact that I cannot here and now set out those exact details which I could if I came before you as an individual with responsibility for those details. The position is that the movement is growing rapidly. It is growing along certain definite lines. One is that we must secure the support and interest of the people. We regard this matter of credit and money control as being one for the people themselves. I might say that we have felt that way almost from the inception of the movement, and it would appear that in America, too, they are beginning to find that that is the way the monetary system must be reformed by the intelligent interest of the people, and I repeat, therefore, that probably from your Committee's findings we might get great help. We are developing, as I say, on two lines. One is to get the people interested. It is their policy. And, secondly, to keep technically correct. I think that will explain, possibly, some of the difficulties which people have had in connection with analysing the Douglas movement. We have begun from elementary principles and it is those elementary principles which are the basis of gaining public support. The position, therefore, I put to you, Mr. Chairman and gentlemen, is this: If we are right, then we will expect the utmost support from your Committee, and since it is claimed on our behalf that the Douglas proposals will not merely cure the depression, but will give us a prosperity such as perhaps not one in this room has ever dreamed of. On the other hand, if it is wrong, if there is some error in the Douglas analysis and therefore in the cure, then I say it will be the most heartbreaking disappointment, possibly, the radicals in New Zealand have ever known. It is spreading so rapidly that I appeal to you, if it is to be disproved, let it be disproved as soon as possible. We are now at the outset of a vast scheme of propagation and I would like, if there are any discoveries of error to be made, let it be before that scheme gets under way, and I look to the findings of this Committee to be of value to us. Now, another point which possibly you may find difficult to understand, or rather to fit in with previous schemes put before you, is that we not only have a mathematical formula and certain proposals for remedy, but what I would like to impress upon you is the ideology, to me the nearest word I can find, the ideology of the Douglas movement, and that ideology must be understood. It is the feeling of the people that their efforts to produce wealth instead of having met with the success that material achievement should result in, has brought about frustration. Now, that explains the great grip this movement has taken upon the people, the conception being widely spread through the people here in New Zealand and throughout the world, that mankind has, for the first time in the history of civilization, solved the problem of supplying his material wants, and they look to some manifestation of that in their own material well-being, and they cannot find it. Now, that has extended to New Zealand and our rank and file have certain elementary ideas which they feel should be the basis of a new monetary system. It can be expressed this way: They realize that here within New Zealand all the elements for food, clothing, and shelter exist in the greatest possible abundance. There is, too, technical equipment and workers who are pathetically eager to work. In spite of that, there is destitution amongst a great number of our people. Now, so much for what I might term the consumption goods aspect. They feel that New Zealand could, within its boundaries, relieve everybody from want in the material sense, and they look to some system of organization to make that possible through employment, and they are distressed and disappointed that no success is being achieved in that direction. To give a concrete point, one can say during the last year that hides throughout New Zealand have been practically unsaleable. Farmers have been burying the beasts on account of the few pence they get for the hide. There is a wastage, tanners are under employed, bootmakers are idle, and last winter ten thousand unemployed in Auckland proved to the inquiry officer of the Labour Department that they could not afford to have their boots mended. Now, the average person considers that there should be a means of curing that within the circle of our own domestic economy. They fail to see why people should go badly shod when all the elements of boot-manufacture are contained within the economy of New Zealand. Now, so much, as I say, for the commodity side. Now, as far as investment is concerned, fixed capital possessions, we know that here within New Zealand we have all

the elements, shall we say, for making concrete roads, the cement rock in unlimited quantities, the necessary transport State owned. We have here in Auckland five complete concrete roadmaking plants of the utmost modernity. Not one is working. Not one has worked for two years, and the men who formed the skilled staffs of those plants are on unemployed relief, chipping weeds that they know will grow with the next shower. It appears, from their point of view, that there is something lacking when all those ingredients forming the basis of an increment to our national wealth should remain unworkable and unused. It appears, therefore, that we have two avenues for creating wealth, that which we should consume and that which should go towards furnishing us with securities. Now, if that road became constructed the natural result we can see is expenditure of energy which to-day is being wasted. When that task is completed we will find that we have a particularly valuable asset. The draught cost on a concrete road is one-eleventh that upon the present country road. We see, therefore, that the real physical cost of production would be saved. We find that is in conflict with present congested markets. Now, I mention those two instances because that furnishes what one might term the spirit of the rank and file. They request or demand that in some means these factors should be utilized, that the consumption of goods should be made available for those who are destitute, and that the nation should profit by this acquirement of fixed capital wealth. Now, when they come to inquire the reason why these tasks are not put into operation, they find that local bodies and parliamentary organizations are thoroughly aware of the great benefits that would accrue, but the inevitable question arises, "We have no money. Where is the money to come from?" Now, from that question, they proceed to find out why it is that money is in short supply, and that leads them on to an analysis of the money system. Now, I might say that I followed the examination you have made here from time to time, and what has distressed me particularly has been the conflict of opinion or the conflict of evidence with regard to what we consider basic facts concerning the monetary position. We have assumed that the monetary system is generally regarded as being deficient, and we found that it is not generally admitted here in New Zealand. There have been numerous inquiries throughout the world. In some cases the results have been dramatic, and in many cases have brought about the downfall of Governments; and it appears to me that there is hardly one spot where one can find the monetary system upheld, and that is what gave an additional difficulty to this task of coming before you with a concrete plan. We are, in effect, to borrow Major Douglas's simile, called upon to produce a design for a bridge. We thought that we were more or less in agreement that a river did require bridging, but we find that point is in doubt or dispute. We are faced with the position that many people do not recognize there is a river there, and that, I say, makes it most difficult, because the Douglas plan, to be effective, involves a recognition that the monetary system is patently defective. Now, I might say that the evidence put before you must be very disturbing indeed. We have the bankers' evidence put forward trenchantly, that they are not aware of any defect. They have disclaimed responsibility for the present depression, and they have quoted authorities in support. Now, I might say that if we are to grasp the ideology of the Douglas movement, and if you are to assist us in your deliberations, you must recognize what our ideology is. Then, I say that it is bound up with this conception of whether the money machine is discharging the functions which we have a right to expect of it. At this stage possibly we might feel that our own authorities are somewhat suspect. I know we are regarded as being very radical, but still we find that modern monetary theory has implicated the banking system to a very great degree. Perhaps the most influential authority was the Macmillan report, and we claim, and I claim, that that report gives a strong sub-foundation to work upon in the Douglas proposals. To our astonishment the banking organizations have put forward that report as a justification for the fact or for their contention that this depression is not admittedly due to monetary causes, and a quotation was read from the Macmillan report which I wish to take exception to. They read one paragraph and omitted four vital words from the beginning, those words being "On the other hand." That particular reference they made in which the monetary system was more or less excused made it appear that that was the balanced finding of the Committee, whereas it was the left-hand of the proposal "on the other hand." There was a preceding paragraph, No. 207, which blamed the monetary system, and paragraph 208 was to show what could be said for the monetary system; and since that Committee was composed very largely of bankers it was only to be expected that they would qualify their criticism, but the final finding expressed in the succeeding paragraph, 209, was this: That the depression is due to the falling price-level, and that the falling price-level was due to the failure of the monetary system to do its job—failure of the monetary system to oppose those non-monetary factors—and the conclusion is that the depression is due to the monetary system being incapable of dealing with the situation—in other words, guilty, but due to ignorance. Now that, I think, is a good sub-foundation for our proposals that the monetary system is deficient. We find it, too, brought forward through the various writers. Probably there is no one to-day whose reputation stands higher in our Empire than Mr. Keynes, and he has trenchantly criticized the monetary system in his last work in 1933 dealing with the prospects of recovery. He again stresses the fact that this price-level can only be raised by monetary action, since monetary action causes depression. Now, we claim therefore that we are faced here in New Zealand with this collective opinion that there is a body here who contest that declaration that the monetary system is responsible for the depression. If that is not established, obviously a monetary cure will fail in its power, and, since the Douglas proposals are definitely monetary proposals, that is a point which we would like cleared up, and your pronouncement in that contentious area would be of very great value to the movement. In regard to the other authorities I might say that it has been suggested——

Mr. Clinkard.] Might I ask you to formulate that question definitely in writing so that we can consider it in its exactitude?—Yes, I would like to put forward that all educated areas of monetary thought admit that the depression is due to monetary causes.

Mr. Langstone.] Sir Josiah Stamp in giving evidence before the Macmillan Commission said so definitely?—Yes, but those three paragraphs are the key to the Macmillan report. Paragraph 207

gives all that can be said for the banking side. It appears to me that the voice is the voice of Keynes and the excuses are the excuses of Gregory, but the third paragraph is a definite statement that the depression is due to the failure of the monetary system to overcome the non-monetary causes. It appears to me that we have there a collective opinion of some weight, and that the disturbing factor has been that, while here in New Zealand we are dependent upon the banking institutions for assistance and co-operation, it is most distressing to find out that they are not conscious of any guilt in the matter. It would have gone much further had those banking authorities pronounced upon the opinion asked by this Committee as to whether or not they were pursuing and had pursued a price-level policy as against an exchange policy, which, you remember, was withheld for consultation. There, again, we have the distressing fact that we are not aware of future intentions. However, I might say that we wish to make that point and as a sub-foundation it is necessary for our movement to be advised on that point. We would value your pronouncement on that. I might say we have no more biting and incisive declaration than President Roosevelt's presidential address, Kitson in his book, and Lord D'Abernon. I might mention that there was some challenge that for each authority we could quote there could be an author quoted in the opposite direction. That we challenge, and we consider that if you refer to the variety and number of authorities summoned before the Macmillan Commission it will be regarded as the focusing of competent opinion upon that point. Now, there are some very pungent references made by Keynes, more particularly in his "Economic Consequences of Mr. Churchill." The first offered was right where one might say the depression was first launched in its terrible effect upon the financial world, and there is more to be gathered from that. There is the fact that monetary policy is capable of restoring the price-level if pursued. Now, the World Conference was thought to accomplish that, and to every one's despair and disappointment they did nothing. It would appear that we have to wait if world movements cannot be inaugurated. There is nothing to be done, but here, again, if we follow a policy of drift there may be even worse consequences in store for us. That is a point which I found disturbing in the evidence of the banking authorities. It was to the effect that things are on the upward grade—in other words, that if they pursued this policy of ghastly inactivity things would right themselves. I was very interested in that opinion, and I made a point of asking fairly high banking officials in Wellington if that represented the viewpoint of the banking world in New Zealand, and I heard that it is definitely so. I was surprised, because the latest pronouncement of the League of Nations Secretariat is that there is no sign of international recovery, and that I consider is necessary in formulating a monetary principle of having a long view and an authoritative view. It is quite true, as this report added, that certain nations have acquired from other nations a certain portion of their trade. Britain has robbed America of its car export; Belgium of its steel and glass; Germany of its shipping; but for the slight gain in certain areas there is a very terrible loss in other areas. Therefore, the point we make is this: That the monetary system is responsible for the depression, and therefore nothing but monetary action in a drastic shape will bring about a remedy. It will not cure itself automatically. That, I think, should embolden this Committee in pressing for some drastic action or some clear thought upon the topic which you are investigating; it is not merely a matter of allowing drift. The last pronouncement of Keynes in a letter to the *Times* was, I think, typically representative of his opinion. He says, "The mists are lifting and are displaying the gulf ahead to which we are drifting." So there, apparently, is Keynes's opinion, and that, I think, is his last pronouncement upon the topic. If that is so, it is encumbent upon this nation to investigate its monetary defect more closely, because I think it is becoming more urgent every month. That, then, is the basis of the Douglas movement, that our troubles are due to monetary causes; that if we are not careful the policy of drift will lead to greater possible failures. Now, in connection with that reference made during the hearing of evidence, that we can find authorities in conflict, there was reference made to the books of Mr. G. D. H. Cole. I might say that is a subject of great astonishment to find that quotation brought forward, because it is quite true that selections from Mr. Cole's writings can be brought against the Douglas proposals, but Mr. Cole is definitely of the opinion that nothing can save the present system.

Dr. Sutch.] The economic system: Cole is a Socialist?—Cole says, I am definitely for socialism. He says the present system with the profit basis cannot be carried on. Now, I might say that we are not opposed to Mr. Cole. We fear that if we are not successful we may have to accept his reasoning, but we are rather bewildered when a man professing to be a Socialist is yet a Communist and is used in support of the present system. The attitude of the Douglas people is that we are not inherently radical; we feel we are defending the present system in a degree; we feel that the present system with its individualism and its efficiency can be preserved if only the medium of exchange can be run on fair and workable lines. To that extent we consider we are defending the present system with such aspects of that system as we value. I say, further, that these contradictions that have been brought forward are really extracted from the economic left or taken from those people who consider we are not going far enough, and we feel that possibly they may be right, because we realize that apart altogether from our scheme there is the time element. We think that if we delay too long, unless some strong action is taken, we may indeed have to abandon our present system based upon profit; but we feel that, as a limited objective, we can make the present system work. The point has been raised that these references and these authorities are possibly of no value. I thought they were not necessary. I thought this Committee, constituted for the special purpose of discussing monetary matters, would have been in that frame of mind and of that opinion that very drastic alterations were needed, and I want to stress these to show, as I have said, what is the ideology behind the Douglas movement, and to grasp that and to understand exactly what we are striving for and perhaps be sympathetic with our enthusiasm and zeal one has to understand the various stages which are building up our movement. That point, I say, we would appreciate a ruling upon considerably. Now, the second is: If it is proved inefficient, the monetary system, wherein has it failed? Here again, I think we find a certain sympathy or certain focusing of opinion on those writers who belong to the radical school. It appears there is a

deficiency of purchasing-power. I realize this is a point upon which you possibly cannot quote authorities, and one has only to go back a few years to find authorities whose point of view has changed very materially; but, at the same time, I think it can be said that at the present time those who are keenest on reform have admitted that there is a deficiency of purchasing-power in the hands of the people. Now, that is a point upon which quite a controversy rages, more upon the definition than the principle. What forms purchasing-power? Our banking authorities before this Committee contended that the credit powers they possessed could be issued as purchasing-power. It is quite true possibly that a selected few in our community could receive credit and purchase all the food, goods, and clothing that New Zealand has to sell; but that, I think, would be a distortion of the real definition of purchasing-power. Purchasing-power is the ability to buy in the possession of those who wish to buy, who need to buy; and that definition must, I think, be clearly adhered to. Now it is recognized, I think, by those people who are suffering from deficiency of purchasing-power and it is of very great interest to the Douglas supporters in New Zealand that in America we have our ideas developing stage by stage and we are often called upon at times to predict the next turn those reforms will take. One sees that the latest development is that purchasing-power is not being released in sufficient quantities, and that at the present time there is a scheme being operated whereby wages will be increased, employment will be multiplied, in order that necessary purchasing can be generated. If I may express the thing broadly, the Roosevelt plan is a mixture between the New Zealand Seddon plan and Douglas and the Seddon aspect is becoming less and less manifest as months go by. That is a striking aspect, which we like to raise, that wages do not distribute purchasing-power in regard to things being bought. Wages have to be recovered in costs and as we know the housewife who receives an increase in wages, going out to buy, finds out that the cost of the things to be bought has increased and she can buy no more than previously. That discovery has been made in America as here in New Zealand. We claim, therefore, that the purchasing-power must be increased in the aggregate and, referring again to references, Cole has dealt with some on the Roosevelt lines. He has recommended increased expansion of credit for projecting new industries—in fact, all those things which have been put forward to you at such great length this last few weeks and many other schemes which your yourselves have been considering in parliamentary process—that is, putting in hand some project to restore unemployed workers to their jobs. Here we find Cole stating that the credit policy is only the accompaniment or should be the accompaniment of a policy of increasing demand for goods. The volume of credit should be sufficient to employ all our resources and, further, it must be added to in order that extra production can be dealt with. As we follow those lines along it will narrow down to the various methods whereby there can be purchasing-power issued which will not be purely an addition to prices. I might say that you have had before you many schemes, and I think the answer or the frustration of each one will be: Where will the money come from; and here again we come to the foundation portion of the Douglas proposals. How and by whom is money issued. I am afraid that this topic may, by now, be somewhat wearying to members of the Committee, and while I feel that it has not been definitely settled and that we are to take that aspect as being disturbing—the fact that our banking authorities do not recognize these principles—then I think we must make it again one of the points which go to the support of the Douglas movement. We definitely declare that money, as we know it, is created by the banks. We refer to and quote those authorities which you have heard so many times before: the declaration of the Chairman of the Midland Bank and various others, and the odd thing is that that was controverted by the banking authorities. They said, in effect, that he had been misrepresented and that there was a qualification, that qualification being that banks are not limited purely by their own credit-creating instincts. It is suggested there is some automatic regulation. They quote authorities in support. Now, the point is that those authorities they quoted were not in contradiction; they were merely in explanation—for example, we do not contend that one individual bank can create credit without restriction. I think that is set forth most clearly by Keynes in his "Treatise on Money." He says that so long as banks advance step by step there is no limit to the amount of credit they can create. That is in a closed economy. Further on he points out that each bank-manager sitting in his parlour watches his cash resources, watches his deposits, and imagines that he is dealing with outside forces, whereas what he is dealing with is merely a series of decisions made by other bank-managers sitting in other bank parlours. What we have said is that our argument with regard to the banking system is not intended to apply to an individual bank. They have said, If it is true that banks can create credit, how can banks fail? The point is that banks, if they get out of step, can be called upon to honour their obligations by other banks, and can fail. The declaration we make is that the banking system operating can carry on steadily manufacturing money and, as Keynes says in his chapter on remedies, "the bankers who look to their reserves are looking to the effect of their lending, instead of the foundation." It is the effects they are concerned with. I will make the point, therefore, that we consider that is the correct answer to that challenge. When we put forward our schemes for advancement, you will find that the answer comes back, "Where is the money to come from?" Our answer is, "Where money comes from now." Then, instead of having merely an elaborate system of control upon certain resources, the nation will be called upon to arrange those resources itself. Now, I am not quite sure how far that point is accepted by members of this Committee. I feel, and I think with reason, that the great majority of this Committee have accepted it, that, with certain minor reservations, there is practically no limit to the amount of money the banks can create.

Mr. Clinkard.] Do you agree with the Central Banking proposal?—Well, the Central Bank, I think, is a move in the direction of more efficient banking, but, unfortunately, it is one step in the right direction and possibly five steps in a direction wherein great danger lies. That, I think, will be determined more or less by the influence which this Committee possibly can exert upon Parliament's monetary education. However, this point, as I say, is one upon which some doubt exists as to

whether or not it is accepted. It has been put to me by various observers of the work of this Committee that possibly you would accept them, providing certain obligations in the price-level are observed, that the banks could be released from this clumsy restriction upon credit, and base it upon something more technical. Now, this is the implication there. If I can get that admission, if this Committee can admit that the banks do create credit, and that they have merely responsibilities to one another and possibly to the nation in the direction of preserving the price-level, I would not require anything more to justify the Douglas proposal, because it is a curious thing that that aspect of banking has not yet been woven into monetary theory. When this is worked into the banking structure it will disclose that Douglas is right. However, that will be more difficult for me to prove than to bring along these plans which I am putting before you to-day. I would say that if that could be universally recognized, that this creation of money is an issue of representative money being built entirely upon an internal credit structure, that, carried back through the various definitions of monetary theory, will prove Douglas to be right. I might say that events have largely supported me. There is probably no more graphic picture drawn than that book "Christianity in the Crisis," which has brought the whole of the Churches in Auckland to our support, in which the Dean of Canterbury, who has attended Douglas lectures first in the capacity of a critic, has written, "Those who heard Douglas lecture in the early days have seen how entirely correct he has proved in all his predictions, and must admit that he has stumbled upon something which hitherto had been missed." That is a wonderful book, and one that has brought the whole of the Churches in Auckland to our support. Now, apart from that, if we can establish this theoretical basis of money, Douglas will have been proved to be correct in his analysis, because if you can create money, and you are seeking for a basis, you will discover this: That that source from which money is created will ultimately own the whole of civilization, if they are allowed to go on creating money. However, as I say, that is a more difficult point to establish than making a particular statement of the plan we propose to put forward. I will just say at this stage that we must build upon that, assuming that the banks can and do create credit, that they are limited only by certain obligations to one another, to their Central Bank, and should be related to the stability of the price-level. Now, if we have that basis, we then find out that we are not linked to a certain rare yellow metal in the amount of money that is available. To my mind, history will be very severe upon this generation, not merely on the economists nor yet upon our Parliamentarians, but I think upon the average people who believe that we are dependent for the abundance of our living upon a certain metal which is dug out of the ground in one part of the globe and put back into another hole in another part of the globe with a bank on top of it. And to say that because that is the basis of our currency in New Zealand we should have children suffering from malnutrition, we should have people going ill-shod, and we should have a young pioneering nation putting its young men to work in purely wasteful occupations—that I think will be the pronouncement that history will have upon this generation. It appears to me of very great importance that we must establish that principle of where this money originated, and what should be the basis of its relative creation and control. We claim that it should be issued in relation to production and consumption. Now, that has excited an amount of criticism of a most hostile nature from those economists who oppose us. I make no apology for quoting Keynes, because it is quite possible that the Keynes plan, or some variations of it, may be a future Imperial project put before the Dominions. Now, he said in his "Treatise on Money" that, except with regard to the bringing into relationship of the power of production and the power of consumption, nothing in world economics has any significance. From a man in his position, I think we could not expect stronger words. When, therefore, we find the Douglas movement consisting of a great number of the population who want to bring into relationship the power of production and the power of consumption, we see that we have expressed in our own way exactly what Keynes said. He said that nothing in world economics has any significance, except the relation of these two factors, and yet we have been criticized most offensively by economists who have pretended to be readers and admirers of Keynes because we demand that money should be so created and so regulated as to bring into relationship consumption and production. Now, that might be said to be the beginning and the end of the Douglas theory.

Mr. Clinkard: Is money the only factor?—Well, there are two factors, production and consumption. Money is the link, the relationship between these two. It is not a factor. I might say that possibly the greatest trouble we have in discussing monetary matters is the loose use of definitions. Money is a commodity; it is a factor; it is a lubricant; and so on. I have a preference for that particular word used by Dr. Walter Leaf in describing money as a lubricant. I think it is probably the nearest definition we can get, and coming from one of our opponents, a man who is mentioned by Keynes as being the most conservative and practical of bankers, it should be regarded as not exactly a support, but a willingness to be fair. He declares that credit and money is a lubricant. If so, it is not a factor. The factors are, as Keynes says, production and consumption. Money is the lubricant which brings these two into proper relationship. Now, then, if I may carry on that point, that matter of the definition of money being a factor, I should like to make use of Dr. Walter Leaf's simile of it being a lubricant, and so it is. The Douglas proposal is to ensure that that lubricant will be always present where needed in exactly the right quantity. We could say, perhaps, taking Leaf's analogy further, that the Douglas proposals would be like the oil-gauge on a motor-car, which shows by an indicator the pressure of oil. We would like to have such a system here in New Zealand, which would tell us what our pressure is, so that at all times the different factors of production and consumption will move easily and smoothly. If we can evolve such a formula, I believe that all the extravagant claims which have been made for our system—I say extravagant because no doubt they are regarded so—I say that the most extravagant claims will be found not to have been too strongly worded, if we can evolve that issue of the correct lubricant. However, that is by way of stating that it is the use of these inaccurate words and faulty analogies which are responsible, I think, for a great deal of the ill-feeling which exists among monetary reformers and

those who disagree with them, and I just mention in passing that we do not regard money as a factor in that particular sense. Now, one of the favourite expressions of the Douglas movement is that given expression to by the Governor of N.S.W., who said that the task of bringing consumption and production into proper relationship was a difficult, but not an impossible, task, and coming from one who is not by any means a radical (one might possibly say the reverse) it means a good deal. He has said that we have got to evolve a new economy—an economy of abundance—to replace the old economy—the evil economy of scarcity. I might say at this stage that I have been surprised by some expressions of opinion that the old system is carrying along quite satisfactorily. I remember reading an address made by a prominent financial authority here in New Zealand, a Minister of Finance, addressing the students at a college in the South Island, who said to them that the world had the choice of two ways: One was the old way, one was the new; and I was surprised to find out later on that there exists in high quarters a belief that the old way is good enough. I might say that it is a subject of some distress to me to find out that there is a belief that we can idle along in this way and avoid catastrophe. If it is so, I think it is contravention of all those who are educated in a monetary sense, for the old system will not carry on. There is that terrible pronouncement made by one of the leading economists that production is increasing as the square of time, that the use of the machine is increasing as the cube of the increment of time, and debt is increasing at the rate of the fourth dimension of the increment of time. If those figures are incorrect, it appears that however much we can regard that as being picturesque and not accurate, at least it must bring us to this: That we cannot possibly wander along the old paths, otherwise disaster will overtake us. Now this, by the way, was more or less to explain the underlying enthusiasm for our movement which is held by ever expanding numbers, who adhere to it. I said that the monetary system seemed to exhibit this particular failing. There is not sufficient purchasing-power being distributed. Now that, curiously enough, has been discussed by many authorities. Keynes has suggested that in England the cure might take the form of vast reclamation work in the slums of London. The Thames in London is to be made beautiful, and new money is to be created for this purpose. Roosevelt, too, has adopted similar measures, but I would like to point out what has been overlooked, I think, that in the closing stages of the Hoover regime that plan had been carried to its limits. The teachings of Foster and Catchings, who very closely resemble Douglas, have been carried out with great enthusiasm, but it has failed to produce the result. I mention that because many look to us as being the radical leaders in Bolshevik doctrines. We are being followed, or at least we are being imitated on parliamentary lines, in many countries in the world to-day, and one of the most encouraging facts is that we have contemporary experiments being conducted throughout the world which keep us from time to time corrected as far as our ideas are concerned. Mexico, Japan, Sweden, America—they are all carrying out somewhat along our lines this move of introducing purchasing-power. They certainly did not realize perhaps the inherent defect that they are pursuing lines which we would regard as being very different from the point of view of an instalment. One of the most dramatic cures was, I think, put forward by Professor Bellerby, who is one of the witnesses called before the Macmillan Commission. His idea was that money should be distributed to the professional spendthrifts. Now, that point was reproduced throughout our cable news as being somewhat of a joke, but the point he was establishing was that money to be issued must not appear through production. It must be used to consume things, to buy, otherwise it would not be an addition to the purchasing-power. That, I think, has a strong bearing upon the evidence put forward by the banking authorities. The banking authorities said that if any man comes along with a good proposition, offering sufficient security and giving proof that it will be repayable as and when demanded, they have any amount of credit. That is a continuation of the statement made two years ago by the Chairman of the Bank of New Zealand, who said that they could advance money to any degree, providing the security was sound and stable. I think an addition to that is: That if they do not begin to issue credit soon, there will be nothing sound and stable in New Zealand to issue upon, if it goes on much longer. Now, that being so, it would appear that there must be some other means devised to issue purchasing-power without going through the ordinary channels. There have been a number of schemes put forward, and if we examine them we find they in some respects resemble the Douglas proposals very strongly. If we examine the controversy which rages throughout New Zealand against the Douglas proposals, we find that the points which are contested are those which have been more or less conceded in the older countries for a number of years. I might say that an historic debate was carried on in Birmingham between Douglas and R. G. Hawtrey (an authority who, I think, must command the respect of every one concerned in monetary matters) and he began by conceding certain points in order to bring the debate to a point clearly at issue. He said he would admit first of all, to save time, that the banks can and do create credit, consequently that the trouble was a deficiency of purchasing-power; and the whole of that debate concentrated on this: "Is this deficiency of purchasing-power the result of an inherent defect in the system?" That was the only point at issue between R. G. Hawtrey and Major Douglas. That was the debate carried on in July of last year, and the point I would like to commend to you is this: That if you accept Hawtrey as being an authority, one who has opposed Major Douglas repeatedly on the platform, you find that the point at issue between them, the stage at which Hawtrey refuses to accompany Douglas, is whether or not this deficiency of purchasing-power is due to an inherent defect. Now, it appears to me that if we accept that debate as being the battle-ground of the Douglas doctrine, I shall be prepared to say, "We will concede that possibly Hawtrey is right, and this deficiency of purchasing-power is only temporary. Let us, therefore, adopt the Douglas proposals for one year. At the end of a year we will have a recasting, and see if this deficiency of purchasing-power is inherent or whether it has been cured." That I think would place Hawtrey among our followers. We are prepared to admit those safeguards that

Hawtrey insists on, that Sir Basil Blackett insists on—that is, the stable behaviour of the price-level. We would recognize those safeguards, because we feel so confident they are not needed. However, as I say, personally I would concede all those safeguards if you would say, "Let us then try this injection of purchasing-power for a certain period." There was another debate, one which was broadcast by the B.B.C., between Professor Robertson and Major Douglas. Here again we find that all the economists who write here in New Zealand are opposing points which Robertson admitted. His declaration was, "I am prepared to agree with Major Douglas that in times of depression such as the present the nation or the Government should issue money free of cost to the people." He added this proviso, which in fairness I must add, that in times of prosperity he would recover it by taxation. There again, I would say we will admit that feature. Unfortunately, because we are advocating Douglas Credit in a period of chronic deflation, we are charged with being inflationists. If we were inflationists, it would be because our calculations were wrong. In times of inflation we would be exponents of deflation, because we want to have exactly the right amount of money available. We do not want an excess of purchasing-power over the amount of commodities. In that connection, I say that we adhere strongly and definitely to the definition of Professor Gustav Cassell—that the ratio that must be striven for is the ratio between the flow of purchasing-power and the flow of commodities coming on to the market. That is what Douglas Credit wishes to achieve. I might at this stage refer to what I said about the contention put before you as to where money originates. If we could achieve that objective of Professor Cassell, and that ratio between the flow of purchasing-power and the flow of commodities coming on to the market, if we found that there was an independent flow which enabled it to carry on, what would happen when that flow reverses? We would recognize that apparently there is a deduction, and that is where the contentious point comes into the Douglas doctrine—where that money is going to. I say that if we admit at the outset that money is created by the banks on loan, if that flow of purchasing-power is purely on hire, what will happen when it is returned to the hirer? It is a curious thing that economists a hundred years ago saw this position much more clearly than the economists of the present day. I think that in defence of modern economists we might say this: That the banking system has become so complex that they have lost sight of those safeguards which a hundred years ago they saw were necessary. One would say, judging by the current opinion, that it is only these last few years, probably since the declaration of Reginald McKenna in his "Post-War Banking," which, of course, is a reproduction of his report to his bank shareholders, that this definition or this claim that money is created by the banks had its origin at that time; but to those who are interested in finding out where we went wrong, I would recommend Professor Sidgwick, who wrote in 1886, and stated that this belief that the money in the bank represents the savings of the community is merely a convenient fiction. Now, we say that that convenient fiction has been allowed to carry on, and it has resulted in this anguish and loss throughout the world, because we were not aware of where our money was coming from. That is to show how, through the various stages, we would revert to that first contention, that money is the banks' creation and it fulfils a very necessary purpose. We admit that industry could not have carried on without it. The catastrophe is when that money is recalled. That, of course, is related to the cause of the depression. One of the things which has baffled every economist is explaining why this depression should have been so wide, so general, and so deep. They have imagined that it was purely an ordinary depression, and it appears to me that there is one economist who has not been given sufficient credit. That is Professor Gustav Cassell, who has challenged the accepted theory of how these cycles of trade movement occur. We have been told, and our economists preach this regularly, that there is a constant round, a period of expansion, a period of excitement, a period of prosperity, and then collapse. They have given certain technical reasons why that happens. We will perhaps excuse some of the economists who ascribed it to sunspots, influences of the moon, and so on. After all, it was so demoralizing that they were compelled to seek some other explanation. Cassell has pointed out that all these conceptions are wrong. If the idea of man gradually recovering confidence, of the dislocation between capital goods and consumption goods is correct, the curve of that cycle would be a gradual rising to a point of prosperity and a more gradual sinking down again to a period of depression; and he has challenged economists, and that challenge has not been accepted. He himself has brought forward a most complex explanation of why it occurs. Here is where the Douglas proposal comes as a relief. The Douglas proposal of the shortage of purchasing-power being made up by means of a bank loan explains why that curve decreases, that they are wrong that we have a period of employment, that there is a period of movement, a gradual rising to a period of prosperity, a period of boom, as they call it, and then a sudden collapse. The key to it lies in the Douglas analysis, that this purchasing-power comes from the bank. It comes out on hire. So long as it is out among the people circulating from hand to hand we carry on. Immediately the banks begin to withdraw that medium of exchange upon hire, there comes a complete catastrophe. It is only with very great difficulty that one can follow Cassell's explanation. The gap in that explanation is filled by the Douglas analysis. I just mention that point to show that this deficiency of purchasing-power is not so doubtful a factor as many people think. To those who have been bewildered by the fact that these prophecies in connection with the depression have been wrong, there is this consolation that in not one connection has the Douglas prediction turned out contrary to events. On the other hand, it is difficult indeed to find any economist who has not proved to be wrong, and I say that the co-ordination of these mistakes results in something valuable on these lines. Either the Douglas analysis is right that there is this deficiency between the power of production and the power of consumption, or else there is some other principle that is working in exactly the same way and which economists have not yet discovered. I point that out because we are brought into collision from time to time with the orthodox economists who challenge us that we have not in our ranks any professional economists.

I say that there is a reason for that. I have often discussed it with them, and their explanation, or their excuse, has been that we use our economists merely as instructors. They have neither the time nor the facilities for investigation, and they are faced with this problem: That if they expound anything which varies from orthodox practice they are involved in their occupation. I think there is a great deal to be said for that. I believe that possibly that explains why we have not got more support. We use them entirely as instructors and——

Dr. Sutch.] Are you speaking only of New Zealand economists?—Yes.

Not world economists?—Practically the same, but not in the same degree.

There are many world economists who do not do any instructing, but spend their time in thinking?—On the other hand, they still have obligations to their system.

Have Cole and Dobb an obligation to the system?—Yes. They have very strong obligations. If, for example, Cole had expressed in plain language what he has expressed in respectable language here in New Zealand, he would have been put in gaol. He has said that the one thing he wishes to guard against is half measures. Now, to that extent, I can say he is not a Socialist. We know that the Socialist is an evolutionary person. He believes that through controlling action we can accomplish certain rights.

Does he? Why not leave it to the Socialist to define what he is?—My point is this: That I am saying I know the Socialist point of view, and I know the Communist point of view. It is, of course, possible to allow a man to attach his own label; but I consider that as individuals we have no right to regard those labels. I say that we have men in gaol in New Zealand for having said in plain language what Cole has written in the concluding stages of one of his books, that we must press onward with every faculty, with no half measures, and no consenting to adjust the present system. The point is this: If you press onward, not regarding the present system, you will meet with resistance. And what form will that resistance take? If you are to overcome that resistance, what means will you adopt? I say this: You have put men in gaol in New Zealand for saying that in plain language, and therefore I say that the economist has an obligation to the social system. At least, it prevents his saying definitely what he would have said had he not had that obligation. I quite admit it does not apply quite so much to world economists as it does here in New Zealand, but here in New Zealand it does definitely exist.

You are making a very serious reflection on New Zealand economists?—I do not think so. If you will listen carefully, you will find that I am defending, or, at least, excusing the New Zealand economist. We are using them as teachers, as instructors, and if we ask them to pronounce upon some opinion which conflicts with those principles which they teach, which they themselves have been taught, and which they examine upon, then we are asking them to do something in the way of mental gymnastics, which perhaps is unfair. To me, asking professional economists in New Zealand what they think of the Douglas Credit is like asking a bus-driver what he thinks of the electric railway; or, more particularly, asking a barber what he thinks of the safety razor. If he pronounces an opinion favourable to this new idea, he attacks those very qualifications which enable him to earn a living; and apart altogether from the embarrassment, it seems to me a recognized thing, possibly more in New Zealand than outside, but certainly more in Australia, that there is no surer way to fame and economic security than writing a book attacking Douglas Credit. That is not a criticism of the economists so much as pointing out the difficulties of their position. There is at the present time an incident here in Auckland in regard to a Committee very much like this one which does show clearly the difficulties under which professional economists work. Probably this is understood by members of this Committee. Now, under those circumstances, I say that we must excuse the economists for having to stick loyally to the old system, and they are indeed putting up a gallant and astute battle to defend that system.

In the last example you quote, of this incident in Auckland, you have a professor who is prepared to investigate the present system, and how it is working, and certain interests are trying to stop him, but he is going ahead with his investigations?—Yes, and that is the point I wanted to raise. One can picture that man's embarrassment at having the results of his technical and professional services being brought against him in a personal investigation. It shows the difficulties, as I say, under which an economist works. However, I may say that, if I am to be resisted in my defence of these economists, that I have no affection for them. I think that really they are the most blameworthy of all sections of our community. I say this: That the banking system is limited by its instructions. The banker has done his best with his system which works for the shareholders. If you will look through that prospectus sent by the bankers, it is pointed out that no banking official dare do anything inimical to the interests of his shareholders, which I think is fair. As far as Parliamentarians are concerned, this is not their job; it is a job for specialists, and they have an excuse in the contradictory views expressed by various economists.

We do not ask for excuses?—It appears to me that of all sections of the community who will find it most difficult to defend themselves, the economists will be in the forefront. It seems to me that the justification for their identity, for their occupation, is advising the community that these economic movements are against national welfare. I say it should not be necessary for the people to open these books to investigate these proposals when we have economists who should have been doing it. Perhaps it might be said in their defence that they were too busily engaged. Now, that is just by way of setting out where we stand with regard to our investigations. It does explain why there is such sharp antagonism between the Douglas movement and the professional economists. We feel that we are not treated as we should be. We have been like children, led across the seas by a gang of incompetent desperadoes; we are now grown up, and we are now turning upon these desperadoes, and will not be led by them. My argument is that an economist should be a skilled man. I say that our task here in New Zealand has been to prove to the people what those economists in the world have said. That

has been brought forward not voluntarily—It is just to say what might later on be brought up. We feel that we are not being given the support which we should be by that particular section of the professional world, who should help us. We might perhaps use this simile: We are in the position of a householder who has had the plumber working for him for weeks, and when finally he leaves us we find that he has not done his job properly. He says that we are not competent to criticize, and we say to the plumber; that in the drawing-room our gas-taps are spouting water; in the bath-room our taps are on fire. Do you say that the system is right? Do you say that you have screwed up our taps correctly? I believe we are justified in saying that this particular tradesman or this particular professional man has not done his job. I just mention that to give some explanation of why we appear to be so aggressive in our criticism, and why we are not at this stage particularly easy of government by those in authority in the economic world. However, I have made full use of economists, and I will say this: That if one were to traverse the whole of the reports of recent authorities, we would find that they are trying to help us in the right direction, but unfortunately many years too late. That is our particular grievance: That they are too late. Now, the point which I made was that there is a deficiency in purchasing-power. I have said that out object is, in the words of Professor Gustav Cassell, to secure this co-relation between the flow of purchasing-power and the flow of goods coming on to the market. It seems curious that while we are charged with the utmost radicalism, bolshevism, we are reverting to orthodox economists who widely claim that in their investigations they have unearthed what you might term the grand principles of economics, but unfortunately they are so distorted by the misuse that many parts have been put to. At this stage one might state I have set forward something which you might refer to as the ideology of the Douglas movement, and what I hope is this: That it will be a means of enlisting your sympathy with the Douglas movement, and if you take it in the stages we have gone, I will say that we will accept your findings upon these points we have put forward. That is the basis for the great, nation-wide, world-wide movement which is represented in this Douglas Social Credit Movement here in New Zealand. You might say, then, how do we propose to implement this ideology? I will set out what is the tentative plan for New Zealand, to what extent we intend to traverse the present system. In the first place we have advocated that this injury, this great frustration of the nation's will, has arisen from the fact that the people have lost control of their money system. We feel that had this dislocation been traced back to Parliament alone we would have been sympathetic; we would have realized the great distortions that have taken place in the war years, and we would have been prepared to allow some large amount of shortcoming if it were done by the people's representatives. Now, that does not exist at the present time, and I think I can find the majority of economists supporting me when I say that there must be some measure of independent control for the money system apart from profit-making. In the Macmillan Report there is an addendum by Messrs. Allen and Bevin which I think is very valuable, and they have expressed very strongly what appears to be indicated somewhat in the main report, that is, that the control of money must be placed outside the group of people who are interested. On that main point I would like to make this very clear: We have no effective, no great objection to shareholders' profits. I may say that has often been brought into the front of the stage more than we would desire. If the money system had been handled efficiently, I think that the community generally would have allowed a rake-off to those who administer. Our complaint is more that it does not run efficiently than that those who handle it have taken an excess profit. We consider than an organization should be set up: We call it the "National Credit Authority." We suggest that that should be selected and elected. Here again your suggestions on this point might be of value. A tentative outline might be that this power or authority would be constituted of representatives of Parliament, trade-unions, the chamber of commerce, the universities, and so on. The point is that the sanctity of money is as much the concern of the poorest member of the community as the wealthiest, or more so. We consider that the charwoman who receives a few shillings a week is more concerned with the purchasing-power of that money than the man with vast deposits, because it purchases more of the good things of life. It affects her happiness more, and we consider that this national credit authority should not be, as put forward so offensively by our banking experts here, representative of all classes but the improvident. We consider possibly the improvident or unfortunate might too have a share in the control of the monetary system, particularly with regard to the stability and purchasing-power of that community. This national credit authority would be selected and elected upon those lines and would be given control of the money system. I remember that, when that point was deliberated at great length here before you, there appeared to be a confusion of opinion that we could have either parliamentary control or a private company, and I was surprised to find that those two were regarded as the only alternatives. That is not so. One does not need to bring in a private working institution as a direct alternative to parliamentary committees. We have many institutions which fulfil all the requirements which we would desire of this credit authority. We suggest our Supreme Court Bench, for example. That is not a profit-making concern nor subject to political interference, but possibly a better simile would be the Institute of France.

Mr. Langstone.] But they cannot create laws in the Supreme Court?—No; but this national credit authority make laws.

Yes; but they create money as the Supreme Court administers justice in accordance with the laws laid down by Parliament?—This would accomplish our objective of the people's representatives setting out a policy to be adopted for the national credit authority to administer. There is one rather ironical distinction made in various financial publications—the differentiation between the words political and parliamentary. Sir Otto Neimeyer in his report, when calling for £1,000,000, said that was parliamentary help, but he is very keen to prevent any political interference and seems to me to follow very much the lines of chamber of commerce remits: when they are asking for something for themselves it is parliamentary assistance, and when it is for some one else it is political

interference. Parliament must control the money system. Here is the point: It has been said that you cannot trust Parliament with handling its money system. A most amusing declaration was made by our Workers' Educational Association in its organized attack upon Douglas Credit. It reviews our plan and says, "Yes, very plausible, very attractive; but history has shown that the people are not able to control their money system." From the Workers' Educational Association which is striving to prove that the workers can not only control their material lives but also their ethical and cultural lives: It says the people cannot control their money system. Parliament can make war and can make peace; it can send our own men away to be killed and can alter our contractual relationships as it has done in the Mortgagors Relief Act. It can affect our property, and can do everything therewith, and we are willing to acknowledge it, and if there is any common notion throughout the world to-day, it is this: That human effort must be brought more or less under the control of parliamentary influence. It would appear therefore that the control of our monetary system lies apart from all other human activities. I may say therefore that that is a challenge, if not an insult, to our parliamentary organizations, and we declare on behalf of Parliament that no other organization must control our monetary policy. If we can accomplish that, I would say we would put up with our shortcomings with more resignation, if we felt it was being done to the very best of our representatives' ability. We say that there must be set up an authority, and, having set up that authority, there must be a law given to it by Parliament. I can think of nothing better than that declaration of Professor Cassell that co-ordination of flow of purchasing-power with the flow of consumption goods coming on the market. It is an amusing thing how we are attacked for giving that definition. The particular wording we are fond of, and one which I think originated with Major Douglas is the equation of production and consumption, and it is curious that we should have been condemned so savagely, because, as I have shown you, all authorities have put forward that same ideal though not in the same words. The commonest expression is a stable price-level, which is the proof that equation has been accomplished, and to those people who follow Fisher, Soddy, or other schemes we would say: Very well, let us adopt the Douglas proposals and we will accept your safeguard of a stable price-level. We are as much opposed to inflation as deflation, but unfortunately our present task is to attack deflation, and when we find ourselves being frustrated by people who say to you, as the Workers' Educational Association says, Yes, you will oppose this process of deflation and go hurtling into inflation. We say that is unfair. It is as if we have here, say, a man suffering from a heart attack. We recommend a dose of brandy, the correct medical application. They say, Yes, it will cure this man of his heart attack and probably later on he will become addicted to drink, will become a drunkard, and for that reason we cannot give him brandy. Can we not recall the flow of money in such a way as to produce this equation? That must be in our plan, the establishment of a national credit authority and the implement of this would be the passing of a policy that can be expressed in many ways, but we suggest our own way is satisfactory, an equation of production and consumption, which I claim has the true authoritative support of the economist who understands his job. Now, then, this question arises: How can that be done? Here is where we must leave the reasoning of those orthodox economists. I may say some years ago it was indeed difficult to convince people that the Douglas proposals were the most promising way. One would imagine a public-works plan. You have had some attractive proposals put before you in the course of your investigations. There are many more attractive proposals put forward in Germany, in the United States; most attractive of all, in Mexico, where, by carrying out a policy of public works, you can distribute wages. These expended upon fixed capital investment will provide the necessary purchasing-power to buy consumption goods. Translating that into a national affair, we might say if we were to carry on with the construction of concrete roads, if we were to carry on with the construction of overhead bridges to avoid that monthly toll of life which takes place on our level crossings, it would indeed be a cure. We would set our men and women to work on various tasks. We would have construction works, these overhead bridges at the level crossings, these concrete roads, these one hundred and thirty bridges declared to be unsafe in the Auckland Province. All these things would have been done, and the wages so distributed would give us the purchasing-power to buy the goods, fuel, clothing, and food which our unemployed are so much in need of. Do you remember that when the United Party came into power they tried that in railway construction, and that was in a limited manner the Roosevelt plan, but it did not result in that gain and left us with a terrific burden of debt. We can express it here again in local terms, and we can see it operating in the Douglas proposals. While we were completing the Auckland Railway-station, the Arapuni Hydro-electric works, and the East Coast Railway, those wages enabled the Queen Street shopkeeper to pay his rent, and it is suggested that in order to enable the Queen Street shopkeeper to again pay his rent we must build another railway-station, another Arapuni, another East Coast Railway, and we will pass on to our successors another national debt. I might mention that our abhorrence of such a plan for public works is probably the strongest feature of our movement. It has been alleged that we are getting something for nothing: we are going to take advantage of a monetary juggle and pass the debt on to our descendants. There is one fixed determination in the Douglas movement which begins from a sense of shame that the country we inherited from the last generation is being passed on to the next generation with a colossal public debt. We are ashamed of it: we feel that we cannot escape that responsibility, and if we were to be confronted with a scheme that would involve the increasing of that debt we would shrink from it with loathing. The only scheme at the present time which offers any chance of success under our present system is the Keynes plan, whereunder the stronger creditor countries will lend to the weak debtor countries. They are strong because they lend, and we are weak because we borrow. I say, therefore, that we will not contemplate any suggestion that we can, through a public-works policy, distribute purchasing-power which will enable these consumption goods to be purchased. We would have nothing to do with it. If there is

anything we are opposed to it is that particular form of solution. We say, therefore, that we are prevented from following the lines which have been set out in the various proposals put before you.

Hon. Mr. Downie Stewart.] Does the Keynes plan of creditor nations lending to debtor nations meet with your approval?—No. I certainly say that the Douglas movement abhors the suggestion that we should borrow to provide purchasing-power.

I thought that you said you agreed with Keynes?—There is one aspect of the Keynes plan which I may say we are attracted to. It may be that in our movement we have a certain impish sense of humour, but the idea of a gold certificate which will come out here and be regarded as gold—it requires a Lewis Carroll to describe it correctly. If there is any chance of these certificates being described truthfully, it will at least be an educational movement. If we turn out our constabulary to receive that certificate and shackle it to some strong building and regard it as a metal reserve; for Keynes says it must be regarded in every respect as the equivalent of a gold reserve. Although we cannot examine that carefully, there is something in that proposal which is valuable to the Douglas movement in its educational capacity, because it would appear that if we can get some document, some written expression of the ability and the willingness to redeem, that is a substitute for this yellow metal which we laboriously pursue in the distant corners of the earth. That is more or less what we extract from the Keynes proposal. It is related more to his criticism of the past era of things rather than to his advocacy of something new. I repeat that any suggestion of borrowing again in order to provide that purchasing-power would meet not only with the disapproval of the Douglas movement but with its rigid hostility. We feel that is the cause of our trouble. Now we have reached this point, the national credit authority would be given this task of securing that equation, that balance of consumption goods and purchasing-power, and it would be prohibited from undertaking any foreign borrowing. That is held over, something like the sword of Damocles, by our economists' report presented last year—to my mind a most wonderful document. We had the Macmillan Report concentrating upon this point: there is only one hope for the world—recontinuance of foreign lending. We have the economists report telling us we are forced inevitably to stop foreign borrowing. It appears to me that there is a contradiction there, even worse than the one which occurred between Douglas and the economists. If the only way to prosperity and of raising world price-levels consists in the recontinuance of foreign borrowing and lending, how then are we to overcome the economists' report which says we must stop? That is one of the problems we encounter when we seek for some solution other than this put forward by Major Douglas. We have tried them. I can say definitely that every leader in Auckland entered the Douglas movement through setting out to convince them that they were wrong and there were many other better ways. Each one has returned from these by-ways to the fact that Douglas is the only one who puts forward a workable and acceptable plan. In considering these various alternatives, we cannot lose sight of the fact that the initial one—the one which appears to be hovering on the horizon—is from Great Britain, a recontinuance of foreign lending, and our own accredited economic representatives have said we cannot carry on without it. I think we speak with the support of the great majority of the people of New Zealand when I say we are opposed to the restarting of foreign borrowing. How can we reinject purchasing-power if we are not to start a system of public works? That, I might say, is probably the greatest rival we have. The plan put forward by various men in England of various projects, I think, has had quite an amount of support in New Zealand until lately; the raising of loans in one way or another and the spending of these on consumable goods which would enable the stocks to be moved. We have claimed, as I say, that this is not a cure. We must evolve something new, and we find we have support from these men like Professor Robertson, Cole, and others, who might be considered the extreme left-wing of the economic body, who say there is now this deficiency of purchasing-power which cannot be overcome by the old methods. Here is where we begin to enter upon controversial ground, to say the least. In order to get any support or any sympathy, we have got to make good the claims I have put forward, which is that these various aspects of our monetary machine are correct, that money does issue in the way we say. It is very desirable to hear at this stage technical evidence before the Committee which opposes it. It throws us back upon this elementary ground, but I would like to point out what was the focus of evidence given by the bankers with regard to the issue of money. They could issue as much as we require if the things offered them were sound and suitable, and if they had a chance of repayment. The Government raising loans from them—that, indeed was acceptable; they could write figures in a book and could issue the equivalent of, say, £400,000; that is quite orthodox and satisfactory. But any suggestion that it can be issued in any way other than through the banks meets with their horror. It would appear, therefore, that money issued through the banking system represents prosperity, money issued from the Government loans through the banks represents statesmanship, but money issued from the Douglas proposals represents inflation. Those apparently are the three definitions of money. We say that the medium of exchange should emerge upon certain properly situated loans, and provided we do not affect our price-level to the damage of the economic structure, we are authorized in carrying out works with a system of money related to the flow of goods, compensated of course by this deduction for fixed capital investments. That being so, I should say that we are now able to go still further in this plan without danger of a rearguard or flank attack from our orthodox opponents, and we find we have this task set in presenting our policy of the national credit authority: Money must be issued in such a way that the price-level will not be distorted. The particular machinery we advocate therefore is this: We must be technically efficient not only in our production but in our control of money, and we suggest there should be set up here in New Zealand this interior machinery, a Controller of Currency. He will be a technical head controlling three divisions: First, an Issue Division, which will be the actual group putting money into circulation. There will be a second division, the Securities Valuation Division. (We are following here banking technique.) They will

be concerned with any movement, any distortion of the price-level; it will be their responsibility to represent any unwise or unsatisfactory movement in the price-level. The third division will be an Exchange, Sale, and Purchase Division. These three divisions will be a complete control over our monetary system under the direct supervision of the Controller of Currency. All the things which are threatened by the use of money in the way we suggest will be reflected and reported by these three authorities.

Mr. Clinkard.] What are the functions of the third division?—They will be responsible for the balancing of exchange and overseas trade; for the relationship of our New Zealand money to the money of overseas countries. I may say we are on those lines following established banking technique, and we think it is desirable because those three separate divisions will be direct channels of report of information which may be handed on to this national credit authority. That authority could, in its monthly or quarterly reports, see at once if inflation is beginning.

Mr. Langstone.] Would that third division be in London like we have in New Zealand?—No, it is under our Controller of Currency, and their interior report would be available to the national credit authority. We think this of great importance, for I might say we view with serious misgivings this linking-up of our currency system with overseas. We feel that not only are we out of sympathy with the monetary system of the United Kingdom—I should make that statement quite clear—not only are we possibly at times out of sympathy with the United Kingdom monetary system, but we will be in the majority of instances opposed to it. We are a pastoral, debtor, partly developed country; we are linking ourselves with a fully developed, manufacturing, creditor country. It would appear, therefore, that it would be extraordinary if our price policies were to correspond; the indications are that they will be constantly in opposition, and we view with very serious misgiving any proposal to place either definitely or indefinitely the control of our monetary system outside New Zealand.

The mechanical part of it, the handling of it, the transferring of the credit in London for the buying in London?—The machinery would be here. We consider that these three subdivisions should, as far as we know, go in technical subdivision; they would surely control all currency, would secure a co-ordinated system which would not only plan it but which would report its oscillations to the national credit authority. Having set up this machinery with sufficient detail to enable our plan to be understood, there then occurs the particular task of how they would implement it. We have said that the task given to the national credit authority is this equation of the powers of production and consumption. The first task then of this national credit authority would be to have taken here in New Zealand an economic survey that would be to arraign all those moving elements which are necessary in order to find out the amount of money we need. We find out that it would come under the heading which is launched against us as a criticism of having a managed currency. I think you will admit from the evidence put before you by the banking representatives that it is in substitution of mismanaged currency. When you cross-examined those banking officials as to what constituted inflation, a most confused position arose. Apparently they were not prepared to admit that the price-level was an inflation. There was a difference from that authority in whom we place the greatest possible confidence, the central-bank authority, Sir Basil Blackett. It has been suggested that some of the world bankers have differed from him in his radical opinion. I say it has enhanced his prestige; the conditions he foretold have come to pass. He says, "the criterion by which a banking policy should be judged is its ability to pursue a policy of stable price-level." Not only was it disclosed before you here, but it has long been recognized that our banking authorities have never at any time recognized their responsibility to the price-level. Moreover, in the new central-bank developments there will be no recognition of the price-level. We are moving from a metallic basis to a sterling-balance basis, and again the control of our price-level will pass into other hands. That being so, I wish to make a point that the formation of our central bank does not in any way meet the requirements of the Douglas Social Credit plans. We want this equation to be pursued, and I say that Sir Basil Blackett's conception, Mr. Keynes', Professor Cassel's—their ideal of a stable price-level is the proof that our conception has been realized. Now, when they are given this task, they are faced with these various proposals put forward, which I admit are palliatives, that is to say, the building, the construction of such things as do not come on the market in order that the wages so distributed will buy the things which are on the market. That, I think, reaches the utmost limit of what one might call the old economics can provide for us in this vicious form. It takes this particular phase: Not only do they intend to employ these idle workers in making fixed capital goods in order that their wages might buy the consumption goods, but they are actually destroying the consumption goods in order that there will be a vacancy which they can set upon to fill. Now, at this stage, I would like to bring in another point, which may be regarded as irrelevant, and yet on the grounds of my appeal to you to understand the motives and the enthusiasm, the spirit of the Douglas movement, I consider that it is right and feasible that you should know it. It is this: We claim that the destruction of foodstuffs and raw materials being undertaken throughout the world is a crime against humanity. And I say this: That although that might be taken as a matter of sentiment this is not so generally held inside the movement. In fact, I believe that it is only held by one or two, but I feel that this will appeal to the Committee, especially those whom I know have read fairly widely. It is more than a matter of a crime against humanity. It is a crime against political economy that some day we may have to pay for. The western nations have a unique position, as we own the food-supplies and the mineral-supplies of the world. So long as we act in the capacity of trustees and trade freely, we may be left in possession of those supplies. But I say this, and I claim to be perhaps an authority on this point: If we take steps to abuse that position and the ownership of materials and food-supplies, we may be called upon to justify our ownership with the bayonet, and within a measurable time, perhaps not this generation, but a succeeding generation. And I say that that is one of what one might term the zealots' support of the Douglas movement. We feel that we are playing with fire when we allow this measure to be adopted and destroy the supplies of food for this

weirdly involved line of reasoning, to destroy these mountains of goods in order that the necessity for those goods might cause the price-level to rise in order that the making of more goods may become profitable and thereby the unemployed might be called back to get wages to buy them. We go round in a circle, and at each stage we stumble and blunder. Now, that I put forward as explaining the the extreme reluctance of the Douglas Credit movement to adopt any other plan but this provision of purchasing-power. We see these goods which have been made, which have been grown, which have been hewn from the ground. Let them be purchased and let them go into consumption, and we think that by so doing we not only relieve our own want but we are perhaps unravelling an international knot which later on might bring the whole civilization down in ruins. I feel that I cannot let that point go past, because I know, and I think we all feel, that we are attacked as being visionaries, idealists. We are regarded as being somewhat of a people with heads in the clouds. I think perhaps we are above the cloud-level. It may be that we are looking above those mists which Keynes has said are obstructing the view of the people, but, however, I think that the Committee cannot fairly judge the ideology of the Douglas movement without realizing the breadth of our conceptions, our misgivings, and it is more interwoven with this idea of international stability than our critics would give us credit for. In fact, speaking personally, I believe that I have become more convinced of the Douglas plan being the only way out by a reading of history. There is one book which I would like members of the Committee to read, "Why War with Germany is Inevitable," written by Professor Cromb, Professor of History of Cambridge University in 1913. He has shown in remarkable language how the war was indeed caused by this inability of nations to sell their surplus products. Sir Philip Game, in the remarks I have quoted previously, made use of this expression, "I think we are wrong in attributing our troubles to the war. These manifestations were in evidence before the war. In fact, some of us believe they caused the war." I agree. I think these principles did cause the war, and I believe it will cause the next war unless we can evolve some means of ridding our surplus production. Now, I would like to labour this point, because we are on the eve of having plans put before us, and you, as a Monetary Committee, will be called upon, I think, to adjudicate upon their rightness and their wisdom, and one serious development appears to me to be this: Our quota proposals which have been hanging above our heads like the sword of Damocles, those proposals have been withdrawn, and there is an expression of relief to New Zealand. It seems to me to be a death warrant. The plans to raise the price of butter have failed because the quota proposals failed in regard to meat. Therefore, the price-levels must be left low, and there is to be a subsidy paid to the English farmer. It is a recognition of defeat, that the restriction of supplies will not raise prices. Now, if that is so, those counter proposals to Douglas, this idea of in some way wrecking industry to create a shortage in order that profits might re-emerge from the raising of prices, we find will not work. Roosevelt has discovered it will not work; but England tried it in 1931 and discovered they could not raise the price-level. They adopted a terrific injection of money through the ordinary channels, a phenomenal sum of money through the ordinary channels, the channels which will be submitted to you and have been submitted now in the Douglas proposals. It was put forward by Mr. McKenna, Keynes, the Brains Trust, which existed in England in conjunction with Montague Norman, and I think to his credit he acquiesced, but it would not work. We cannot issue purchasing-power through ordinary channels with the idea of raising the price-level. We cannot contemplate it purely from the empirical discovery that it will not work. I say, therefore, that we are forced back again.

Mr. Clinkard.] Where is the difference, then, between that injection and your proposal?—Because we are not issuing it as a debt to the bank. It is not to be repaid. We say that throughout history this borrowing of purchasing-power has only worked for a time. Coming back again to the local example I gave, while we were building Arapuni, the railway-station, and the East Coast railway, it did work so far as Queen Street was concerned, but now when we are trying to pay it back, or, to be strictly correct, while we are hoping to pay it back, we cannot circulate the purchasing-power to buy goods. It only works while it is flowing out. It cripples us when it is flowing back. I am glad that point has been raised, because stage by stage this is why we have to abandon every sidetrack which has been taken and which will be taken to discover some way of giving the people purchasing-power apart from wages and apart from loans, and we come back to the Robertson plan, to the Bellerby plan. Possibly, we are leaving the Keynes plan, if you exclude those wonderful gold certificates, those Santa Claus bequests of paper which represent wealth. As I say, we come back again, and perhaps here we are spared those blunders if we will realize how completely they have failed. I say, therefore, that when this credit authority, with its machinery, is given the task of equating this balance and flow between two factors, we find that it must abjure all those experiments which have been carried on in other lands. We find that it must distribute purchasing-power, not in wages, and it must not be borrowed. Now how, then, can it be done? I say that one can reverse all the schemes. I might say that some which have appeared many times have appealed to me in substitution of the Douglas plan. I think possibly the one put forward by General Calles, of Mexico, might suit us, not that it is more scientific, but it is easier to explain, that is, of making one area of New Zealand subject to free credit. I would recommend that to the study of those who are interested, where the primary producers for two years are given the first claim upon free credits. It is blunt, it is crude, but I believe we can explain it more easily than we find it to explain the Douglas proposal, but still we are concerned with our Douglas plan, and the proposal we put to this credit authority is this: They must have this economic survey made, they must take into account all those factors which are put forward to distract us and which I can see, from the pencils working round here, will be brought up to distract me. All these interests will be undertaken. It will be the job of our technicians to do that, but when they have done that there will emerge a figure. That figure will be the deficiency in purchasing-power here in New Zealand. Many of our supporters have said to me, Can you get the Secretariat of this Monetary Committee to undertake that survey if it is only in a crude way? I dare say, Mr. Chairman, if you can do it it will be a wonderful benefit,

as it is the first step in our plan, and I submit to you, realizing that you will have many problems to discuss, if you could evolve that deficiency. Now, the point is this, and here is where we come to the key of the Douglas plan: This sum will be set aside as a definite amount. One can imagine it as being a sum applied in the English banking practice to the Ways and Means Account. You can imagine it in a commercial concern being a discovery that the proprietor has not drawn the whole of his salary for some years past. However you regard it, it is a fixed estimated sum which is put to the credit of New Zealand. Here we have New Zealand Limited discovering that his salary has not been fully drawn. Then that sum is set apart. Now we would allow our technicians to express all their doubts, all their conservatism, upon that subject, because we say this: The productive capacity of New Zealand, our real-wealth capacity, is so great, it is so vastly in excess of the style of our living at the present day, that we can, within that margin, make many blunders. Errors will be made, many of them will be errors in computation, but those errors will be compensatory. Now these technicians will evolve a certain definite sum. This is the answer to the charge that we are heading for inflation, that we are going to follow Germany after the war, or we are going to follow France after the Revolution, or Bechuanaland after the Flood, or all those periods that they warn us we are going to follow. It appears to me that one of the assets resulting from the war has been that slogan that they can afford to fling at reformers, "We will be like Germany after the war," and so on. I consider that expression should not be used by a competent economic authority. Germany after the war was faced with this position—an utter dearth of commodities, these consumption goods which is the factor of our equation. For four years every productive element in Germany had been directed to war work. On the other hand their monetary machine had been going at full speed rewarding soldiers and munition workers, and they were faced with this position—a complete absence of consumption goods and an overwhelming mountain of the medium of exchange. Here in New Zealand I say we are faced with the reverse, and throughout the world we are faced with the reverse. Therefore, I say that position not only will not arise, it cannot arise. But, more particularly, we are not concerned with that. We will have a definite sum set to the credit of New Zealand, and the credit authority will not be authorized to exceed that by one pound. But there it stands. Now then, you will say, what is the basis for that money? You are going to go headlong to inflation. We say that every authority in the world to-day expects as the basis of money-issue a flow of consumption goods. How, then, can we be heading for inflation if we base our money on the flow of consumption goods. Inflation cannot occur if our arithmetic is correct. This sum will emerge. Now, shall we say that sum here in New Zealand is £7,000,000. That money of account represents the deficiency in purchasing-power as against the flow of consumption goods. We see it in our crowded warehouses, we see it in our idle machines and our unemployed. It has been said again that perhaps we are too ready to declare there is this reserve of wealth. I might say that that does not impress us. We find it easier to convince the more drastically a man is brought face to face with the economic situation. To the unemployed, they go through our streets, they see in our warehouses the goods which they and their comrades helped to make, they know that until those goods are sold there is no hope of them getting their jobs back; and when they speak to the shopkeeper they know that until they get their job back and their wages are restored those goods will not be sold. There is a deadlock, and that is why we feel constrained to say that we should not be on the defensive. We say that the present monetary system should be in the dock to-day explaining why it is that our vast resources are idle, and people and machines. We are compelled to live the lives of the peasantry of a hundred years ago, and that explains our reluctance to have to parade our plans and have it to the very finest detail, allowing for every possible disability, when we are surrounded with such mismanagement. However, I say that this particular figure will be as correct as arithmetic can make it, being the figure arrived at according to the basis recognized throughout the monetary world. It cannot lead to inflation. We realize, though, that possibly our technicians will require a margin, but what we claim is this: That within that margin we can improve our lot so that the abundance of our living will exceed that which is hoped for by any man in this room to-day. I say that from a knowledge of our pastoral and our industrial technique, its wonderful power of replacing those stores which will be expended. However, whether that may be right or wrong, the fact remains that if figures can mean anything those figures will be a complete safeguard against inflation. Now, the position might arise here, we are attacked on another ground. If you bring about this injection of money there will be idleness. That may occur. We may perhaps, following a sudden lifting of this gloom, become hilarious, we might have frequency of race meetings, and so on, and there may be idleness. Supposing that did occur, what would happen? The first readjustment made by the monetary authority would disclose this fact. You have, in the preceding period, consumed these consumption goods. You have exhausted your supplies. There is disorderedness; you have not brought about the replacement. You have exhausted your goods. There is no amount available for further distribution. We will accept that cheerfully, we will accept destitution if it is unavoidable. It is this accumulated store which is cumbering the earth alongside destitution which is enraging the people, and which is causing them to break down more than the monetary institution, which is causing them to remake social institutions which we think should be left standing. Now, this is a point I feel I am bound to challenge. You are possibly aware, in fact, you must be, that there are numerous challenges that our facts are wrong. They say that there is not an accumulation. They say that owing to the slowing-down of production there is, in fact, a dearth. It is amazing how flimsily they will bring up facts to attack Douglas and how precariously and how laboriously we have to bring up facts to support him. If you wish to doubt that, I would refer you to that Bulletin No. 102, issued by the Chamber of Commerce, Canterbury School of Economics. We might, perhaps, be charged with going to the enemy for information. That is to prove our sportsmanship, or it may be that the Scripture often quotes the devil. However, it is got up by economists and printed by New Zealand Newspapers, Ltd., and it sets out there that on an average there is two years and a half supply of raw materials in hand in July, 1933. That is to say,

that the world could, for two years and a half, have a holiday, and only then would the equation be brought about. Now, I mention that to show the margin in which these technicians can work.

Mr. Langstone.] Did not the war prove that too?—Yes, it did. I might say that Salter, who has been quoted here, and has been read widely by many members of the Committee, has said definitely that one of the striking things of modern science has been the amazing way in which the wastage of the war have been made good. Using the word in its technical sense, saving—that is to say, the amount left over for investment after having satisfied current needs—he says that savings increased at a more prodigious rate than the world has ever seen, in the years following the war. Now that, I say, has been criticized. It has been criticized in letters to the press, and I might mention, if any one wishes to achieve notoriety as a press correspondent he has only got to attack Douglas and he will be given the first place in the correspondence column, no matter how unworldly, how pathetic, his sentiments may be. A declaration has been made that there is a dearth of supplies throughout the world, yet the 1931 rubber crop was completely destroyed, the equivalent of last year's coffee crop was destroyed, and here in New Zealand our city paper has put forward a recipe for for making artificial coffee by burning bran, and so on. They are retiring in America nearly 100,000,000 acres of agricultural land. They have destroyed 10,000,000 acres of cotton, and here in New Zealand we are wrestling with this grim destiny of the quota. Now, under those conditions, we say that within this margin there is room for our technicians to make a big error and yet give to humanity a standard of living in excess of what it has hitherto enjoyed; and I say that we are supported there out of the mouths of economists in our statement. Now when, therefore, we are confronted with this, I say that it is possible to arrive at the sum, and within that sum to put our unemployed back to work. I have said that there would be a great benefit, but what I think has not been sufficiently understood in New Zealand is the enormous wastage which we are undergoing. I have mentioned those items which no doubt you are weary of the recital of, the destruction throughout the world of physical materials. I say this: That those things are trivial compared with the destruction which is going on in the social sense here in New Zealand—the destruction of tradesmanship, the destruction of our moral standards. You are concerned with the destruction of faith in Parliaments. We are the last democracy in the world, and here in New Zealand we are the last bulwark of that democracy. What a thought to bring in a country where Seddon exercised control so long. This is the position we are facing, and the particular wastage I would like to commend to you is the waste of tradesmanship which gives us that impatience. Here we have twenty-one civil engineers turned out last year. Not one of them employed. We have on our relief works here chipping footpaths, our tradesmen, our professional men. You will find three men, a solicitor, a civil engineer, and a carpenter, armed with a shovel, each attacking a dock leaf from different sides. We have lost the Government stroke and acquired the unemployed gesture. That is what is happening on the other side of the ledger, besides this material we are wasting. This margin of gain is so vast that we should go forward boldly into it, if it is only to salvage our unemployed. But I say this: That the restoration of our tradesmanship to its proper sphere, the re-employment of our apprentices, is a gain, I will not say trivial, but unimportant, compared with our idle machines. Machines do not tire, and I would like to see our machines working throughout the day and night. I would like to see these concrete roadmaking plants going three shifts a day and men getting the leisure, the abundance of living, that comes from that employment. So we see that, apart from our accumulated stores, behind that there is the gain of putting our men back to their proper tasks; behind that again is the wonderful machine; and again I must run the risk of being termed a visionary by saying that behind that machine there are machines which are not yet built, not yet brought to light, merely existing in the minds of men. Now that, I think, should have bombarded any criticism that any error in these figures would lead to inflation. It is established that some £7,000,000 or £8,000,000 is the declared deficiency in our purchasing-power. Within that sum New Zealand can work. Having established that fact, I think we have put forward a sufficient safeguard and a sufficient rebuttal to the charge that we are heading for inflation. We cannot exceed that amount; we will not exceed it; and the policy given by Parliament to the credit authority will be to see that that is not exceeded until further surveys are undertaken. Then we will be confronted with the task of how will that be issued. I might say that when the Bellerby plan was cabled out to New Zealand, money to be distributed to the professional spendthrifts, we were met by the declaration that it was not necessary to advertise for fast spenders in New Zealand. We were met with the opinion that the wives of professional men in Auckland would be the most rapid spenders we could evolve. However, we consider that application of the rule of the most rapid spender would not need to be gone into. I believe that Parliament, through its social services, would find numerous ways in which this money could be expended through urgent works.

Mr. Clinkard.] Would that not have the same effect as public works?—If this money is issued without loan it does not need to be repaid. It is a costless credit fitted into the accounts of the Government.

Mr. Langstone.] By national superannuation and pensions?—Yes. What I was leading up to was what I think is a flagrant example of how Parliament has been frustrated. There is no project, I think, which deserves and received better public support than our dental clinics. It is economically and officially proved to the public of New Zealand that the early attention to teeth was its most striking physical economy, and now we have restricted that economy because we must economize. I mention that to show the importance of what one might call the utilitarian section of our plan.

That would be given to the dentists?—No. This would be charged to the national credit authority. Finding that taxation has reached its limit, finding that the people have nothing more to spare from their wages, you call upon that determined amount, and that is used for the basis of expansion, for pensions, for dental clinics, or for anything which is a truly national gain. Now, I mention that

to show how you have been defeated in your economies by what is a measure of economy. If that is not sufficiently clear, I can relate others. There has been great declared economy effected here in connection with the Auckland Railway-station. They have cut out eleven telephones in order to save money, but the Post and Telegraph Department are losing £55 a year. That sort of thing has been going on, and I could quote numerous cases where so-called economies are not really economies. This is a means whereby there will be placed at your disposal a sum of money which has not been extracted from the wages of the people, and I have mentioned to you various improvements which will occur to you. I am not quite sure that I am wise in doing so, because it appears to me you may draw upon the whole of it. However, so long as this money comes into circulation without appearing as a debt we would be resigned to it. We feel that social service has a prior claim and in our plan—if you do adopt it, if you say we will do so, and will find all the avenues to distribute the money—we feel that the unemployed man has the first claim. We say they are the casualties of this clumsy, costly, monetary system. We say that if the Government were to be empowered to utilize this, that those men should be the first claim upon this costless credit, but the point is that we do not wish to use the Douglas proposals or the Douglas plan as a kind of first-aid outfit. We feel that this project has something deeper in it than merely the preservation of economic vitality. We think there is a basis for a new economic thought, and I think we are justified in it. Douglas evolved this at a time when every one referred to him as a lunatic, because it was in a period of expanding purchasing-power and the people did not like the idea of, shall we say, examining the machine to see if the lubricating-oil was running low. He said that there would come a time when the engines would clash and that you must inject the oil at a point, every 500 miles, if you are to keep your engine running smoothly. People did not like to be told that there was a leak in the differential. People did not like the idea of a man predicting that the oil-supply would run out and need to be reinforced every 500 miles. That is what caused the initial antagonism which we have not yet lived down. Here is the position: There must be a supply of oil at a given point, 500 miles is the ratio put forward by your technicians. Now, then, the Government should lubricate all these points that are squealing, lubricate the unemployed and restore to them something of what life has robbed them or what the monetary system has robbed them of. I say we are not doctrinaire in our particular application. We are not so much concerned with the channels which you use to get this money out. I know there is a strong body of opinion here in New Zealand that pensions and the public works should be used, perhaps, to begin with. That might be all right, but we are afraid of becoming involved; we are afraid that possibly it might lead to lack of the ultimate ratio of production, and we want to guard against that. We want to keep our production machine going at the very limit of efficiency. We do not know what kind of life we want to live, some of our supporters think this will achieve leisure, but it might, on the other hand, lead us to wider and deeper phases of living, but if I want to preserve your respect I know I must not indulge in anything else but figures. I say that we are prepared to admit in the actual acceptance of this plan all the proposals which you possibly, being more widely drawn than our movement, are more competent to put forward, and, being our elected representatives, perhaps would have more authority to put forward. We say we will concede that, but what we want is, in some means or other, to put it into the industrial machine to allow it to function. I have admitted that possibly pensions might take a claim as suggested by one member; it may be that the public works would have a big claim——

I meant all social services?—Yes, help them too. We admit all their claims, but we want to put this forward as a new policy, as the only way of regarding the economic machine. We have said that Douglas discovered the flaw in the monetary machine. I think that by making use of that expression we have perhaps drawn a great deal more antagonism than we need have done. From reading back to the earlier economists I think it was more correct to say that Douglas discovered an inadequacy, and this inadequacy is not in the monetary machine. It lies between the monetary machine and the industrial machine. I think it is best expressed in his opening remarks to the Macmillan Commission, when he said the industrial machine has two functions. He said, "There were two things needed: One is to provide us with the things we need, the other is to distribute enough purchasing-power to buy them." If he had said there was required a midway organization that, I think, would perhaps have side-stepped a great deal of the antagonism that we have inherited. I like that point of view, because it appeals to this Committee. If there is this inadequacy between the monetary organization and the industrial organization the personnel of this Committee is best able to say "Yes, it is a deficiency." It is not that the monetary machine has not done its job; it has done it as well as it could; it is not that the industrial system has not done its job. They have had to give profits, to be responsible to their shareholders. That being so, there is an inadequacy which you can fill, and that inadequacy is to build up some balanced organization which will secure this equity. I wish I could give you a formula which would combine all these slogans—all these shibboleths—all those representations put forward by the economists which are expressed by the Douglas people as being the equation between consumption and production that always draw fire; and sometimes I have wished we could borrow Cassell's term, except that is a disloyalty, and perhaps affects our determination to go on. However, perhaps this Committee can evolve a term which is the objective to strive for. This objective will be an equation for production and consumption, and it will be reflected in a stable price-level. I have made the admission that we are prepared to withdraw into the background many of our methods of distributing purchasing-power if Parliament gave palliatives, social services, rescues to the unemployed, and support to the exporter of primary production. Admitted that there is this reserve in credit, we know of many more worthy purposes to which it may be used besides the ones put forward by the Douglas plan. We admit that. If you issue that money not as a loan; if you equate the industrial process, we will say, Give it to the

unemployed, the exporting primary producers, and to those people whose lack of purchasing-power is breaking them down. However, I say we are not content with this application of embrocation. We want to set forward a workable thesis which will for all time give us a monetary basis, and we must press on to set out how this purchasing-power, this deficiency, can be fitted back into the machine to achieve the results we are striving for. One thing which excites the most animosity, which is the happy hunting-ground of our opponents, is the just-price formula. I said that wages had been discovered by empirical research to result always in a rise of prices. As I say, Roosevelt is rediscovering what Seddon discovered.

Have prices not gone up first and wages followed ?—Yes, that is true ; except that I believe that is a stark definition, and I have been seeking to present the economists' point of view. I regard myself as being in an arena and I want to anchor my facts as near as possible to those economists who provide the ammunition. I know that through better organization, through the operation of a closely linked system prices do rise in anticipation. They speak of replacement values and so on, but the Blue Eagle has not succeeded in pecking that out of the Roosevelt plan.

In New Zealand they had to prove that the cost of living had gone up before they got an increase in wages ?—Yes, fundamentally and empirically it does, but theoretically one would assume that those wages do not bring in the higher price until they have been charged in costs. It is perhaps idealistic, and I know that what you say is probably correct in practice, but still if we are to work on theoretical lines it is impossible for those wages to emerge anywhere but in prices.

It must be reflected in the cost ?—So that the bootmaker who has to pay increased wages would be justified in later charging increased prices for his boots ; we cannot escape it.

Can you prove this, that experience having shown that rising wages merely raise prices, the fact of increased wages being paid does not expand purchasing-power ?—Yes ; purchasing-power is not merely money. It is the ability of money to get goods. If, therefore, wages rise and the prices rise, too, that money has no greater purchasing-power. Say a man has his wages increased from £4 to £6. If his wife, when buying goods, can buy no more goods with the £6 than she could with £4, then the purchasing-power has not increased ; but what I want to set out is this : That while I admit that the point raised by Mr. Langstone is correct, nevertheless it may be contested ; but what I do say is inescapable ; that an increase in wages must and ethically can be recovered in the prices charged for products. We cannot resist ; we cannot deny ; and, I think, cannot object to that. Therefore, the task is, as outlined in the proposals, to issue this money apart from wages. When we are working on this just-price formula, it should appear that, since prices are pushed upward by wages and experience throughout the world as reaffirmed that, we have to somehow make the money in people's possession buy more. That is the only real explanation of purchasing-power. The next process is to evolve a formula, this formula being the ratio by which purchasing-power will be expanded to secure this balance. Now, we are here saying that we have met the demands, onslaughts, or desires of Parliament with regard to this fund, and we have a certain sum left ; this sum to be somehow paid out to the people to enable them to buy the things awaiting purchase without causing prices to advance beyond their reach, and the suggestion is that it should be done by the just-price formula. Supposing the amount in round numbers, to make the thing workable, discloses that we are one-third short of purchasing-power ; that the amount of consumption goods or, perhaps, to resist any criticism later, the flow of consumption goods coming on the market exceeds the flow of purchasing-power being released, then it must be augmented to that extent. Now, the proposal put forward by Douglas which is unique, and being unique is therefore strongly criticized, is that retail prices be marked down to that fraction. It is bringing the price down to the reach of the people's income. Take a concrete example as an illustration : a pair of boots sold at 15s. worth 15s., but the people have only two-thirds enought money to buy consumption goods. They, therefore, are entitled to buy those boots at 10s. The other 5s. is paid to the retailer by the national credit authority. Now, that wants careful examination or you will find yourself sliding in the fashionable by-ways of increasing purchasing-power. It is not a bonus, it is not assistance to production, which so often leads production into unprofitable or uneconomic channels. It is a gain to the consumer ; it is a net gain to the people as consumers. If, therefore, we meet with this attack that here is something for nothing, at least we will begin by saying that it is something which is given to the people in their identity as consumers which is the widest possible identity we can contrive. Now, the bootseller sells at the same price as formerly. The gain to the retailer is that he made a sale where otherwise he would not have done. Instead of selling two pairs and having one left on the shelf he sells the lot. Professor Copland suggested that such a plan would involve multiplication of production to a colossal extent and works out with an air of versimilitude that it would result in thousands and thousands of pairs being added every week. One would assume that under Douglas we would become centipedes. Why should production be accelerated because the producer has found a market ; why should the seller become mentally unbalanced because he has found a sale ? He might perhaps have a delirium of satisfaction by seeing profits rise. As for causing inflation, which was added to that criticism, if the following week the bootmaker rose the price of the boots to £1 10s., will the housewife pay £1 10s. instead of 10s. ? No, she will buy more shrewdly.

Why stop at 33⅓ per cent. ?—If I get away with one-third I will consider myself a very lucky man. I say that this point, then, must be conceded ; that there is no distortion of the production system. With all its faults, with all its difficulties, it is left working, I resist the defence that our monetary system has served us so well and so long, I do not know what is the criterion if it has served us well. Professor Cassel says that it has led to the greatest tragedy in recorded history. However, I will say this in defence of the production system : That it has done its job. I admit that it is open to improvement—no one will deny that—but still we claim that it has done its job. We want to get rid of this production, and this means issuing this pre-determined amount of purchasing-

power. That leaves it still working as we understand it, as those in charge understand it, and as its technicians understand it. We alter the least possible in order to get possession of the trades products. This might incite criticism—something for nothing, at any rate. Granted that the consumer gets it, where does he get it from. The housewife gets possession of goods which formerly she could not afford. The boot retailer effects a sale which hitherto he could not have done. He calls upon the wholesaler, who calls upon the manufacturer, who calls upon the tanner. The unemployed go back to their tasks; the farmer receives a cheque for hides where hitherto he was denied; raw materials are salvaged and brought to the production machine. We find that production, in this procession, takes one step forward, stocks are replaced and no one has lost anything. When we put that into concrete form people say it is too good to be true, that I can buy one-third more goods under this system than previously, and what they are resisting is merely what industry was meant to do. That is not Douglas, it is Ruskin. The supreme aim of production is consumption. We have lost sight of it. Nothing has any significance in economics unless it is related to this simple passage that from the hides of the farmers emerge their purchasing-power. Why should we have to fight and struggle to put that across the people; why should we be called all these disparaging names because we suggest that industry should be allowed to fulfil its ordinary function to which men gave their brains and to which men now give their energies. I claim, therefore, that the Douglas plan would give you something which plans, first of all, to hold on to our civilization; secondly, it means to utilize our salvaged materials, our salvaged trades, our salvaged energies, and by passing it on through the machine it emerges as the finished product and with its finished product New Zealand must be able to buy what New Zealand has made. I think at this point I should put over the point that here within New Zealand if we had a closed economy we should be able to so manipulate our services that New Zealand could avail itself of those elements of food, clothing, and shelter which it has in so great abundance. Reverting to shelter, there is 5,000,000 ft. of timber held by one timber firm in Hamilton, and in this connection I might mention that there was a house condemned last week containing three families living in five rooms and two of those families were builders' families. It appears that the shame is beginning to pass from economists to every one of us. I admit that possibly now we are treading on dangerous or difficult ground. It can be said that perhaps by juggling with the monetary system you may be able to enable us to live here consuming our goods, but you will resolve yourself into a nation living on itself.

Mr. Clinkard.] Take in one another's washing?—I say it may be better in the end to take in one another's washing than to allow this malefactor to step in and steal our washing overnight.

We do that now so far as we render service to one another?—The only thing is that there is a bag wash that we want to use. It should at this stage be stated that here within our national economy we could alleviate, I should say, nine-tenths of the trouble which this nation is suffering from. Now, one might consider that beyond our boundaries we encounter difficulties with international exchange. I say this: That this plan will settle our overseas trouble. I say that we will be able to live amongst nations as we would be able to live amongst ourselves, each nation doing that which in the world economy it is best able to do.

Dr. Sutch.] That is assuming that other nations do the same as we do?—Not in the least. That is assuming that here in New Zealand this Committee will bring down a recommendation that the Douglas proposals are to be at once adopted. We could carry on and our trade relationships would not suffer in any way. I will say that all our economists have in their favour is a profundity of knowledge with regard to international exchange that can be used, and I say this Douglas plan will bring about a state of international trade even more beneficial than what I think can be constituted here in New Zealand. We must get down to fundamentals again, which I think are recognized that the trade throughout the world is one of barter, that each nation sends abroad its surplus products or its internationally desired products and receives in exchange the products of other nations and the degree to which it can specialize, the degree to which it can give value and volume, to that degree we are going to receive back volume and value from other nations. Past obligations are the fly in the ointment, except that the fly is rather huge, so we will say the nigger in the woodpile. In spite of that nigger we can still make what I have suggested, the prospect of a balanced international economy. If we accept that proposal, or rather that truism, that trade between nations consists purely of commodities exchanged in value and volume with values and volume of the commodities of other nations, that gives us an escape from those money-lenders. We are then faced with this: That they say to you, "If you tinker with your money-machine, if you make your people happy and contented, you will have to sever your relationship with the world." I say, we will be judged by the world on this fact: Is our butter good, is our wool, meat, and cheese good? Are they in sufficient quantity to give you a return of what you need? If the answer is in the affirmative, then there is no difficulty. This I will say in broad lines, and I realize there is conflict impending, that our overseas exchange to-day is better than in any previous time in value and volume. Now, here again I purposely refrain from quoting our supporters. I will go back again to circular 102, issued by the Canterbury School of Economics, in which is set out the movement of price-levels, and there it shows that New Zealand should really congratulate itself upon world price-levels, figures showing the collapse that has taken place through the world in similar price-levels. The average price-level goes down from 80 to 40. There is a return, equally inspiring, in the *Economist* of 30th January. We find that the movement downwards of the index figures consists of this: 93 in foodstuffs, 81 in textiles, 83 in metals. We find, therefore, that those particular goods which we desire, which we cannot manufacture economically, have not merely lowered in price, they have collapsed. The world cannot get rid of them, and there is no shortage of supply, as I can prove to you. All that is required, therefore, is for New Zealand to get possession of them; but New Zealand is in an unfortunate position. She is like the wife of the relief worker who attends a bargain sale, sees wonderful things to be bought, and has no money to buy them. It takes all our increase of value and volume expressed in the monetary system

to pay our overseas debt. There is very little left to get these things, and, unfortunately, those things we are compelled to buy are those particular lines controlled in the manner indicated by Mr. Langstone, controlled by trusts who have managed to hold up the price-level. We have an example of that monumental achievement in the rise in the price of tea. After destroying the equivalent of the whole Indian crop, the price of tea has been raised 7d., all because of these organizations. I hold that to some extent that has happened, and I believe that this will have to be brought under review later, but still in the items for which we have possibly the greatest demand at the present time we could exchange in value and volume on better terms than ever before. Reverting again to concrete examples, those 130 bridges which the Automobile Association say are dangerous in the Auckland Province, you can now buy mild steel at one-third the price when butter was up. Our butter will buy more steel, more of the things we want, but here is the point which I think our economists have not brought sufficiently to the front. We have increased the volume of our pastoral products and the farmer should be four times and a quarter better off than he was in 1914 and the farmer to-day is collapsing in your arms like a pauper and wanting relief, to be given a chance to live, and yet by his production on world levels he should be enjoying four times and a quarter the standard of living he had in 1914, and he is prevented from doing that by our monetary system which some declare has served us so long and so well. I realize that here is where we join battle, but I will quote authorities and am prepared to substantiate this from the ranks of the enemy. I am not sure whether we will have to accept any surrender or whether there will be increased animosity due to my remarks to-day, but I say we will quote only those specialists in investigation to distinguish them from the economists who are trying to save the old system. We will quote from the economists as far as their investigations and the profundity of their knowledge serves to show that this is the position that our production in quality and quantity should entitle New Zealand to such a high level of living as probably exceeds the conception of any person here to-day, and I have to-day received a circular from the Waikato Show Association which tells us New Zealand must learn to do without pleasures, that we must have simpler pleasures which we can afford, and the farmer must rely upon his yearly visit to the show as being that which is within his reasonable ability to buy or afford. Now, in the bald statement of exchange I realize that probably we are faced with various evidence upon which we can be attacked. It may be stated of course, that our production is varying, that sometimes butter will rise, sometimes it will come down. Various methods have been put forward. I admit they are called forth possibly as movements to salvage one section of our farming community, but that is merely a palliative. If we are to get New Zealand economically sound, we must not proceed with those avenues of production or occupation which are not of world-wide economic soundness, and the Douglas proposal, in having an Exchange, Sale, and Purchase Division, which would deal with these, will be a safeguard against one branch of the economic structure being saved at the expense of the others. They would be able to regulate exchange in such a manner as would preserve the even stability of the price-level. Now, that is not so experimental as our critics have made out. It has been carried on to a very marked degree in various parts of the world. It is said that if you distribute this purchasing-power, it will help only those who come to have it in their possession—that it will not help the sale of our butter overseas. If the New Zealand farmer is recompensed in terms of value and volume of what we export, and more particularly what we import, he will be many times better off; but more than this, if we can import it will hold butter prices. Now, that is a controversial point, and in order perhaps to take refuge for a time within the ranks of our enemies, I would quote Mr. Davidson, of the Bank of New South Wales. In his pamphlet he set out that if we can enhance purchasing-power—I may say that he was referring particularly to Australia, and I assume he was speaking in defence of his high-exchange proposal, but that does not prevent us embodying any reference which may apply to ourselves—he said that if we can expand purchasing-power here within Australia, it will help the exporter to sell his goods on the foreign market. That, I think, is a truism; if we sell our butter, it is only by way of and through the medium of those debits in London caused by imports. If we do not import we cannot export. That I think has been condensed in that truism of Professor Taussig who, I think, is regarded as the highest authority on international exchange. He says that, over a period, exports and imports revert to equilibrium; in other words, if we persist, or rather, if we are prevented from importing, if we follow this economic policy to its absurd conclusion, the price of our butter and wool will descend down and down until it finally goes to zero, because they cannot buy if we will not buy.

Mr. Langstone.] That will create an unemployment problem there?—Yes. I just mentioned that as an absurd continuance of the system of exchange—that is to say, that our very poverty, driving us from importing, is by reason of the deficiency of debits in London causing embarrassment to the merchants. It may be of interest to this Committee to know that the difficulty in selling our butter in the North of England is not due to lack of advertisement, nor to lack of appreciation, but it is due to the channels of monetary exchange lying in the South and West of England.

Mr. Murdoch.] Does not Danish butter sell more largely in the North than New Zealand?—It sells because the channel of exchange is in the South and West of England. I believe that the preference for Danish butter in the North is brought about, not by the wishes of the people, because in 1905 there was inaugurated a campaign to persuade them to take New Zealand butter, but it was discovered that there were certain financial features which prevented the North of England butter-buyer operating on exchange. I mention that as an example to show how these exchange movements affect our ability to sell our products. I put that forward for your investigation, as it lies more within your scope than it lies within our own. I stick to this contention, supported by Mr. Davidson, who is not of our army. He says that this extension of purchasing-power within the country will help our exporters to sell their produce by reason of the goods we take and there is that added gain referred to by Mr. Langstone that there will be increased employment. Now that, I say, is a truism expressed by Taussig, and is endorsed by our own foremost orthodox figure, Keynes, who made an appeal for buying and selling. He

made a broadcast appeal to offset this economy, showing that by economizing we are crippling trade. He said, "It is true that a nation cannot spend more than it earns"; therein you have the present accepted public economy of New Zealand. He added to that "Also it is true that a nation cannot earn more than it spends." New Zealand cannot earn more that it spends in London. That then, is a picturesque and typically Keynes way of expressing the Douglas objective—that balance between consumption and production. I say, therefore, that we can safely trust to our analysis, and that there is a workable, sound, and democratic method in the Douglas Credit proposals.

The Chairman: I think we shall have to adjourn. I just want to mention this: When we wrote you in Wellington, we received a reply that you were coming before us to explain further the proposals that were submitted by Major Douglas. We again wrote you on 9th March, asking that you might also discuss the Douglas Social Credit. Well, we have no reply to that, but you have been good enough to bring it this afternoon. Although it is late, we would like to have it the same as we have had the other plans or proposals submitted to the Committee in advance. However, we are very glad to get them.

Colonel Closey: May I say, Mr. Chairman, that I have arranged this particularly to gain your help, and I feel that your advice at this preliminary stage will help us in our plans; but I am prepared to put forward the Douglas plan and to fit into this an instalment or machinery plan, and then we will gain your help and the value of criticism in showing how far you are prepared to go.

AUCKLAND, TUESDAY, 20TH MARCH, 1934.

Witness: COLONEL CLOSEY, further examined.

The Chairman.] Have you anything fresh that you want to add?—Just that instalment plan of Major Douglas. Do you desire that put before you?

Yes, I think we had better hear that?—I think you all have copies of that plan. I would like just to state in what connection that appears, and also to explain why it is so limited in scope. You will remember yesterday that I think the plan appeared quite complete to you, except for one phase of it which I could see was regarded with some uncertainty—that was, how this shortage of purchasing-power would be arrived at. I mentioned a sum, which, of course, was quite tentative, and I feel sure that the Committee must have thought that therein lay some difficulty, how to assess this sum, which was to be placed to the credit of the national authority, and you will remember that in order to arrive at that sum there was to be undertaken an economic survey. I might say that we have taken steps to approach that sum as accurately as we can, and in the course of our investigations we came across certain difficulties which I cannot describe otherwise than as being most serious. I think that not only are those conditions serious for the presentation of our scheme for reform, but I believe they are of very grave national importance, and the position is, in our minds, something like this: This loss of purchasing-power which has produced this crisis, admittedly upon the authorities I have quoted, we find here in New Zealand is largely, in fact mainly, due to the action of our banks in withdrawing loans and also in transferring to reserve and secret profits huge sums of money which were part of our equipment as the medium of exchange, and it is that particular loss, in our opinion, which is the implement of the depression, mainly as far as New Zealand is concerned. Now, another point, too, was that we have discovered that such monetary measures as have been taken in the past, such as the raising of the exchange, did not achieve what was expected of them, and there again this power of absorption of money which the banks possess, was, in our opinion, responsible for that frustration. We see, too, that in the United States similar measures were defeated through the ability and the instinct of the banks to acquire the medium of exchange and consolidate it in what they term frozen assets. It was so important, that we found out that nearly all our figures were subject to very wide margins of error, and we were convinced that nothing in the nature of an economic survey can be made with sufficient correctness to be valuable unless we first find out what those secret reserves are, and also to what extent their assets are correctly represented. Now, that is the importance of this survey, as far as our own plans were concerned, but in seeking for this information we discovered something which possibly this Committee might regard as being of still greater seriousness. It is this: That as far as our investigations go, the control of the greater part of New Zealand's industry has passed into the hands of the banking institution. There are some areas where the whole of the farms are in the possession of the banks, together with collateral. Now, the seriousness of the bank control is that it comprises a blanket mortgage. It would appear that no purchasing-power, no fluidity of asset, can result in that particular area and with those particular farms until the bank declares exactly what its attitude is. Much of this has been discovered in more or less irregular manner, but our discoveries made the position more and more disturbing. We have, for example, the declaration of various firms that even with the return of prosperity they doubt whether they will be able to extricate themselves from the control of the banks. Now, there are many other conflicting areas of investigation, too. It is the extent to which that collateral form of security extends. Often the particular security or real wealth submitted to the bank has been extended until it would appear that all future operations for that individual or that firm will be directed by the bank. We know that in Germany bank finance is linked with control, that they are equipped with technicians and can carry on efficiently. Here in New Zealand we have not that system of technical advice to the banks, and it would appear as a third development that, should we issue money as purchasing-power, we could not guarantee that that fund would be replaced. You will remember that when we set aside this amount, being the deficiency of purchasing-power, it is on the understanding that, should that be expended, a further survey would inevitably disclose another balance forthcoming on account of the engines of production having been restarted. Now, with this new aspect of the bank

control of industry, we have not that feeling of assurance. Altogether, therefore, there appear to be three disturbing factors which would affect the successful carrying-out of the Douglas plan as outlined to you yesterday in tentative form. The first is the lack of information in regard to the assets held by the banks. The second is the degree of security, the degree of access they have to the reserves which are nominally supposed to be free. It is very distressing when one finds a company, such as happened a year ago, with associated capital approaching a third of a million, to go into liquidation, and discover that nearly a quarter of a million is a debt to the banks. There are other more sinister rumours with regard to stock and station agents, the moving-picture business, hardware and drapery generally, and I would suggest that possibly a most fruitful and beneficial scope of activity for this Committee would be to investigate this aspect, and either give us assurance or give us more definite information, but we find that we cannot put forward a satisfactory plan, one which we claim would work without injury to all classes, until this sinister position of our financial assets is properly cleared up. Now, with that objective, and working within the four corners of the system as at present in operation, Major Douglas decided to put forward a scheme which would have the particular objectives I have set out. The first would be to force an independent audit of the banks' assets. That, I have pointed out, is essential to our economic survey. I believe it is essential for nearly all the measures that you might see fit to recommend. The second one is one of great material urgency. We are impressed that we are rapidly approaching a crisis, if not in the actual position of assets here in New Zealand, at least in their ability to reconstruct if times should recover. In order to correct that, Douglas has evolved a means whereby this passing of our liquid assets, of our medium of exchange, into fixed or immovable wealth should be stopped and reversed, and certainly we think that the very fact of curtailing this control which the banks have over property will release the business world to a very great extent from the dominant hand of finance, and one can see that appears to be the trouble throughout the world. With those objectives in view, Major Douglas put forward this scheme before you. You will observe that it is very much restricted and bears little of the larger aspects of the proposal I put before you yesterday. Paragraph I is a restriction of interest to 6 per cent. I might say that we attach very little importance to that, although most monetary reformers concentrate upon the matter of interest. The Douglas proposals are not in the least resentful of people acquiring wealth.

Mr. Langstone.] On that point would it be possible to have two forms of money in existence—that is, a free money, and a money earning interest?—I doubt it.

Because I might put this suggestion, that, seeing you have got one class of money earning interest and another class which is non-interest bearing, those who are in possession of the non-interest bearing will want to trade for the interest-bearing money, and the result is that it will force up the price of the interest-bearing money?—Yes. I doubt whether that differentiation could be done. In any case, we do not wish to attempt it. This proposal is what I might term a reconnaissance in force, and we do not think that this strikes at any fundamental changes in the money system. I say that paragraph I, restricting the amount of interest to 6 per cent., is one to which we do not attach any great importance. The particular code of the Douglas proposal is that we think there is any amount of wealth for the whole lot of us, and we are not concerned over one individual getting what might appear at the present time to be an unfair share. Therefore, we would suggest that the amount of interest could be such as the governing body in its wisdom thought fit. Now, paragraph 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, &c.

Now that, I say, is to disclose exactly what are the assets of the bank, and I might say that the seriousness of that is disclosed by such publications as *Jobson's Digest*, which shows that the building figures of the New Zealand banks are not merely unfair, they are absurd. I have often discussed that with bank officials, and that admission is made, and their only defence is this: That the value of bank premises can only be estimated in terms of its function as a bank, that if they were to throw those buildings on the market, if no banks were required, their value would slump. I think that is absolutely untenable. If that were allowed in any balance-sheet, we would find that the particular premises of any firm could be written down on similar lines. I think that is not a defence, and I might say that in the July number of *Jobson's Digest* he takes strong exception to the fact that banks have repeatedly written down premises 10 per cent. per annum until their low valuation has made their balance-sheet a farce. The particular examples here in New Zealand, I think, are the facts of the Bank of New Zealand valuation. Over thirty years the absurdly small increase in their building values, I think, does not represent the increase in the real estate value in Auckland City. Another point is the valuation of the National Bank. I think that their total valuation is barely double the amount of their Shortland Street building. I would like to point out, too, that the erection of that building, which was over £250,000 in cost, shows very slightly in their balance-sheet for buildings.

Mr. Langstone.] Do you know the extra premises that have been erected over the last thirty years?—Yes. I remember your quotation. Very striking. I think the point brought before the Committee at an earlier cross-examination by Mr. Langstone, showing the respective balance-sheets for 1904 and 1934, is a striking example. I think that that increase put forward by Mr. Langstone, £61,000, would not cover the cost of the plumbing in these new buildings. Now, that, I think, should not be permitted in a scheme of national economy, that mutilation of assets ordinarily

considered to be a matter of fact and accurate balance-sheet, but more particularly is its effect upon our own figures. That represents completely demonetized assets; the medium of exchange upon which the nation relies to utilize goods and services is being withdrawn. It is being cancelled, and to that extent either new issues are necessary on loan or business is correspondingly reduced and handicapped. I feel sure that no one can object to that paragraph which demands that the banks should, in the interests of a correct survey of our national economy, give correct balance-sheets showing their building possessions. Paragraph 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.

Now that is leading up to this position: That since we ascribe one of the greatest injuries to this system of the bank withdrawing the medium of exchange and consolidating it in a manner which is neither available to us nor available for audit purposes, we consider that there should be an immediate movement to put that back again, to restore it to those people and to those areas from which it was taken. Paragraph 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."

That, again, is in fulfilment of this limited proposal of reversing this mechanism, to which we ascribe so much of our injury, which shall restore to the people, and particularly to those people from whom it is drawn, that money, that purchasing-power of which they have been deprived, and, more particularly, of which New Zealand has been deprived. Paragraph 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.

That is the execution of this plan for restoring to those particular customers that of which they have been deprived.

Mr. Langstone.] Of course, that would be a diminishing return, would it not?—Yes.

Major Douglas says that it would not, but I think when you begin to consider the matter that it must be, because nobody would transfer to secret reserves once they had been monetized in that form?—It would diminish to a certain point, but I do not think it would diminish to zero. It would depend on the effect of this restored money in the business world.

They would not bother any more about it?—Paragraph 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.

Paragraph 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.

That is applying to insurance companies and their reserves the same policy as that for the banks. Paragraph 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.

This is a most important paragraph, because it places these proposals in the light of the discussion we had yesterday. These proposals were put forward on the understanding which we are pleased to learn has later been amended that this Committee was not prepared to bring under review the present monetary system. Under those conditions it appeared inevitable that such proposals as were brought forward would need to fit in with the present monetary system. We put them forward now in conjunction with our general plan as a means of achieving those three objectives I set out in my earlier remarks: to find out information which is essential for our economic survey, to reverse at once this dangerous demonetization of our liquid assets, and to make sure that industry is handed back to its rightful, its technical control.

Mr. Clinkard.] You suggest that at one period this Committee was restricted in the scope of discussion; that was not so?—That was amended later.

Dr. Sutch.] No; in the correspondence we had with Major Douglas it was definitely indicated that the Committee were going to examine the present system and would put every facility in the way of any one who wanted to examine the monetary system, and would call in other experts to this end. Major Douglas was definitely informed of this before he put those proposals before the Committee.

I may add that this was also sent with the letters to the Douglas Credit Association, of which you are a member ?—It was quite late when we received that information, and it was not until after Major Douglas had left that we in the movement were aware that banking authorities were to be brought before the Committee. I may say that we are very pleased that such has eventuated, but we still consider that these plans should be put forward by reason of their very urgency. Whatever your recommendations may be, we feel that any alterations in the present system will be clumsy, and we consider that these preliminary investigations and preliminary acts are necessary to avoid what threatens to be serious trouble and to furnish us with the basis for our later and proper scheme.

Mr. Lye.] I presume that in approaching the examination to any of the monetary systems which are being advocated by people throughout the Dominion, difference of opinion should not at any time justify abuse, should it ?—No.

I want to ask this question : Are the papers which are circulating and printed in New Zealand advocating Douglas Social Credit, officially recognized by the Douglas Social Credit movement ?—No.

I am glad to have that statement, for this reason : That every member of this Committee yesterday received a paper, one advocating very strongly indeed the Douglas Social Credit movement, and it would appear to me that it does not exercise ordinary discretion when it prints letters couched in grossly insulting terms in referring to "smug politicians." I want to ask you if you have any complaint as far as the members of Parliament are concerned with facilitating this inquiry into the monetary system ?—No ; in point of fact, I am agreeably surprised, if not delighted, at the proposal that one member of this Committee made—a most helpful one—the member of the Committee who I thought would be most opposed, and I feel quite pleased to find his helpful suggestion which prehaps later on might be the form in which we appeal to this Committee, but before we pass that point I attempted to get the interest of the Committee by starting with the ideology of the movement, to give you some idea of the enthusiasm, indeed the passion, which is underlying this monetary reform, and I feel sure that, having that, you will be prepared to make allowances.

You definitely say that, as far as members of Parliament are concerned, they have done everything possible to facilitate an inquiry being held into the present monetary system and alternative schemes thereto ?—Yes, we were delighted with their recommendation.

Yesterday, for an hour and a quarter, you took the line (I think I am right in saying this) of playing off the opinions of Keynes, Blackett, Cassell, and G. D. H. Cole and others against the orthodox economists that we have in New Zealand. Do you mean to suggest, for you certainly inferred, that the economists within New Zealand were not intellectually honest enough and courageous enough to preach a newly discovered truth—to wit, the Douglas Social Credit proposals ?—Hardly that. The case I put was that there are a great many professional economists who lend themselves to a campaign of attack upon the Douglas proposals, and we consider that, apart from their correctness, the analysis and the keenness for research of the Douglas movement should be commended by every one, but more particularly do I attack them upon these grounds that the arguments they have raised against Douglas Credit are in contradiction to those advanced thinkers in the economic world in Europe and with world-wide reputations.

Dr. Sutch.] Could you supply us with a list of their opinions that are in contradiction in New Zealand with Douglas Credit—not now, but later ?—Yes.

Mr. Lye.] Did you not suggest yesterday that the economists in New Zealand who examined these proposals and found that they were sound really feared to preach the gospel or doctrine of the Douglas Social Credit movement because they feared they would lose their job or be penalized in some way by those who employ them ?—You will remember that in order to make that point clear I used a metaphor : I said that to ask a teaching economist what he thinks of the Douglas Credit proposals is like asking a bus-driver what he thinks of the electric railway. For a bus-driver to advocate the electric railway does not mean he would lose his job ; it is that his job would lose prestige and importance in the national function, and it is quite clear that if the text-books of the University are to be revised to fulfil the requirements of new economics, those older-trained teachers must find their reputation and prestige somewhat affected.

Yesterday you stated that the banks had advanced the opinion that the factors which had largely brought about the present depression were non-monetary factors, and you complained that certain words had been left out at the commencement of paragraph 208, "on the other hand." You then proceeded to state that the following paragraph, No. 209 in the Macmillan report, cleared up the position definitely, and showed clearly that it was monetary factors which had caused the depression ?—The expression I used, summarizing it, was "Guilty through ignorance"—that is to say, it was the failure of the monetary machine to react to non-monetary factors and keep the price-level up.

That is very important. It is a short paragraph and I would like to place it on record : Paragraph 209 of the Macmillan report, referred to by Colonel Closey :—

> Our view is, therefore, that the price-level is the outcome of interaction between monetary and non-monetary factors, and that the recent world-wide fall of prices is best described as a monetary phenomenon which has occurred as the result of the monetary system failing to solve successfully a problem of unprecedented difficulty and complexity set it by a conjunction of highly intractable non-monetary phenomena. Whether the international monetary system *could* have solved its problem is a matter on which we should hesitate to express a dogmatic opinion. It is probable that the difficulty of our national problem was much increased by the relative overvaluation of the pound sterling, and undervaluation of many other currencies. But the satisfactory handling of the international problem, even if it was theoretically practicable, might have required a degree of knowledge, experience, and prescience which no one in fact possessed, or could have been expected to possess.

Now, I think that goes to support the previous paragraph ; I put it to you that it does go to support paragraph 208 that non-monetary factors were largely the contributing causes of the depression, and that the monetary defects were a reflection or the outcome of those difficulties which were non-monetary ?

—I think that, stripped of its verbiage, that paragraph is sufficiently clear. It blamed the monetary machine for not being able to deal with non-monetary factors. I might say that the particular reference I made was that "the blame was the blame of Keynes, but the excuse was the excuse of Gregory." It appears as if that can be translated into housewife's economy: "No, I cannot keep my family, because I have not enough money, because things are so dear and families so hard to maintain."

You say that there shall be established in New Zealand a national credit authority with the sole right of note-issue. Under our new central Reserve Bank Act, the note-issue is in future to be controlled by the central Reserve Bank; can the central Reserve Bank properly administered not fulfil the functions, although under a different name, of this suggested national credit authority?—No. To begin with, the basis of its money-issue is sterling balances.

I see; and what is the basis of the money of the national credit authority?—To quote Cassell, which expression might meet with the least resistance, it is the balancing of the flow of purchasing-power with the flow of consumption goods coming on the market.

Do you think that the general public will understand that definition?—Perhaps not; but I say we can elect a Credit Board which would understand that definition.

You say that this authority shall be selected and elected; how and by whom?—There again that is a machinery clause. The suggestion I have made to you was that they should be selected from as wide an area as possible—Parliament, trades-unions, unemployed, the Universities, and so on. I mentioned the importance of having all walks of life represented.

And by whom would they be elected?—That, I think, is not important. I mentioned the matter of our Supreme Court Judges with regard to their functions, but more particularly I thought the Institute of France was a more suitable model. That is a repository of certain authorities, decorations, and honours which is somewhat in the same category of being responsible to the people, somewhat directed by Parliament, but not subject to political interference.

Would the method of election and selection of those who are to be the national credit authority be on similar lines to the method employed now in the selection and election of the directors of the central Reserve Bank?—No, they have that shareholding qualification; and I wish to disagree with the fact that those who have money to invest must necessarily be in command of our money policy.

Are you prepared to admit that the setting-up of a central Reserve Bank of New Zealand is a distinct advance on the system that we have had until recently?—I think it has strengthened the interior machinery; on the other hand, I am afraid it has strengthened also our contact with outside forces.

Have you any suggestion to make; the banks to-day are not regulated by law in respect to the volume of deposits that they may be able to attract, but the banks are to-day regulated in respect of their note-issue. I think you have that fairly clear, that to-day the banks can attract and accept any volume of deposits without any restriction, but they have been restricted in the matter of note-issue. Have you any comment or suggestion to make for greater elasticity over the right to issue more notes as conditions warrant or demand?—No; unfortunately those regulations concerning the note-issue are becoming of less and less importance with regard to furnishing total purchasing-power, and, that being so, the regulation does not have the effect you desire. On the other hand, that aspect you mention of attracting deposits (which are of course loans returning) has an accelerating action, and it causes this pendulum swing which is not desirable in the interests of the nation.

Then, the statement that appears in the Macmillan report, that what is required is greater elasticity in meeting the changed conditions, but that it should not be accounted against the present system that the banks have too great a power in varying the volume of deposits; you do not agree with that statement contained in the Macmillan report?—Yes, I do. You will observe that the power of this national credit authority will not merely be to gain elasticity, but to actually give it precision. That claim is for the banks to be allowed to adjust their issue of credit to meet the requirements of the business world and of the nation. Under this national credit authority they not only will be able to do that; they will be enjoined to do it; they must at all times equip the nation with the right amount.

Do you consider that the public have an understanding of how you are going to make available to the people the additional purchasing-power that is advocated and that is required; have the public a realization of how the Douglas proposals will make that purchasing-power available?—In order to make that clear was why I spent so much time yesterday on what I term the ideology of the movement. The Douglas supporter realizes that there is available all the materials for his needs and he wants the handiest, most complete way of gaining access. The credit authority has only got to put forward a plan, and we feel sure that the public have sufficient intelligence, and possibly cupidity, to avail themselves of it without any possible delay.

Would you say that New Zealand to-day is wealthier than ever?—Most certainly.

Would you disagree with the statement that has been frequently made by responsible people in New Zealand that the purchasing-power of the people of the Dominion is largely dependent upon the margin between the cost of purchasing the goods and the selling-price?—I would disagree.

Then you disagree that the exchange value of our goods and services that we have is not a determining factor in the prosperity of the people?—It is a determining factor in one area; those primary producers who sell their produce overseas on one scale of money-values and are compelled to buy and incur their expenses on another scale of money values in New Zealand.

Do you claim that it is necessary to have at any one time, or all the time, sufficient money in circulation to equate with production?—No. You will observe that in order to meet this question I made particular use of that term "The flow of purchasing-power to balance with the flow of consumption goods."

What is your answer if I say that prominent Douglas advocates have stated that it is necessary to have, at any one time or all the time, a sufficient volume of credit or currency in circulation

to equate the production ?—It is a matter of definition, and I might say that not only Douglas Credit supporters have alternative definitions. That is a particular reason why I chose the definition used by economists, because I gathered that that would be the base of criticism, but I think the Douglas movement is clearly of the opinion that this equation is the one I have just set out, the words of Professor Cassel.

In view of the fact that you say that it is not necessary at any one time or all the time to have an equation between credit and currency in circulation and the volume of production, would you say that the velocity of circulation of currency, or credit, is a very important factor ?—Without meaning any offence, I would like to point out that you have used alternatives, three words—purchasing-power, money, and currency. I realize what you mean, and I quite understand your question, but that is an example of how carelessly we use these words. With regard to velocity of circulation, we attach no importance whatever, for this reason : That the term " purchasing-power " might mean either a large volume of currency at a low velocity or a small amount of currency at a high velocity. But, putting that entirely to one side and referring to purchasing-power, we avoid all that controversy. I am glad you raised this, and I would like to crave the indulgence of the Chairman to point out how your question was greeted by the bankers. They applauded that sentiment that we have not given sufficient account to the velocity of circulation, and they gave an example of accelerating the sale of a match-box. I would like to repeat that, not because it assists you in your question, but because it shows you how profoundly we are misunderstood by the bankers.

Dr. Sutch.] They were merely using that as a definition of purchasing-power ?—They were using it to show how ignorant the people of the Douglas movement are.

Mr. Lye.] You say " not to assist me in my question " ; I want you to understand we are examining certain proposals and seeking for information. I am not in any way biased at all ; I wanted to give you the same opportunity. As a matter of fact, I asked the same question of Major Douglas ?—Exactly. This may not be necessary ; you may think it redundant, but I crave your indulgence to show why the banks regard us with such hostility. They think we are working on paper money ; they think we have no knowledge of the velocity of circulation, and in order to expand this and to discomfit the Douglas people, they put references in front of you with regard to the buying and selling of matches. This is the point to which I would like to draw attention ; it will give you the key to this animosity between the banks and the Douglas people : Douglas says the match-factory cannot sell the whole of its output owing to lack of purchasing-power. What value is it to the match-factory that those two officials were exchanging a box of matches ? That was further accentuated by a member of the Committee in a more touching manner ; he went into the matter of bottles of beer. The point we wish to stress is this : It is the ability of industry to sell its turnover which is the demand upon purchasing-power, not the frittering and exchange of groups amongst one another. I would like to stress that, because, if you examine that carefully, you will see exactly the basis of this profound misunderstanding and criticism of our proposals.

You say that it would be necessary to have an economic survey made which would indicate a certain sum total after that economic survey had been made ?—Yes.

Would that represent what may be called community-created wealth ?—Not exactly.

Not unearned increment on land ?—No. Reverting again to my definition, it would be the deficiency in the flow of purchasing-power as against the flow of consumption goods coming on the market.

Seeing that you propose to monetize the undisclosed reserves of the banks, has the movement given any consideration to a distribution of the unearned increment or the community-created wealth which is considerable from time to time ?—Yes, that would appear in the balance-sheet ; but it would not be the beneficence that some people think it should be. It would be the basis upon which we calculate our money-issue. However, that stage, I think, is very far from our calculations in regard to New Zealand. In point of fact, we are disturbed at the manner in which debt is overwhelming our equity.

Well, then, you have arrived at a definite shortage in purchasing-power. How would you proceed, apart from the just-price factor, to distribute the purchasing-power which you say we are short of ?—Well, there are two main channels of distribution, of which I gave examples yesterday. One is to stimulate the consumption of those commodities, to get rid of the stocks which the retailers are so pathetically anxious to sell. Another channel is fixed capital investment—roads, bridges, &c., and the national credit authority would have to make two series of decisions. The first would be the amount of money to be distributed ; the second would be the partition between the consumption of goods and the creation of real wealth.

Another point I want to clear up is this : I understood you to say yesterday that the price of mild steel and other commodities was heavily down in value. Was that right ?—Yes.

So is our butterfat and all primary products in New Zealand. Yet you say it is impossible to exchange our butter or primary products for those things which we require. The question I want to clear up is this : If the things we require have fallen in price, how is it that we cannot exchange our primary products for the things which we cannot produce ourselves, if they also have fallen in price and the fall is correspondingly the same ?—The point is that we have no purchasing-power in New Zealand to buy that steel, those textile goods, that crockery, and so on.

Let us come back to that question. You say there is a definite shortage of purchasing-power in New Zealand. The Douglas proposal is to inject into circulation an amount equal to that which, as the result of an economic survey, you have discovered to be necessary. Is that right ?—Yes.

That has cleared up that point. Now, then, do you consider that the exchange-rate on London, or taking New Zealand currency as linked with sterling—do you consider that a material factor ?—

Yes; the exchange-rate is a symptom of different price-levels. That exchange barrier is assisting in the prevention of our imports.

Under your proposals you would stabilize the exchange to prevent movement?—No; on the other hand, I would stabilize prices, and allow the exchange to take up the slack in the adjustment.

I see. In the *Kaipara and Waitemata Echo* of 25th May, 1933, you are reported to have said, in answer to a question asked at a meeting in Helensville about the exchange-rate, that the Swedish exchange-rate had not varied. Now, in view of the fact that the Swedish exchange-rate has varied both in relation to gold and sterling, how do you reconcile your statement with facts? The reason I asked whether you would prevent fluctuations in the exchange from time to time was in view of your comment on the Swedish system?—A ghost from the past rising. Well, I might say, of course, that is a condensed account of my remarks on the Swedish position, and I say the Swedish position is one of the most interesting and one of the most surprising developments of applied economics. That was where the Swedish Government, under the guidance of Professor Gustav Cassell, pursued a policy of price-fixation. I said that if we adopted a policy of price-fixation we would need to allow the exchange to swing as a corrective. It is one of the curiosities of economic science that when the Swedes fixed their price-levels they were prepared for an exchange swing, but to their astonishment the exchange did not move, and the explanation that I put forward to that meeting was that economists are agreed that it was the policy of forward buying which kept the exchanges stable. That position is one of the curiosities where a price-level was fixed, of great benefit to the people, and, instead of the ensuing exchange fluctuations, it remained steady.

Dr. Sutch.] But the point of Mr. Lye's remark was that the exchange-rate did swing?—It did not swing for nine months.

That was not included in your remark just now. Mr. Lye's remark was that the exchange-rate in Sweden has changed?—Not until nine months had elapsed. I put it forward, therefore, that it is possible, though extremely improbable, that you can adjust your price-levels and not have an exchange movement.

Mr. Lye.] For a period?—That is mentioned as an exception. We must be prepared to have exchange adjustment if we vary our price-level.

We will pass that for a moment?—Only for a moment?

I do not think it is a case for levity?—I cannot say. Is that point not satisfactory? Have you not accepted my explanation?

That is not what I meant at all. I meant that, as far as I am concerned, I am leaving that point. What I actually meant was that no doubt that question will be taken up by other members of the Committee. I want to pass on to something else. Major Douglas, speaking in Wellington, said that his proposals were based on ascertained fact. He went on to make a statement regarding the Bank of England, and in his evidence before the Committee he referred to the Bank of England dividend as 6 per cent., and mentioned that as a well-known precedent for the 6-per-cent. dividend proposed in respect of the Bank of New Zealand. Well, as a matter of fact, I have it on authority that the Bank of England dividend rate is 12 per cent. How does that square with the contention that the evidence he was giving was based on ascertained fact?—I might say that that remark was an incidental one, and appeared in the press in parenthesis. It is amazing that, in all these momentous proposals put forward, critics have fixed upon that remark which appeared in qualification.

Dr. Sutch.] It was also made in his Auckland speech?—I do not think so.

Mr. Lye.] I think I am right in saying that Dr. Sutch interjected at the time he made that statement that the Bank of England rate was 12 per cent., not 6 per cent.?—We do not propose to bring the Bank of England under this scheme.

But, of course, people who are accepting very largely the Douglas proposals, which you say are based on ascertained fact are accepting that his statement is reasonably correct?—I do not think it is a matter of major importance. I say the amount of interest has always been held lightly by the Douglas movement. We consider that there are such vast reserves of wealth that we do not need to worry about what people get as interest.

I have attended a number of lectures and addresses delivered by advocates of the Douglas Social Credit movement, and I have always noticed that they have conveyed the impression that here was a means of getting something for nothing. Now, it is not your intention to get supporters by offering them something for nothing?—Well, I might say that I am prepared to justify what I have said. I am called also upon to justify what Major Douglas has said. It will be difficult if I have to justify what others have said that we have said.

I quite admit that. I am just asking whether it was part of the Douglas programme to hold out a prospect of getting something for nothing?—No, it is not a beneficent society.

Exactly. Major Douglas is reported to have said in Sydney on 9th February of this year that all over the world Communists were linking up with the Douglas Credit organization. You would not take that as an invitation that they should come into the movement?—On the other hand, there is antagonism.

I know there is. I suppose it is not much use pursuing what newspapers and periodicals have printed about the movement, but it is sometimes useful to clear up these things, because you are the accredited representative of the Douglas Social Credit movement. I have seen a periodical published by the Douglas Social Credit people (and it can be purchased at any bookstall) which states that the Prince of Wales approves the principles of the Douglas organization. Is that correct?—The Prince of Wales made use of an expression in July, 1931, when he said that the great task before humanity was to bring about a correlation between the force of production and the power of consumption—a difficult, but not an impossible task.

You cannot say that is an advocacy of your proposals?—And yet the fulfilment of that would satisfy Douglas Social Credit.

Did you say yesterday that you would ask that your proposals be tried out for a year ?—No ; a member of the Committee (one in whose ability, I think, the nation has confidence) put that forward. But I would like to say that if that could take proper form, it would be received with very great appreciation by the movement. Perhaps, however, that member would do that individually.

Would you support the statement that is reported in the *Morrinsville Post* of 3rd August, 1933, to have been made by Mr. A. E. Robinson, the Secretary of the Farmers' Union. He is reported to have said that, even if the A and B theory were wrong, they should be tried out. Is Mr. Robinson a member of and spokesman for the Douglas Social Credit organization ?—I am afraid there are no physical or national forces to control Mr. Robinson. He must answer for himself.

Are you aware of the fact that the first signatory to each of the petitions presented to Parliament has had a special invitation to give evidence before the Committee ?—I was not aware of that.

Well, for your information, I might mention that the first signatory of all petitions presented to Parliament was invited to take this opportunity of coming before the Committee to advance proposals and show why there should be a change ?—Do you accept that position on the list as an indication of competency on currency matters ?

No ; but it is usual in acknowledging petitions to communicate with the first signatory of the petition. It is the usual practice ?—We are very pleased to have that information.

I think that is all, Mr. Chairman.

Mr. Langstone.] The science of government, I take it, is to govern the country and the people in the best interests of all the people. I suppose that is the principle we operate on ?—Yes ; we recognize that.

Now, in the system that we have had operating for a long time, the motive power behind production has been a profit-making motive ?—Yes.

And it is impossible, directly we start to monetize our wealth in the form of production, for some people in the community to make profits unless others make losses ?—Yes ; except that I think there is a certain emergence of what one might call the services of management and profit. That is where I think your statement is not quite so——

I am taking all that into consideration. I say that profit is that portion over and above all the charges in the industry, all depreciation and management and all those things in the cost of running. The other is the surplus that has been taken away out of industry for which no actual compensatory return has been given. Is that not so ?—No ; I am afraid I cannot agree with you. One might call that profit the reward of risk.

If the banks take up that attitude, and say it is the reward of risk, or any insurance company, or any business, then that makes it justifiable ?—We would rather not enter that realm of social reform. Our particular objection to the banks' secret profits is the fact that they are a deduction from the people's medium of exchange. I would rather not accompany you upon these social reforms. I would like to stick purely to the monetary aspect of these moneys not being available for use.

Of course. The wage system is wrong. The wage system presupposes a profit. It presupposes that there will be paid out in wages a certain amount which will never buy back the amount of commodities produced under the system. Therefore it leaves a surplus. That surplus cannot be bought. There is a void between the two ?—Well, that is where there is a division between the Socialist and the Douglas proposals. It is not merely that we differ ; it is just that we do not go so far. We would be prepared to say that so long as a man spends his profit in buying things, and so long as the nation's medium of exchange is maintained, such other reforms as are necessary are the concern of other groups, and not of the Douglas Credit movement.

I do not suppose there is anything to suggest a natural price-level ?—No, nor has there ever been.

And the income of New Zealand or any other country comes from within that country, not from without ?—Yes.

Purely domestic income. Now, at one period we get money in sufficient quantity to sustain a certain price-level. Then something happens, and prices fall. Where has the money gone to ? I do not suppose money ever leaves a country ?—No.

If there was money in the country at one period, and it never leaves the country, what happens to the money that was formerly in circulation ?—For nearly a century our real money has had its place taken by representative money, and when that money goes back to the banks it disappears and is destroyed.

By real money I presume you mean gold money ?—That is real money.

But it is only representative money ?—It was the means of getting things.

That is the distinction between our cheque system and a metallic currency. It represents the same thing. I suppose you agree with McKenna that the amount of money in operation or circulation varies only with the action of the banks ?—Yes.

That all of our money system originates with the banks ?—Yes.

That is the origin of it ?—When we talk of joint-stock firms accepting money on deposit, and that sort of thing, it is not just the position, because the joint-stock companies bank with the banks.

Dr. Sutch : You mean stock and station agents ?

Mr. Langstone.] The stock and station agents bank with the bank, but you have never heard of a bank banking with a stock and station agent, have you ?—No. I think it is difficult to say where one stops and the other commences nowadays.

I want to quote from page 34 of the Macmillan report, where a statement is made that if a person puts £1,000 in the bank (cash—that is, their form of cash) that it becomes the base for a credit structure of £10,000—that is, they evidently assume, according to the figures, that 10 per cent. is sufficient to keep in actual cash reserve to meet the ordinary outgoings or money that was called upon. I suppose, as a matter of fact, that if the people wanted their money it simply is not in existence ?—That was

disclosed very distinctly in a special letter sent by the Babson Institute. They say that it is the foundation of the destruction of contracts in the United States of America. The commodities cannot be bought.

Have you read Foster and Catchings, Colonel Closey ?—Yes.

You will notice that in their work they figure something like this : Say, £100,000 is in production, £90,000 is in wages or salaries, there is £90,000 in sales, therefore there is £90,000 in consumption. That means a circle, and their contention is that if production is £100,000, payment should be £100,000, sales should be £100,000, and consumption £100,000. That would balance the whole thing. That is how they arrive at it mathematically ?—Yes. I might mention that system was adopted by President Hoover in the closing months of his reign in office.

I put forward that contention the other day. I want your opinion on it. I tried to visualize that we are going to do a certain work in Auckland. You touched on it yesterday with regard to Arapuni and the Auckland Railway-station, and those works. Suppose we started off and said it was necessary to have a bridge over Auckland Harbour. It will cost £4,000,000, but is going to take four years to erect. Therefore we have to put into circulation £1,000,000 a year on the average. I assume that half of it goes in wages and supervision, and the other half in materials, and that the outgoing is just on £20,000 a week. That goes on for four years. It means that there is increased purchasing-power in the community, but at the end of that period, when the bridge is constructed, that income ceases, that spending-power—that purchasing-power or whatever you call it—ceases ; but, in addition to that, the bridge, now transformed out of all sorts of materials, labour, steel, concrete, crystallizes in the form of a bridge which has to earn 5 per cent. on the £4,000,000 which has been spent. That means that there is nearly £4,000 a week in interest, so that you get £20,000 per week less purchasing-power, plus an exaction from that circulation of another £4,000 going on week after week. Now, there is a void there ?—That is a practical and useful illustration of Douglas Credit.

There is £24,000 going out, and simply because we have got more wealth from the energies of the people, and because the people have created that wealth, they have to face poverty ?—Exactly.

And that goes on with almost every capital expenditure that we have right throughout the nation ?—Exactly.

Now, you desire to inject purchasing-power in the form of giving a discount, a just-price system, and you mention 33⅓ per cent. on boots costing 15s., which you would sell for 10s. Why stop at 33⅓ per cent. ?—Well, because I mentioned that that is the figure set out by the national credit authority governed by the economic survey. It may rise ; it may fall ; it depends upon how efficiently the nation responds to the new impulse of production.

Therefore you see, of course, that every bankruptcy that takes place is a discount. If I go bankrupt for £10,000, it means that I owe somebody £10,000. That means a discount, and the goods are assigned and possibly bought at 6s. 8d. or 5s. in the pound. That means a discount has been given by somebody in the community ?—Yes.

There is really nothing new in the matter. It is only looking at it from the other side. According to your statement yesterday, you believe that that transferring of goods and services can best be done through the instrument, the money instrument, if it is properly adjusted ?—Yes.

Well, you are going to give 33⅓ per cent. without a money instrument ?—But we are using the money instrument to return to the shopkeeper that proportion of his sales through the national credit authority.

I admit that, but that purchasing-power need not be in the hands of the community that was using it ?—The wage-receiver would find that he could purchase one-half more.

I admit that readily. But from my diagnosis of the position I should say that if we fix the price-level and put money in to sustain that price-level, and if the people in the community have got sufficient money to pay the price, then why the need for a discount ?—Well, if you inject money without any State control it would lead to inflation. There would be an excess of investment.

Let us go one step further. If you fix a price-level, it cannot rise. There certainly would be profit. But if you had a Government that taxed those profits in order to distribute them among people who are not producers—I am talking now of people retired in the form of national superannuation, of our education system, which is not a profiteering institution—and if you had a price-level based upon goods and services, then, sustaining the price-level, with the incidence of taxation to bring it back into the common pool for redistribution, would not that be a test of whether there would be sufficient money at any particular time in circulation or not ?—Well, that point of view is the one put forward by Professor Robertson, and the difficulty I can see is not a great one. Possibly it would mean that the Government would be the instrument of issuing that money and recalling it. Where the State has undertaken so many enterprises it might mean a loss of efficiency. It would practically give the Government control over surplus purchasing-power ; and, though I uphold the rights of Parliament, it may not be advantageous to have, at this stage, this flow of money handled by the State authority.

Do you think that a good deal of the difficulty that has arisen is simply because of the break in the power of Parliament as a pre-emptive authority relegating that to a bank, and the bank then saying it is a matter for the Government or Parliament, and Parliament saying that it is a matter for the banks, and therefore you get to a period where it is at a standstill ?—Exactly. That is why I was disappointed because we could not get that answer from the bank officials as to whether they are pursuing a price-level policy.

Dr. Sutch.] That answer was promised to you. They said that they would give it in writing ?—Unfortunately, it is not available for our attitude to-day.

That was not the point you made to Mr. Langstone ?—I say that there is the passing of responsibility from one organization to another.

Mr. Langstone.] Neville Chamberlain who, I presume, as Chancellor of the Exchequer in Great Britain, has all the information available on these points, in giving evidence before the World Economic Monetary Commission, said, "The inevitable result of the economic conditions that actually prevailed was to bring about a progressive appreciation of the value of gold, or, in other words, a fall in the price of commodities." That actually happens, does it not?—I think it was helped considerably by artificial manipulation too.

Of course, you remember that Sir Josiah Stamp reckoned that the appreciation of gold was because during the war-time all the countries had been off the gold standard; then they coming on almost simultaneously with the demand for gold, it set up a huge demand for gold. That was his theory, but he further says that when they were talking of trying to raise the price-level at Home as a result of Ottawa they determined upon a rising of wholesale prices. That has never eventuated, and, in regard to their excuse for that, he says that in order to attain the object of a recovery in prices action is also necessary in the monetary sphere. The fundamental monetary condition of the recovery of prices is that credit should be available by a policy of cheap money, and that such credit should be actively employed. This, together with the revival of business confidence, must form the indispensable background of trade recovery. He further goes on to say that the control of monetary policy is largely in the hands of the central banks, and the practical steps to give effect to the requisite monetary policy have to be taken by them; and, in particular, by those of the most important financial centres. So that we have the position of the Government trying to do something and saying that they cannot do it without the banks, and the banks saying it is not their responsibility; it is the responsibility of the Government?—Exactly.

That brings us then to the point where there must be continuity of control between the Parliament of the country and the monetary policy of the country. This is slightly different from what the Judges are, because a Judge does not make the law. He certainly interprets and administers it—a good many of them differ too—but he is slightly different?—I mentioned that as possibly the nearest we could find in New Zealand.

I quite agree with this: That in the administration of our judiciary we would not allow any Judge to be a member of any legal firm who may be appearing for a plaintiff or a defendant; but it is possible for a person to be a controller of finance—on the directorate—and also be connected with other commercial concerns where it may be possible for his own particular position and his own bias to get undue advantage that no other person in the community could have?—Yes.

Therefore, it is to avoid that that we must have the people who are controlling our banks just as immune from that sort of thing as our judiciary are?—Yes.

Do you think that with proper organization, our Treasury and the Bank of New Zealand combined, together with our other State Departments, could have been made to function in a comprehensive and even in a detailed way to much better advantage to the people of New Zealand, both regarding our external and internal trade, than what the central bank can do?—Yes, but it would be breaking new ground to set up such an organization.

You have to break new ground, do you not?—Yes.

It is absolutely essential that we break new ground?—Yes.

Now I come to this point: You have stated, and correctly too, that the information you require is not available and will be very difficult even for this Committee to get—I am talking now of the tentative proposal put forward by Major Douglas and elaborated further by yourself yesterday; but if we take just the round figures of the wealth of New Zealand and the debt of New Zealand—I do not mean just to deal with banks and insurance companies, but all the wealth in New Zealand—we will find, according to the *Official Year-book*, that the wealth of New Zealand is nearly £900,000,000. I presume that is found out by the various returns that are sent in—not made up by the Government Statistician. It is the result of the returns sent in, and most people when sending in a return, particularly if they are going to be taxed on it, do not make it any bigger than it need be, and we have the evidence of the banks that in thirty years there were a hundred more premises throughout the country, but only £60 up in their valuation, so that £900,000,000 would not be overestimated. If we take our obligations, our national debt, at £280,000,000, and our private mortgage debt—which is very difficult to get at because some are on table mortgage and you may have borrowed £1,000 twenty-five years ago on a table mortgage of thirty years and it is now almost paid off, but in the figures of that Department it is still £1,000 until it is paid off and the last payment made—at £200,000,000 (we are near enough to the mark there, I think), and if we put down a local-body indebtedness at £70,000,000, we have a total of £550,000,000. If we take that £550,000,000 from the £900,000,000 we have £350,000,000 of ample security, of real tangible wealth, as the basis for our monetary reform. Is that not the position in New Zealand?—Yes; but I am not taken with that line of reasoning at present. It appears to me that that is the basis for bank advances, because they want the power of redeeming wealth. With our New Zealand wealth it appears to me that the power of redemption is not so important as its power to release wealth, and that, I think, is governed by the price-level, so I would not consider the backing so much as its effectiveness as a means of exchange.

I mean those people who have the assets?—Yes, that is working from the present conception. I agree that it is possibly a good line to take.

And the mere fact of getting the detailed information would not alter the general figures so very much. It might make them a little bigger. Therefore, the great problem that we have to meet is putting that money into circulation, but also putting it into the right pockets as well?—Yes, exactly.

The man who is getting a fairly good income to-day, so far as purchasing-power is concerned, does not want any more, but the relief worker, the old-age pensioner, and others, who are very essential in our community, can do with a very big increase in purchasing-power, and that purchasing-power having effective buying-power would create a demand for things. That demand would automatically bring into being, supply. Supply does not create demand, but demand does create supply?—Yes.

You mentioned about 5,000,000 ft. of timber lying in one of the Hamilton timber-yards. There is any amount of timber but the demand is lacking ?—Effective demand.

The demand is here but not effective ?—Yes.

So if we make the demand effective and that timber was taken out of the yard and made into homes, then the nation is so much wealthier ?—Yes.

And the homes are badly needed to-day ?—We are three thousand houses short in Auckland.

And yet we have a lot of houses empty, because they will not take a relief worker as a tenant because he cannot pay his rent ?—Yes.

It is not a very sound system is it ?—No. I am glad you raised that point, because perhaps it might be taken in conjunction with points raised by an early speaker in regard to our excessive enthusiasm regarding the indignation people are feeling.

I notice Sir Josiah Stamp in giving evidence before the Macmillan Commission said in answer to the question, " How far are our difficulties due to monetary causes ? " " I cannot quantify, except in the broadest way, but I should say if you take the international monetary and internal monetary and physical causes affected by money, they are responsible for the greater part, three-quarters or four-fifths of the trouble." That is question No. 3712 of the evidence, page 238. That is the statement made by Sir Josiah Stamp, who is a very eminent orthodox banker ?—And railway magnate, too.

He is a director on the Bank of England to-day. He goes on further and in answer to question No. 3714, which is, " Some of which are purely monetary, others non-monetary, and some are a combination ? " He said, " Yes ; that the preponderance is purely monetary. The non-monetary causes that are not affected at all by money causes are quite a small figure in my judgment." So that the problem that the world is faced with to-day is a question of a monetary system, a monetary policy, that will fit our economic life ?—Yes.

To-day with science and invention and increased production there is ample for every one. There is no need to fear that you will take it away from some one to give it to some one else. It means a redistribution of the wealth that is sterilized, non-monetized, through a faulty financial system, and the sooner we wake up to this fact the better it will be for the community as a whole ?—Yes.

Otherwise we may be faced with a possible umbrage from the people, so much so that dictatorship and other forms of administration would arise that would not be conducive to the welfare of our people ?—I think that is a grave danger.

While we could amble along that was just sufficient, but this sudden jolt of reduced income has begun to awaken the people to their duties and responsibilities ?—I think it is a grave danger for the nation and this Dominion.

The central bank, evidently being a bankers' bank similar to the Bank of England, just slightly different, is not going to be a means of improving the present trade position ?—Not materially.

If it was such an instrument, then the Reserve Bank of America and the Bank of England and other central banks in the European countries would have avoided this trouble, so we are justified in coming to the conclusion that as they failed there our central bank is bound to fail so far as a fundamental change in things is concerned in this country ?—I think so.

Is shareholder capital essential to banking ?—No.

A bank is a kind of repository where people place their goods and then take them back again at times and pay for the taking of them back again. A grocer would be in a good position if people put tins of jam in his shop and when they wanted them back again they would pay for them. That is like our banking system, is it not ?—Yes.

It is just a question of monetizing the credit or wealth that is created by the people to facilitate trade ; that is all a money system can do ?—In a great proportion.

Money in itself should not be a commodity as we understand a commodity, bought and sold ?—Quite.

Therefore you come to the position that there is no interest for money ?—To the extent that money is a replica of real wealth it could be contended that wealth is worthy of hire and, as money, I agree.

If there is no interest for money you cannot capitalize it, can you ?—That is quite clear.

When we are dealing with money, finance as we know it to-day has been the pauperization of industry ?—Yes.

Certificates are sold and the amount of interest or profit earned determines the value of those certificates ?—Yes, that is quite clear.

Now, if money can be brought down to what we call the zero level, where there is no interest for it, then how are you going to capitalize it ? You capitalize between the different rates of interest. You have a security bringing in 5 per cent. and I have a security bringing in 10 per cent., both of us want to sell our securities on the Auckland Stock Exchange. I will get twice as much for my security as you will get for yours ?—Yes.

That is capitalization ?—Yes.

If you get money for nothing you cannot capitalize. It has no interest ; it represents goods ; it is a medium purely for the exchange of goods and services, but it ceases to be a commodity—that is, that it may be bought and sold in the market ?—I think it would be more correct to say that it is used as a medium of exchange, and not as a store of value and to that extent the issuing authority would have to be careful that it did not issue it in too large a quantity and depreciate real wealth.

It is fundamental in this way : If my analysis is correct, we come to that point where we are going to use free money, with the capitalist system as we understand it to-day, then this production for profit has gone ?—I am not prepared to follow you so far. This free money is free to the issuing authority and free to those organizations who can qualify for it, but it would not be free to the person in the street, nor would it become a competitor for real wealth.

Let us assume it this way: You have your official authority operating here, your Credits Board, operating the way you want it. I am a mortgagor owing £3,000 on my farm, and I am not able to meet my commitments owing to the low prices, therefore the mortgagee forecloses. At one stage of the game that value must have been there or the mortgagee would not have lent the £3,000. At a certain price-level that value was there. Well, owing to the fall in prices, I am not able to meet my commitments and the mortgagee forecloses, but under the system now brought into vogue prices will rise and the security will be restored back to that point. All securities will be restored as soon as you restore the prices?—Perhaps not so far, but there will be a tendency that way.

I am foreclosed unless I can get some one to assist me. If I can go to this National Credits Board and pledge this security of £3,000 and let the National Credits Board become the mortgagee instead of a bank or insurance company, or a private person, and they are prepared to give me accommodation to assist in production, based upon that production, the same as they would give to the Government for carrying out Railway works or anything else—that is practically free money—what is the mortgagee who now gets paid back his £3,000 going to do with it?—I agree that there is a very great deal in what you say, but it is beyond the scope of the Douglas Credit proposals, because the point is that the fixing of the price-level must take into account the least injustice to debtor and creditor, and that is why this national credit authority would need to be supported by its Valuation Department, but it is quite obvious that whatever action is taken and whatever price-level is fixed as being fair, there will be above and below that great injustices—a legacy from our old system which cannot be avoided. I agree with what you have stated; it does represent the position and it appears to me that all we can do is to obviate that injury as far as possible.

Does it matter where you fix your price-level?—Yes, I think it does.

If you put the money into industry whether it is 90, 100, or 110, it is purely a point, and I agree with your contention that we should fix that point so that we should not incur any of those injustices—that is, that we should rehabilitate the position of the mortgagee and mortgagor. As prices fell the mortgagee gained and the mortgagor lost until such time as the mortgagor could pay nothing, then the mortgagee lost as well?—Yes.

But if we fix that, and sustain it with the necessary monetary factor or instrument, what does it matter as long as we regulate everything to it?—Above and below that would be debtors and creditors who have been injured. I cannot see how it can be avoided. I cannot see how we can bridge it, except that, with this releasing of real wealth and the power of making concession, we could be much kinder than we are now able to be.

I can visualize something in the very near future being done on these lines, but the point I want to get at is this: We will assume that I am a mortgagor who is going to be forced off his land. If I can go to the National Credits Board and get cheaper credit, then the mortgagee has to come down to that level whatever it is, or otherwise there is no market for his money?—I might say that has been put forward by many economists who have not followed it along as deeply and as far as you have done. They say interest must come down by a graduated scale, but they never follow it down to zero.

Is there any particular virtue in interest for money?—I think so. I think it is a regulation of our national life. I am not prepared to defend it naturally, but I think at this stage we require it as a regulating factor, if nothing else.

Does the interest for the money make the security any better or worse?—No, but in regulating applications for the loan of wealth I think an interest-rate has an effect in controlling them, more particularly between these consumption goods balances and the fixed capital investment.

But we have such an overplus of goods to-day. We do not want to lend them, we want to consume them?—Yes, consumption goods. To show you how your policy might lead to injustice I will say that if the Credit Board issued free credit for house-building in Auckland and Auckland became equipped with its three thousand modern houses, what would happen to those people who had money invested in houses? They might be injured by the depreciation of their investment.

Under any progressive system we will use more up-to-date methods; we will increase wealth by mechanical processes to a much greater extent than in the past. That will mean throwing a lot of our employed workers on the scrap-heap. In New Zealand in 1922–23 the total manifest tonnage handled at all New Zealand ports was 6,555,193 tons, and the number of men regularly employed as waterside workers for the twelve months was 6,416. In 1928–29, despite an increase in the manifest tonnage to over 8,000,000 the number of men employed had decreased by over 1,200 to 5,200; but the decrease is actually 3,000, since 8,000 men would have been given employment by the methods used in 1922. Similarly, when the ferry boats the "Wahine" and the "Maori" plying between Wellington and Lyttelton were converted from coal-burning to oil-burning, there was a loss in man-hours of 60,272 per annum. By the change-over from coal-burning to oil-burning and by the use of internal combustion engines in twenty-four vessels trading regularly to New Zealand ports, it is estimated that the man-hours required for refuelling have decreased from 300,000 to 6,000 per annum. We cannot put those people in a lethal chamber and get rid of them that way. We have to pay for them?—Yes. One prominent shipping office reckons that by rationalization of waterside work it could be reduced by one-third again.

We could go on that way rationalizing our farms and everything and we could reduce the amount of employment possibly 50 per cent.?—Yes.

So that there will have to be some ways and means of increasing the income of the people?—Apart from wages. That is exactly the Douglas thesis, that more and more methods must be sought out of creating purchasing-power apart from the wages system.

But there is this—this is where that comes in, if I may revert again to a former question: If, by the process of taxation, after once putting it into circulation, giving people first the income, because once you have fixed your price-level you will know the income that is necessary to pay the people;

credit is measured in goods now, not in sterling or gold; it is measured in goods, and you will know, if you give that and it comes back again, and then is redistributed by national superannuation and old-age pensions and those things, you are doing it in a consecutive way, but if you try and arrange a just price by a discount factor you are bringing into it a new element, a communistic element—that is, they will say, 33⅓ per cent.—make it 66⅔ per cent.—make it 100 per cent. If you can go to 33⅓ per cent. by way of a discount, you can go all the way by a discount, and you do not need a money economy at all?—I think so. I think that for the purpose of this survey, and for the purpose of regulating these two flows, I think that the money required must remain. I agree that the proposal you have put forward would not rectify this shortage of purchasing-power, but the danger I see is that it would make the State the adjudicatory authority with regard to whether that money should be spent.

The question is: Is the State thoroughly representative of the people? We have no particular interest biasing the opinion of the people. If it was truly representative would there be anything wrong in the State doing it?—I think it is recognized that when the State enters into industry, large-scale industry lends itself to it, but smaller-scale industry is liable to have inefficiency creep in, and I think that nationalization of industry should go on slowly and gradually as the people get that necessary State conscience to make it a success.

Do you think that there has been less inefficiency in private enterprise than there has been in Government enterprise?—No; not to the extent most people believe. For example, the Dairy Industry of New Zealand is the crowning apex of inefficiency, but I think that for such things as bridge-construction and small contracting the Public Works Department is an expensive means of construction.

More so than others?—Yes.

Well, often we will be faced with this, when a contractor has taken a job on often the State has had to come in and take the job over because it has not been profit-earning so far as he is concerned. We have had numberless instances of that?—On account of its greater resources?

Yes. But you would not see a State standing for two or three railway-lines running alongside of each other, would you?—No. On the other hand, it is a fact that road taxation has been heavily increased for the purpose of making the railways pay, and there is the difficulty, where one has State enterprise running alongside private.

No; the road-tax has been to make the roads better, to make them less costly. The better you make the roads the more you reduce running-costs. So, though they may be putting a 10d. per gallon tax on benzine, in having less mechanical work done in the garages on their cars and the less wear-and-tear on tires and the less wear-and-tear on the machine, really whatever they are paying out in one direction they are getting corresponding benefit in the other direction?—I think that sentiment must be two years old. Latterly that money raised in taxation has not gone back on the roads.

Only £500,000. But, anyhow, I do not think that there is any justification for earmarking taxation?—I do not mean to make a definite point. It is just this, that I feel that for the State to take over the whole of the enterprise of production will probably lead to inefficiency if done too rapidly. I am not prepared to contest that. I realize that the State must take more and more of our national functions over. It is like this: The point you are trying to get to really depends on the mass intelligence of the people. If you raise the mass intelligence of the people, then in State and private enterprise you get more efficiency.

Exactly. I agree with you on everything?—It is not a matter of State control.

Yes. The two must advance together, the interest of the people in their own affairs and the amount of affairs that are passed over to them?—I quite agree to a very large extent, but there are some things, such as post-offices and railways and banking, and that sort of thing, which, by their very character, it seems to me should be controlled by the people on behalf of the people, and there are other things, like barbers' shops, which are more personal, and can be done better by a private individual.

We have got to decide the lines?—That is so. I would not like to follow that discussion, because I do not wish to express disapproval. It is just that we are limited to our scheme of monetary reform, and we have no doubt that many of the things you bring forward will have to take their places in the ensuing years.

Mr. Clinkard.] You told us last night that the world's trade was one of barter. Why entirely blame the financial system for the difficulty of exchange. You told us last evening that the world trade was one of barter, with which I very largely agree. What I want to know is: Why, if this is so, do you so entirely blame the financial system as applied to New Zealand for the failure of our barter system?—Again using Dr. Walter Leaf's simile, money is the lubricant of this system, and it is due to the lack of this lubricant that the machinery of the barter system is slowing down and threatening to stop.

If I take your simile a little further, then, you suggest that because the lubricant through the machine as a whole is not working as it should do, by injecting more oil into one particular part or rubbing it with a local grease, you get over the difficulty of the lubrication?—Well, there is one particular point which is critical, which is holding up all the other efforts, and that critical point is purchasing-power, the ability of the man without money to get the things which are of his selection.

Do you not consider that among the factors that we are suffering from are such things as national debts, war debts, reparations, and the one-way trade which has taken place during the war between the east and the west of the globe?—Not only do I not contest that, but I say that is the foundation of our plan, that the economy of the world could not carry on under this old system. I mentioned yesterday that that was my particular approach to the Douglas Credit system.

My point is: How are your proposals going to overcome that difficulty? I cannot see that they do?—What is the particular deadlock you can see which our proposals do not affect?

For one thing, you propose, and I do not say that I entirely disagree with you, that we should have an economy internally quite apart, allowing exchange to go, quite apart from that outside, whereas

I am inclined to think that what is really required for the ultimate solution is a measure of values the world over ?—That measure of values is part of our plan. With regard to your one-way trade and those debts, the reason why nations have difficulty in paying their debts is that each nation is striving to cure its unemployment by making them work for low wages.

Quite so. By a policy of nationalism which you are advocating here ?—No. I realize that we are under criticism as to whether or not it will work within New Zealand, and I say that within New New Zealand we could resolve nine-tenths of our problems, but I would not for one moment advocate that we should restrict ourselves to purely a national economy. In fact, you will remember that when it was suggested that we were taking in one another's washing I suggested that we should make use of the steam laundry—that is make use of the world economy.

I have noticed that on several occasions the question of what really constitutes inflation is raised. Now, I would ask you this question : When prices in Britain in 1920 rose from 100 to 325 and again in France in 1927 when they rose from 100 to 836 would you say that in those two instances there was inflation ?—Violent inflation.

Now, yesterday you told us that in time of inflation we would be deflationists ?—Quite so. We would be correctionists.

The term you used was, deflationists—that is to say, you would have pursued the very course that was pursued in those two countries in order to bring about a more reasonable adjustment of the financial machine ?—No. The point is, there are various moving factors by which it can be created. You will observe that our objective is the flow of consumption power against the flow of consumption goods. Now, either of those two factors can be altered. If we were faced, as Germany was at its most acute stage of inflation, with the task of——

I think, perhaps, Germany is such an extreme case that we had better stick to France and England ?—Whichever you prefer. Had the Douglas Credit system been in operation there, this national credit authority would have discovered that the stream of purchasing-power had, by a great proportion, outstripped the flow of consumption goods, and it would have had to either bring the supply of goods up to balance or restrict the flow of power of consumption.

And so, in order to do that, they restricted the supply of purchasing-power ?—We would have been cancelling the money as rapidly as the national economy would permit, and accelerating the production of goods as rapidly as they could.

Not so much that. Was it not that they reverted from the paper currency back to the metallic standard ?—I might say that that was not done with the idea of conferring any benefit upon the national economy. It was done by those people who were the procurers and agents for that yellow metal.

I think I would take another view, that it was done in an effort to bring about a world measure of values ?—I think that is most trenchantly dealt with by Keynes in his " Economic Consequences of the Peace."

Yes, I have read that ?—And it is the attempt of those countries to restore world trade.

Quite so, and that is exactly my point. And in order to restore world trade they were endeavouring to secure a common measure of values as between their interchange of goods and services ?—I think that was only incidental. I think that their purpose was to get that export trade which Britain required.

Well, we can only conjecture as to their motives ?—Yes.

I agree with you. I suppose you are aware that at the World Conference when the question of raising prices by inflationary methods was advocated, that all those countries which had tried it, including Germany, France, Austria, Slovakia, and the rest, were all most emphatic in refusing absolutely, after their experience, to entertain any suggestion of raising prices by an inflationary method ?—We are brought back now to the definition of what is inflation.

Quite so ?—The point is, that at their lower price-level they could compete for the world's markets and they were afraid of the price-level being so raised that they would lose that value, and the crash of the Conference was brought about by the United States insisting upon this opportunity to bring money down. That is not the question of the welfare of the people so much, as this fight for overseas markets.

I am afraid we are experiencing the fact that we have to fight for overseas markets, too ?—That is quite so, and we propose to compensate that lower world level and adjust our New Zealand price-level.

For instance, you suggest, or you contend, that the difficulty that we are suffering from is the failure in our opportunities for making purchases. Is that not so ?—Our facilities for making purchases.

That is, our medium of exchange ?—Our purchasing-power.

Well, then, in view of the fact that from 1925 our external trade dropped from £104,000,000 in 1925 to £57,000,000 in 1931 and rose slightly in 1933 to £61,000,000, would you not consider that that was the cause of our internal disruption ?—That would mean that our sterling funds in London would be down by that amount. It would buy that less amount of goods which we require in New Zealand.

Yes, but then there was another difficulty. According to our Economy Committee that sat about a year back, we had to exchange 60 per cent. more of our goods in order to secure a given quantity of the manufactured goods in the market of the world ?—Except for that last expression, I agree. But here is where there is a conflict of figures. The economists compile those lists, but those wholesale rates are New Zealand and the figures I quoted yesterday are the world's wholesale figures, and those food prices have gone down less by 10 points than the great majority of the things we buy. Those figures quoted by the Economists' Committee were to show the position of the primary producer, and it is a fact that that vast difference has occurred between what the primary producer receives and what he has to pay, but he buys in New Zealand and sells in London.

But that was based on their exchange at the other end, not on their prices here ?—We claim that is not so. The point is that our wholesale level carries with it many charges. Some are invisible and some unknown. The only fair position of exchange is mid-ocean exchange, where each product carries its own share and we declare that we are better off on mid-ocean exchange than we were in 1913. It is quite true that the price-level has gone down, but the volume has increased so tremendously.

But, notwithstanding that fact, that would disrupt our monetary system here, would it not ? Even assuming that our outflow is measured in less monetary terms and our inflow by a like reduction in monetary terms, that would upset our monetary adjustment at this end, would it not ?—That is exactly what has happened, because one section of our community has borne the full brunt of that monetary movement.

And when we raised the exchange you would say that that was a correct thing, because it brought those who were suffering the brunt of that change more into line with their fellows ?—No. The intention was to do that, but it was not accomplished. When you erect an exchange barrier it prevents our people from importing, and, unfortunately, that exchange gain to the primary producer went in the liquidation of debt.

It does not prevent. It discourages ?—Well, it had the effect of preventing, practically. We will not quarrel over that. It did practically cancel all alternative importations. Now, the effect of that was that here in New Zealand the farmer did not get the extra purchasing-power. The imports not coming forward resulted in less administrative handling here and there was not the result, so that exchange movement we had a right to expect if we had injected purchasing-power here to that extent at 25 per cent., then we would have had a real gain.

But we have done so ?—Unfortunately, it did not.

Yes ?—I know that it is declared that it was so.

It cannot be otherwise. You take the export producer. He sends out £30,000,000 worth of exports, and instead of being credited with £30,000,000 he is credited here with £37,500,000. If you take the 25 per cent. addition that allows him at once to draw cheques and to make purchases and to circulate £7,500,000 more than he would have done if it had been at par ?—There is one qualification which alters that considerably. That remittance comes to the banks and they take their share of overdraft and advance to dairy companies. The dairy companies receive it and they take those various assignments upon the farmer's cheque and the residue reaches the farmer, and I doubt if it was 10 per cent. of the exchange which reached the farmer in the form of purchasing-power.

Even so ; if you admit that, you admit that the additional amount was put into circulation, whether it was taken for the payment or used to pay off an indebtedness, it does not follow, I know that it is said that when it is paid to the bank it is cancelled out till a fresh advance is made, but when it is paid to other individuals they again pass that on even if the farmer does not ?—That cancelling of an indebtedness on a declining market I think can be taken definitely. It does not issue as purshasing-power. My opinion is that only 10 per cent. probably emerges as purchasing-power, and against that there was the extra taxation due to the hardware people throwing men out on unemployed relief, so I consider that the exchange movement did not increase purchasing-power in New Zealand.

Well, we can agree to differ. I am quoting here Mr. Cole's book on " What Everybody wants to know about Money " :—

> Presumably when Major Douglas speaks of the money as " returning to the banks " this curtailment of production is precisely what is envisaged. But does the money, in fact, return to the banks ? It is, indeed, the case that individual loans are continually being repaid and overdrafts diminished. But the question, it must be emphatically stated, is not whether particular loans are repaid, but whether on balance the total volume of bank credit in use by industry is continually tending to diminish. Only if this is the case can we accept the view that there is a permanent tendency towards a deficiency. Major Douglas, in that part of the analysis which we have so far pursued, advances no arguments in support of this view. Most economists, at the same time, would accept the opinion explained elsewhere in this book that at certain times there is such a tendency for a decline in the volume of credit. But they would hasten to add, what Major Douglas does not appear to concede, that at other times there is a tendency for the volume of credit to increase and for a surplus to take the place of a deficiency.

Now, in looking up the New Zealand figures, I think it is rather interesting to note that there was no general tendency for a decline in advances here. These are the figures of advances from 1926 onwards : 1926, £48,000,000 ; 1927, £50,000,000 ; 1928, £46,000,000 ; 1929, £46,000,000 ; 1930, £53,000,000 ; 1931, £54,000,000 ; 1932, £50,000,000 ; 1933, £48,000,000. So that approximately the advances have been continuous, and though one advance may be wiped out another one is established. Is that not so ?—Yes. Will I take those points in the order in which you raise them ?

Yes ?—Well, first I might say that Cole is a competitor in monetary respects, as I mentioned yesterday. He is an advanced Socialist. He declares that we are tinkering with the present system, which must be destroyed. In his book, " The Guide through Chaos " I find these references, " Credit policy is only the accompaniment of a policy of increasing demand for goods." Now when he refers to bank credits remaining constant, not disclosing a shortage, I would like to point out he has not understood what Douglas is driving at. If the world consisted of people manufacturing spades and digging in gardens, it would be sufficient to keep everybody employed, providing the supply of spades was right.

The actual writer of this particular portion to which I refer was H. T. N. Gaitskell. As you know, it is a composite publication, though edited by Cole ?—Does Cole endorse it ?

It is under his editing ?—Well, I take it that as he puts it forward it represents his point of view. I would like to point out that Cole has, in his book, admitted as much as we want to support Douglas, but that particular phase that is brought forward is of great interest, and I would like to concentrate upon it. It shows again the inability of the people to understand what Douglas is trying to say. Now, if the volume of credit issuing from the bank is the same as it was last year, the contention is that therefore there would be no lack of purchasing-power, but this is the point :

The money that was issued last year built a machine. That machine sacked fifty men. That machine has the output of five hundred men, and the wages are less. So we find out that to be correct the volume of credit issuing from the bank must be in proportion to the amount to which the multiplication of production has been advanced. The same amount of credit will not suffice in a machine age as it did in a spade age, or it is not sufficient to say that the amount of credit coming out from the bank is on a balance.

But the argument I was taking was the statement that when money returns to the bank it is cancelled out?—It is cancelled out?

It is cancelled out in one instance and duplicated in another?—If it re-emerges it must not only be in the same quantity. It must be multiplied credit for multiplied means of industry.

I understand your argument that it should be increased, but I am not on that point now. I am combating the statement that if I pay off a mortgage, that advance, it is true, disappears, but I say that it is continued, according to the evidence we have of our banking returns, it is continued by a fresh advance to another individual?—Not necessarily, nor inevitably. It is quite a fresh transaction.

Quite so. But it is, in fact, established by the figures of our trading returns?—It is that another mortgage can emerge.

And does?—And quite a different cycle of production. And we have authorities who tell us that the banks will never restrict advances because of the want of security, because it is to their interest to increase their advances in order to make revenue. Have I made that point quite clear, that the fact that loans may emerge in the same proportion in which they went in will not prevent the need of us supplying that money.

That is another point?—You have let that point go, have you?

Yes. That is another argument. My point is, I am combating the statement that if that money is paid in to the bank it necessarily disappears from the economic system. I say that it has only gone back to the source from which it has sprung and is available for reissue, and in the normal course of events does reissue to a fresh holder?—I think you are giving money a physical existence. In that case we contend that that first mortgage is cancelled and disappears and the new one takes its place, but I believe that I am right when I say that that quotation was meant to disprove Douglas's contention that there is a chronic and inherent deficiency of purchasing-power, and that declaration that so long as bank loans remain constant that industry can function, that that is not true.

I noticed that you began your discussion yesterday by assuming a deficiency in purchasing-power. I think you established your reasoning on that assumption?—I quoted it from Hawtrey.

Quite so; and you assumed for the sake of argument that that was established?—Yes.

You established that on the principle of the A plus B?—No; upon our own personal experience; we are all short of purchasing-power.

Would you sustain the reasoning under the A plus B?—On the contrary, it is the foundation for the whole of the policy.

And then, if we take it that that is the foundation, I may assume that if that foundation were abandoned, in effect your superstructure built thereon would fall to the ground?—May I assume you withdraw this point raised by my quotation which declares that so long as loans remain constant, there is no diminution of purchasing-power?

I do not withdraw that at all?—I must say definitely that loans must increase with the increase in the need for it; otherwise industry will be crippled.

That is another issue. The contention is that so long as the aggregate remains the same there has been no withdrawal. I think you must admit that that is so?—I claim that if a loan is cancelled it is only by a new proposition and new securities that a new loan emerges.

We must agree to differ?—The last qualification I would like to make is this: You refer to New Zealand loans remaining constant; I would like to draw attention to a most serious development that is taking place in banking practice where a man who cannot pay interest has that interest capitalized. It appears in the books as though that man has paid interest and has had his advance increased, and it is being carried on on a wider scale than people know. That is one of the serious disclosures that would be made if we had this inquiry.

It may be considerable, but it could not very materially affect the position?—You realize its seriousness, though?

Oh, yes. I want more light on this theory of the A plus B. I understand it is a theory, not a system, which is established. Major Douglas' proposals are based on a theory, and not upon a system?—Yes, it is built upon a theory of observation that industry in general does not circulate enough purchasing-power to buy its products.

Quite so?—You admit that?

I understand that is your contention. You are aware that the A plus B theory has been denied by many prominent authorities?—I think "denied" is a mild word.

You can use a more forcible one if you feel disposed to do so. At any rate there are many authorities who are not in agreement with it?—Yes.

You have already said that you do not pay much attention to the contents of Cole's book?—No; as a matter of fact, I am a great admirer of Cole; I feel that, if Douglas fails, we will have to revert to Cole.

Well, there are some diagrams in this book which very clearly prove that the B payments referred to by Major Douglas have inevitably at some form of production been A payments?—Quite true.

And that consequently the argument that the A payments are insufficient to purchase the products of industry is fallacious?—Yes, that is the word.

Very well, then. Your explanation of that is, I understand—or, rather, the explanation of the Douglas exponents—that those payments having been expended in the past are no longer available for purchase, and consequently the shortage exists ?—Quite true.

That is your answer ?—Yes.

As an individual student, it appears to me that Major Douglas has fallen into one error in two particular points. That error is isolation. He isolates an industry—I think he almost invariably takes boots ; I notice you quoted boots yesterday, and another thing I noticed was matches. That was the bankers' metaphor. One particular industry is taken in isolation from all other industries and one period of time. This is the second point of isolation, as taken in isolation from all other periods of time in production. You say for instance, that because the previous A payments have been exceeded by purchase, they are no longer available, but we have a going concern and just as there were A payments which were exceeded, there are to-day A payments on articles in course of production equal in amount to these which have been discharged and which are consequently available for purchasing ? —You want me to take up that point ?

If you are able ?—This is another argument brought against Douglas Credit.

And a very effective one ?—I admit that that would be correct if our economy was the working with spades and the digging of gardens. That would mean that the man making spades would be unable to buy the produce of that garden. To that extent, the economists are right. Here is where it is wrong : It is the key of the machine ; the man who is making the machine to-day can buy the production of the machine made a year ago, but when that new machine's production goes on the market it is the production of four hundred men.

Are you not raising another issue—not a monetary one, but an industrial one ?—It is the key to the Douglas proposals, the mechanization of industry.

I think it needs a lot of keys ?—If you can work in that mechanization, you have got the key, you are on the way. If the flow of production was correspondingly balanced, there would be no repayments.

We will go on to your proposals ?—Have we finished with that one point ?

You may have done it to your satisfaction, but not to mine ?—Could we relieve Douglas of working in isolation, and take the world position ?

Major Douglas does not take a world position, but takes an isolated industry to make his point ?—Douglas takes whatever a man wishes to pursue. I think the world condition is very clearly a part of the Douglas proposals.

We are not dealing with world proposals ?—I thought you wanted me to.

It is impossible for us to deal with world proposals. How can we in New Zealand affect the world monetary system ?—You do not blame Douglas for isolating one industry ?

I say that this isolation of a particular industry in order to establish a principle fails in bringing out the result. It reminds me of the old philosophy, when a man isolated himself and by introspection attempted to determine what was the source and cause of all human action. That philosophy has been abandoned years and years ago, because it was found that different men had different motives. Consequently, that system of isolation failed. This system of isolation of an industry and the period of that industry can never establish the facts in connection with the economic system. That is my contention ?—I am prepared to take an individual industry, a nation, or the world, and prove that in every case the Douglas proposals are the only explanation for the muddle.

That may be the only explanation, and at the same time not the right one. Would you be prepared to agree with me that not only is it not one cause, but many causes that are disturbing our human factors ?—But I think the main one is this : Failure of the monetary machine to reflect the true position of the world to-day.

A little while ago you said it was the only one ?—I think they are centred in that monetary machine. These troubles which have arisen, war debts and so on, are centred in the faulty working of the monetary machine.

Or, rather, have set up the faulty working of the machine ?—The other way, I think.

Surely you would not say it was working as effectively in 1914 as it has been doing since the war ?—By taking a period of history, Douglas contentions are more and more clearly proved. I quoted yesterday that history book " Why War with Germany is inevitable." I would recommend that as one of the books approaching the Douglas proposal.

I notice you were very severe yesterday on economists. I am never severe on any one. I am prepared to believe that men of different views are honest in their convictions and prepared to make very severe personal sacrifices in order to establish the truth. I think you were rather severe on our New Zealand economists ?—I think you must remember it was retaliation.

Retaliation should never come into argument. Because one man is unjust there is no justification for another man to be so ?—On the other hand, we cannot establish our case unless we disprove these grave charges against us.

That is a different thing to disparaging those who differ with one. That is purely an expression of opinion. We will pass on. Dr. A. G. B. Fisher, a Professor of the Cambridge University and now Professor of Economics at Otago University, in speaking with reference to the Douglas proposals, said : " The main reason why, in common with many other heretical schemes, they have been given so little prominence in ordinary teaching, is that the economists usually believe that Douglas theoretical foundations are not only vague and obscure, but also erroneous and misleading, while the practical proposals based upon them are dangerous and incapable of bringing about the admirable results at which Major Douglas aims " ?—Is that in furtherance of your claim that you are not severe upon any one ?

I do not think it is severe ; I do not see anything severe in that ?—May I just add one little item of information. When you related the various qualifications of Professor Fisher, would you add that he is adviser-economist to the Bank of New South Wales ?

He may be so ; that would not affect the validity of his arguments or his opinions ; that is only a suggestion of bias ?—I add that as information.

And I have noticed that a tendency which some debaters have is to attempt to discredit those who disagree with them. I suppose I shall be discredited later on ?—One recognizes that what is stated there is that we are playing upon human credulity ; that our foundations are erroneous.

That is not what is stated. I have stated that in my opinion, by isolation, Major Douglas in the foundations of his theory is incorrect. That is not stated because I suspect his integrity, or honesty, or goodwill, or intentions. I think that Fisher in his criticism says, " that would not bring about the admirable results at which Major Douglas aims." He does not suggest any impropriety or anything of that kind ?—There is offensive argument in that extract you have read, and to my mind an Instructor of Economics should commend the investigations.

I cannot see it. When Major Douglas was before the Macmillan Committee, question 4389, he was asked by the Chairman, " We have all read your diagnosis of the position, but I confess I should like to take advantage of your being here to-day to hear from you what is your practical remedy. We as a Committee have to make practical recommendations." The answer was : " Well, I am afraid my training and experience as an engineer makes me want to hedge on that point." That is correct, is it not ?—Yes. I think that is the crowning triumph of our opponents, and it shows a lack of knowledge of human nature. If a man admits he is going to hedge, it is clear proof of sincerity.

That may be so, but it is not a proof of well-founded conclusions ?—I think it is. He puts forward an analysis and a theory, not a plan.

But it is developing into a plan ?—We have developed it into a plan, and I put it before you yesterday.

Then the plan which you have put forward is not Major Douglas ?—It is built upon the Douglas theory ; the Douglas analysis adapted to our New Zealand conditions.

Major Douglas, when he came before us, in his communications said : " It is necessary to establish the facts of the situation before proceeding at any length to put forward proposals ? " That is right ?—Yes.

If he was clear as to the soundness of his theory, even though we might not have been so, is there any reason why he could not put forward his complete proposals ?—Yes, because the facts he wants are those facts which should be available here in New Zealand with regard to the economic survey, the necessary prerequisites of a plan. Those facts cannot be got, and I am appealing to this Committee to help us in securing those facts through this instalment plan.

It appears to me that the proposals which you put forward in connection with this monetizing the reserves of the banks and so on, would have no material effect on our economic condition. The effect could not be very great. I should benefit just slightly with the reduction of my overdraft, and there are a few, perhaps, in the audience who might get a free share in the central bank from which they might draw revenue, perhaps, of 1s. a year ; but I cannot see that it would have any material effect on our social conditions ?—You think, then, that being so slight, the Committee might advocate their adoption ?

I do not, because it might set up a pernicious precedent ?—It has set up a most pernicious row with the banks.

I am not saying that I entirely disagree with you, but we have to take opposite sides, otherwise there is no argument ?—We have branches throughout your various districts.

There are two methods which were at a later stage proposed by Major Douglas. One is cited by Mr. Watt, who quoted from the evidence taken on the Macmillan Commission, and according to that it was suggested, I think, by Major Douglas, that £25 should be returned. It is on much the same lines as your proposal in connection with the boots ; in fact, I think it is identical. The main points taken—questions 4438–4446—may be stated as follows : A consumer buys a car for £100, and pays £100 to the seller. The consumer would take the receipt to the bank which would credit his account with £25. The bank collects £25 from the Treasury or from the central authority. The Treasury then gets credit from the Bank of England, thereby creating fresh credits for the purchase, and fresh currency notes are issued as required. That is almost identical with your proposals in connection with the boots ?—Yes.

On another occasion, when Major Douglas was before the Canadian Commission, I think, he suggested there again to take motor-cars, that one-half of the purchase-money might be paid by the State. Now, I just ran out the other day a few figures on the assumption, we will say, that it was announced that this method would come into operation to-morrow. Assuming that the population started out with a couple of millions to spend ; they know the good thing could not last very long so they would get in early to avoid the rush. They go out and spend, say, £1,000,000. The State would have to subsidize that, or pay back £250,000. The next day they go out ; that would increase the amount that would be paid out. If the first man went out with £1,000 and spent it, he would get a dividend of £250—a rebate. The man with only £100 could only get £25 rebate ; the man who had only £5 would get £1 5s., and the man with nothing would get nothing. That is how it would work out ?—That, however, is not the plan I put forward yesterday. Yesterday, I said that this would be a predetermined amount set to the credit of the national credit authority, and the first claim on that was for the sustenance of the unemployed. With regard to that, it could not be rushed in the early stages, except at the closing-down of the scheme. If that amount is exceeded within the period, there would be no more money issued.

First come, first served ?—Until that money is in circulation. I think you will admit that there are a good few finalities to be made out before that would be a workable system. It is not

a benevolent society scheme ; it is to get purchasing-power into the hands of the people. I thought you were going to finish that quotation from Douglas : " I would hedge on that point." I think if you had read the concluding portion, you would have altered your opinion : " I should say that what I should first want to do would be to examine the situation very closely." Is that unreasonable ?

I do not know that it is unreasonable. But it was assumed that he on the spot in Great Britain would surely have at his disposal all the facts sufficiently clarified to enable him to establish the means of getting over that A plus B difficulty ?—Here we in New Zealand do not know what bank premises are worth.

The amount to which they can possibly extend would not, under the proposals that are put before this Committee, materially affect the financial position of the people of New Zealand ?—Could you persuade the bankers that ?

But that is another matter. What may be important to an institution may be only comparatively a small matter when it comes to be distributed over one and a half millions. This is a quotation from page 4 of " Banking Policy and Price-level " by — Robertson, M.A., Lecturer on Economics at Cambridge University : would you agree with this : He said, " I believe firmly in a policy of credit control as contrasted with a policy of free trade and monetary force " ? That is your point, I take it ?—Yes.

Would you agree with the latter part of it, when he says, " I conjecture that for a long time to come credit control may prove a more difficult matter than some of these more ardent advocates would lead us to suppose, and that it may have to be investigated ultimately not as an independent panacea, but as one ingredient in a much more arduous and comprehensive programme of stabilization." Would you agree with that ?—Quite likely. Our particular objective is the monetary aspect. Mr. Langstone would do the remainder !

Dr. Sutch.] You suggested that we might get out some figures to arrive at this alleged deficiency of purchasing-power : I am willing to go into that as much as in my power. Could you give me the exact things you require, with definitions of them, so that we can get them in statistical form. For example—money, currency, capital values, all that kind of thing, so that we can get statistics ?—I would like to submit to you the opening phrases in Keynes' second volume, where he sets out what he is proposing to do—to take bank money and by adjusting finance circulation find the level of our income. I think if you took that in New Zealand conditions, you could with a reasonable margin of accuracy give us the figures we want.

You were talking about the just-price factor. There is not much use conjecturing that it will be one-third or a half until we find some figures on which we can base this fraction, and you suggested we might get them. I would like to obtain the figures for national appreciation and national depreciation. In so far as these can be statistically formulated I will try to arrive at your just-price factor ; could you give me information later ?—Yes. Thank you ; I would like your help particularly on that point.

I do not say I will be able to arrive at anything, but I will endeavour to do everything that can be done ?—You agree though that the margin of error may be a wide one ?

I cannot say what result there would be, but you cannot arrive at any definite fraction in statistical work on which you can base future assumptions with exactitude ?—Yes, with the quarterly revisions, perhaps.

More than that may be necessary. You quoted tea as an example of restriction raising prices, but earlier in your speech you stated that the restriction could not raise prices ; how do you reconcile those two statements ?—When did I say that restriction did not raise prices ?

In the course of your preliminary speech ?—It appears to me that one must say definitely that there is a slack between consumption and production. Until that slack is taken up, demand will not cause the prices to rise. In the case of tea, I quoted that as an isolated example where instead of a world glut and a collapse of prices, you eliminated competition and formed a syndicate to limit production, and the price of tea was raised to an exorbitant amount.

I agree with that, but at the same time you stated that restriction of quantities was of no use in raising prices. That is why I raised the point ?—I recited various efforts which have been tried and failed—wheat, tea, coffee, and cotton ; in all these cases they have failed because they did not have that necessary protection, that organization to fix those prices later.

That is a much better statement, but it was your general remark I was questioning. About the Macmillan report you stated that the verdict on the monetary system was, in effect, " Guilty, but due to ignorance." Do you think that that is a correct summing-up of what has been read out here. I will read out a fraction of what Mr. Lye read : " But the satisfactory handling of the international problem, even if it was theoretically practicable, might have required a degree of knowledge, experience, and prescience which no one in fact possessed, or could have been expected to possess " ? — No one in the banking structure possessed.

" No one in fact possessed, or could have been expected to possess." They did not mention banking structure, and I might add this was signed by Keynes ?—Those in charge of the monetary system find that answer faulty.

That is not necessarily what these gentlemen say ; it is your interpretation of it ?—My interpretation was of the earlier part of the paragraph, which blames the monetary machine for its failure to keep up the price-level.

I just wanted to point out that you selected one part of the paragraph for your conclusion ; I think yours is rather a sweeping summary of the Macmillan report ?—It is difficult to condense such a technically worded paragraph, but that is as near as I could get.

Here is another statement you made : " All educated areas of monetary thought say that the depression is due to the monetary system " ?—I suppose that term " educated " is subject to revision by whoever uses it.

There are a lot of definitions needed there. I have come in contact with many men in different parts of the world educated in the monetary sense, but they would not say that the depression was entirely due to the monetary system. I suppose you would say they were orthodox, not educated. It would be difficult to verify scientifically some of these general remarks which you made in your speech ?—Yes, but one, of course, must make points.

Oh, I see, you are making a point. But this is not a political arena, you know ?—Is it not ?

Not with this Committee. Your speech savoured of the political platform, and I think you would do very well in politics.—Is that an insult ?

Not at all. But that is not the type of thing we want—we want exact statements ?—That certainly was the defence put up, but since we are concerned with monetary matters, I have mobilized all the charges against the monetary machine, and I think they have made their case.

That is a slightly different expression of it. You chide us with quoting Cole. When Cole writes, he writes of the present economic and financial system and its weaknesses, and the fact that he is a Socialist does not detract from his intellectual honesty and clarity. He is quoted as a thinker, and not as a Socialist. I just wanted to make that clear, because you are inferring that this Committee was quoting a Left Wing thinker, and that therefore he should be discredited ?—Not exactly that. Perhaps I should have been clearer, but I did not want to be personal ; but he was quoted by one member who has, I think, a national reputation for conservatism, and his quotation rather shocked me. I say that I admire Cole, and we may relapse into his philosophy if we fail.

There is another term that you used rather loosely—that gold is the basis of our monetary system in New Zealand. Now, you will accept the fact that it is not, and has never been, even when we were circulating sovereigns ?—Yes, that is quite true. You will remember that when those banking authorities were before you they gave the most vague explanation of that. They held that gold here——

I am not worrying about what the banks said ?—I think we must in this Committee accept what has been put forward, and my particular task is to rebut what has been put forward by these banking officials.

Do you think the banks said that the monetary system of New Zealand was founded on a gold basis ?—They gave a most elaborate explanation of their gold reserves.

Do you think it was founded on a gold basis ?—No.

Well, you said it was founded on a gold basis in your speech. That is just the point I want to get at ?—The point is that the banks declare that their holding of gold constitutes the limit of the amount of money they can issue, and they used that in defence of our charge that they can create money. I took it that the Committee was more or less accepting it.

You know very well that we are not accepting it, because you followed this Committee very closely, and at the same time the banks would accept very largely that article published in the *Economic Record* showing that the deposits and advances in New Zealand followed very closely the variations in sterling exchange held overseas ?—That point has been developed particularly by your confrère, but it appeared to me that it was not accepted on the surface in this Committee. But I do agree that the banks continually work upon sterling balances instead of their gold holdings.

That is what I wanted. Would you say that Professor Bellerby was an advocate of Douglasism ?—No, I said that his advocacy of the distribution of money by way of bequests, corresponding somewhat to Mr. Langstone's idea, was a crude form of issuing purchasing-power apart from wages. That is perhaps the kernel of the Douglas movement.

The reason for my asking was that a friend of mine once asked Professor Bellerby what he thought about Major Douglas, and he said he had never heard of him. Now, you quote with approval Professor Gustav Cassel. He has advocated for a very long time the founding of our credit system on the production of gold. He has said that the increase in gold production has in the past and should in the future vary to such an extent that its increase will correspond with the increase in production. Now, I am not saying that I agree with Cassel, but when he holds these opinions I do query your quoting him so much in support of your arguments ?—Well, of course, Cassel is identified with that Gold Inquiry of the League of Nations. Cassel holds that world trade has increased almost exactly as the gold-production has increased.

I am not objecting to that for the past, but he wants it for the future ?—He appears to think that, and he is more or less identified with that opinion, that since world trade has not exceeded gold-production, then it is reasonable to assume that it will be able to carry on.

You quote him as an underconsumption theorist who would take up many of your proposals, but on the other hand he is one who wants to tie everything to gold ?—Where did he write that ?

He has expressed it in several of his works ?—I think that during the last two years he has changed, since the Swedish monetary system has gone off gold.

Quite possibly. Now, you accept the fact that conditions rise to a boom, then collapse. That is a quotation from your speech. Well, the Douglas theory is that there is a chronic deficiency of purchasing-power. How do you reconcile that statement with that made in your speech that we rise to a boom, and then collapse ?—Not only do I reconcile it, but it appears to me as one of the wonderful proofs, one of the points wherein Douglas is reverting to Cassel. Cassel was the man who challenged that the common explanation of the boom curve is correct.

It is not only Cassel who challenged it. Many economists have challenged it ; there are many explanations of booms and slumps ?—Keynes says that the common explanation of a boom is a period of activity, a gradual swelling of production rising to a height of excitement, and then collapsing. Cassel has shown very distinctly, and I think he is the highest authority, that if their contentions were true we should have this period of activity, of production swelling to activity, rising to a point of prosperity, and then beginning to run down again gradually. I think his own explanation is too involved to explain, but the Douglas theory explains that correctly. We have tried this process. We have the

machine-makers' wages buying what the machines were making. We had these issues of money from the bank until we reached the peak, and then suddenly the banks tried to call in their money.

Where is the agreement between Cassel and Douglas?—It is the only explanation which will satisfactorily describe that curve. When it has reached the apex, the banks start to call in what was their own issue and cancel it.

Assuming there is a cycle, I would not like to say that there was any one explanation. Wesley Mitchell of Columbia University, New York, has made a study of this, and has written two huge volumes on the subject of the credit cycle, and has not reconciled all these theories?—His final recommendation was that it was the disproportion between manufactured and consumption goods and fixed capital investment.

His conclusions were not as simple as that; however, many authorities have stressed this disproportion. Sismonde said that before Karl Marx. It is hardly new?—No; but I think the Douglas theory, to my mind, is the most satisfactory explanation of that phenomenon.

I know it is a satisfactory explanation to your mind. You mention a stable price-level as a proof (this is also a quotation from your speech) that the equation of production and consumption has been achieved. Now, in the United States of America up to 1929 there was a stable price-level, and yet all your economists, orthodox and unorthodox, whom you quote with approval, were agreed that facts proved that there was maladjustment and real inflation. You will agree with that?—Well, there, again, I have to take the banks' definition.

It does not help to go back to the banks' evidence?—I must, otherwise their evidence remains unchallenged. They are definite in their opinion that where money is issued in an irregular form there is inflation; and a member of this Committee tried to bind them down that a rise in prices was inflation, and the answer was "Yes."

I cannot agree: the banks said that a rise in prices was not necessarily inflation and that there might still be inflation with a steady price-level?—You refer to the definition of inflation. The one I accept is the one by Reginald McKenna.

Another definition of inflation—this time not the banks' one?—It is the one which I think is correct—that is, that the amount of money issued does not cause inflation until it exceeds the amount of business to be done. That is the evidence of the balance; a stable price-level.

The stable price-level occurred in the United States—the business to be done did not come into it. However, we will leave that point in the meantime. I should like to continue this, but there are other questions. Now, sir, our link with sterling does not necessarily link us to British credit policy?—It does.

You say in your scheme you would let the exchange-rate be adjusted with sterling. We in New Zealand have linked our exchange-rate to it. At the same time, British credit policy might not affect our price-level in the same way as it does the British price-level. It might not affect our export commodities—wool, butter, meat might rise in price, whereas the British price-level may be stable?—Yes, that is quite true; but, on the other hand, it might have that effect.

That is a different matter?—It could be effected then.

Possibly, but not necessarily. We in New Zealand could take all the necessary steps with the system working now to help control the internal situation, and the central bank will enable us to do it a little more easily?—By means of the exchange-rate?

That is one means. You say that every authority in the world to-day recognizes that credit should be issued on the flow of consumption goods. What about Soviet Russia?—Well, here again I consider that the Soviet Russian financial programme is one of the wonderful supports of the Douglas theory. There they have the isolation of two groups of money. One issue is by the Prom Bank for capital investment, which must not be repaid. The other, through the Gos Bank, makes issues which are for the production and consumption of goods. That is the Douglas A plus B theorum, but it took them ten years of bitter anguish before they realized that there were two series of payments. The Prom Bank issues money for the construction of buildings, railways, &c. When these loans are repaid, they must be immediately reissued in order to keep up the flow of purchasing-power.

In Soviet Russia they are not using the A plus B analysis nor the Douglas theory?—I consider that their differentiation between two classes of payments must be regarded as a support of Douglas.

They are not regulating the two classes of payments?—They are distinguishing between the two. They say that if there is a loan paid back, on what we call our local-body sinking funds—if one of our local bodies were to pay £10,000, they would be obliged to reissue that immediately, because the diminution by that repayment would leave us short of purchasing-power.

Not in Soviet Russia any more than in Great Britain?—In Russia that is exactly what happens. They are obliged to reissue any loan which is returned before the consumption of the article.

I am afraid, like Mr. Clinkard, I shall have to differ from you about Soviet Russia. I contend that the A plus B analysis of Major Douglas is not put into force there?—The point is that they have drawn the distinction.

Many people have drawn the distinction between investment in capital production and consumption?—No, it is more than that. It is a fact that if they attempt to pay back debts out of our medium of exchange, there will be a deficiency of purchasing-power. Douglas suggests that we cannot help it, and therefore we must do something to check this taking place. The Prom Bank in Russia sees that this money is sent out again when it is repaid. That appears to me to be a confirmation of the Douglas analysis following fifteen years later.

I am afraid we must still agree to differ. In every country money is relent when it is repaid—that is, if industry is progressing in a normal way. You mention Sweden, Japan, Egypt, Greece, and Mexico as countries who have partial applications of free credit. Is that right?—Not free credit, but adaptations of our proposals.

But you said Mexico had free credit, is that so ?—Mexico has a two-year monopoly of free credit for primary producers.

I think the Committee would be interested in the relevant details, and I should like you to lay them before the Committee ?—Yes, I shall be pleased to do that.

You know the quotation about the Devil—I do not mean the one about the Devil citing Scripture for his purpose or " When the Devil was ill, the Devil a saint would be ; when the Devil was well the devil a saint was he," but I suppose you are trying to dispel in this country the attitude of " Better the devil you know than the devil you do not know " ?—No, I think it is a saint that has appeared on the horizon.

You think a saint has appeared. That makes me think, conversely, of corruption. Douglas, in " Monopoly of Credit," says that Foster and Catchings are among the few economists who are uncorrupted by banking influence. Can we take Foster and Catchings as an authority free of banking influence ?—And a few others only.

Yes, there are probably one or two others ?—I say Foster and Catchings have made the nearest approach, and I know that many of our supporters were prepared to accept these two.

You mentioned that yesterday. I am only asking if we can accept Foster and Catchings ?—Yes

Well, Foster and Catchings do not accept the A plus B theorum. In fact, they devote a little space to criticizing it. You also say that the Reserve Bank has strengthened our contact with outside forces. Now, can you substantiate that ? We had before six banks with head offices outside New Zealand, or five of them had. We had not our control in New Zealand. Now, for the first time we have. Control is in the hands of New-Zealanders in the Reserve Bank. For the first time in our history we are doing it. Now, I admit our control was outside New Zealand, but it is not now, and you say that the Reserve Bank has strengthened our contact with outside forces ?—I did not say definitely that the control had passed. It has strengthened if for this reason, that our medium of exchange, our purchasing-power, our credit policy, is now built upon sterling balances. Those sterling balances are dependent upon the London price-level.

But it was based on sterling balances before ?—Not compulsorily.

Not compulsorily, but in effect it was ?—In practice it was the same, but now we are bound to it.

Not necessarily. We can have gold, and we can hold exchange in other gold exchange countries. We can back our demand liabilities with three things, but at the same time we have control within New Zealand. We have the power to alter conditions much more than before ?—Well, it can be acquired more easily.

You say that the Douglas monetary system is going to solve all our economic problems. Now, we have seen a change-over from wool to artificial silk in the past few years. That presents a problem that cannot be solved by a monetary system. You have wool being displaced by changes in tastes and new inventions in the artificial-silk line. People wear less wool and more artificial silk. You have here a complete change in the economic structure. How can a monetary system bring it about that the maladjustments that there occur can be corrected ?—I admit it cannot do that. Technologically, it cannot be effected by monetary action.

Take the farming change in the United States. They have there a huge area devoted to wheat-growing. When horses were superseded by machines, they had an even bigger area available for grain. Do you think a monetary system could adjust that maladjustment ?—Yes, by reason of the fact that if the United States can produce more by means of that technological improvement, then if we can find purchasing-power to balance it so that it passes into consumption, by so much is the nation better off.

But that wheat is sold abroad. Its price-level is determined by the price-level abroad ?—That is when the wheat price-level falls below the price-level of other nations.

In fact, there should be thousands of farmers in the United States right off the land ?—Yes, I agree that where one particular product of a nation falls below world price-level, that a reduction in production should be made.

So that you cannot fix that by monetary adjustment ?—No. You can merely distribute it amongst the other members of the community.

Also, in the States we have a change in tastes. People are no longer eating so much bread. They are going over to lighter foods—more salads and different kinds of cereals. Hence there has been a definite falling-off in the demand for wheat. Can a monetary system adjust that ?—I think a monetary system can adjust that by making labour more fluid. I agree that fundamentally it cannot effect that. Will you add that there are many people who are not eating bread because they cannot afford it ? That is the humanitarian side.

I quite agree with that, Colonel Closey ; You may take it for granted that this Committee is actuated by the highest humanitarian motives, and is trying to bring in a report that will ease conditions ?—Thank you.

You may take that for granted. Also, would you say that a big proportion of the troubles of economic society begins with the lack of knowledge on the part of industry as to how the consumer will spend his purchasing-power ?—Yes.

So that a monetary system cannot cure that ?—That is an acute problem.

It probably is acute, but the monetary system cannot cure it ?—That is the fringe, but I admit that.

It is not only the fringe ?—I think it is. I think the great dearth to-day is from those poor people who cannot buy. They will change their tastes, no doubt. But that, I think, is not serious ; it does not affect human welfare.

Now, industry in the United States had such a huge assembly of capital equipment, and was producing in such abundance, that it cleared up the whole demand. They were in a position to

put radios, electric washing-machines, and frigidaires on to the market, which was saturated even at prosperity. Would you say that a monetary system can cure that?—No. I admit it could not. That is Mr. Langstone's point.

You use the word "sinister" in regard to banking operations in New Zealand. Do not you think that an ill-advised word?—No. I do not think so.

Douglas himself in his speech said he had the highest regard for the integrity of the banking officials in New Zealand?—Sinister does not mean the motive of the banks. I think it is sinister the way the control of industry has passed into the hands of the banking system.

You think that purchasing-power, once released, can be controlled?—Yes. Your figures, I think, will help us there.

Will it come into industry as uncontrolled capital?—In this case, you will observe, it is paid to the consumer, and he is the one to determine where that purchasing-power will go.

But at the same time a country could have a stock-exchange boom. That happened in America. It happened in London, too. Nearly 50 per cent. of the money invested in London in 1928 was absolutely wasted, because of speculative activity. Now, could the money-control in your scheme affect that?—I agree that all the money-control hitherto has had that drawback, and the only scheme I know of that has not is the Douglas proposal.

The Douglas proposal will stop speculation?—The Douglas proposal would be to place in the hands of those people who are deficient in purchasing-power the extra power to buy those commodities, and the only way that could accomplish a stock-exchange boom would be if Woolworth's and all the other suppliers were to combine to produce one.

But at the same time you will have the banks extending credits to people. You are not going to interfere with the freedom of an individual to go to the bank and borrow, are you?—No; again Cole is very authoritative on that.

Eighty-six per cent. of the credit that was issued in the six years prior to the boom in the United States did not go in the processes of industry, but went in speculation on the New York Stock Exchange. You cannot very well control what an individual does with the money he borrows from the bank?—We can direct the channels into which his money is introduced.

That is a different thing. You are starting now to direct channels. You are starting to get a greater hold on the economic system, and are telling the individual what he must do with the money he borrows?—No, we are just suggesting that if you can buy boots at one-third discount we advise you to buy them.

But you have just told me you would direct the money into different channels?—If this discount is applied to various articles, I think it is only fair to assume they will buy them.

The flax industry in New Zealand has been pretty well wiped out of existence, and so has the kauri-gum. It was wiped out by something that was non-monetary, and had nothing to do with New Zealand's monetary system. Will a monetary system adjust that?—Well, I am afraid we are at cross purposes with regard to what caused that. Was it not rather a clumsy attempt at rationalization which caused the kauri-gum industry to collapse?

Not necessarily. But will a monetary system fix it?—We could export these products and profit by them if they did not collapse lower than the comparative price-level outside.

If they collapsed lower than this point, our monetary system in New Zealand could not help it?—I believe that flax and kauri-gum can again be exported.

I think so, too. But I do not think it is going to be due to the New Zealand monetary system?—I think the monetary system might restart it.

In calculating your price factor, you are calculating on something that has happened in the past. You will admit that, therefore, it must always be out. It is going to be used for something in the future; it is calculated on last year; so that it can never be exact?—I think it is as exact as anything in life can be.

Well, that definitely is a defect in your system?—I think that defect applies to everything.

Arriving at this price factor, Onakaka iron is an example of something with potential value. Would this be something which would be included in the figure which was to give your price factor?—Yes, it would.

Despite the fact that, even if costs were reduced, Onakaka iron will not necessarily be able to sell in New Zealand?—It would be according to the proportion.

What proportion?—The proportion to which the world price-level had come down. I do not think that Onakaka iron would ever be payable.

I do not think it will, either, on its present scale of operations. But you have told me you are going to include it in your calculations for the price factor?—If it were of sufficient importance to make your price-levels worth while, then it would be.

You may not necessarily alter price-levels, you are cutting an individual price below what it was?—Let me particularize upon that point. This is how we would approach it. You cannot produce Onakaka iron paying 15s. a day when the Madras iron-fields pay 5d. You cannot produce iron while the Lithgow works are under a State subsidy in New South Wales.

I might agree with everything there, but my point is this: How is your monetary system going to adjust that?—I say you cannot, unless by an adjustment in electrical power you can make an electric furnace available down there. Otherwise, this iron cannot be put on the market at a price which will make it worth while for New-Zealanders to work.

That is interesting. I wanted to arrive at that. You have a world price-level to be taken into account. Look at the world price-level for butterfat—6d. or 7d. per pound. Can our butter industry be carried on under those conditions? Is that to be included in you calculations? How could it be calculated?—I think it can be done. I think we have a pre-eminent capacity to turn out high-grade butter.

So do I. But you just told me you were going to judge all this by the world price-level ?—Yes, and if we find that Onakaka iron cannot sell at the world price-level and recompense us, we would not pursue it, and would not regard it as an asset.

And butter is not the same ?—Well, I think that butter, taking into consideration the cost of production, quality, and what it commands on the world's markets, is indeed our most profitable industry.

Now you are leading a little more to planning. We can plan everything, as in Soviet Russia, or must we leave production planless ?—I do not think so. I think those are not the two alternatives.

Without planning and control, butter will always be subject to fluctuations of the market ?—I think that the nation needs progressive vocational planning for its people.

Planning—yes ; that is what I thought you would have to come to—economic as well as monetary planning ?—You will find it cannot possibly act without controls coming in. Well, that is not our concern. I say, and I have said repeatedly, that that undoubtedly will come into the forefront when we have got our monetary problems solved.

Is that part of the Douglas plan, then ?—No. You yourself say something must be done. Here is the very system to put that into effect. In future, we must plan.

Is that put before the Douglas Credit people ?—Yes. In fact, many of our supporters have other policies of reform besides monetary ones.

So that to bring your scheme into working-order you would have to do a lot more planning ?—Yes.

Mr. McKenna has said, " In America a relatively small part of the additional money provided by the Reserve Banks in the period 1921–28 was used in trade and industry. Much more was employed in speculation which was notoriously carried to an extreme." You are still going to have that trouble ?—I do not think so. Again, I think that applies to all the schemes you have considered except the Douglas one, which is injecting at a point where the money is needed.

You are going to leave lending institutions free to lend their money ?—That will come under Mr. Langstone's control later on.

You see where you are leading to ?—We limit our objective to secure control of the people's credit and I think beyond that at the moment we consider we are justified in limiting our efforts to control the money-machine.

Under your system you can still have individual choice. People can do what they like with their money. You can have all this kind of thing the Bond-issuing Commission is investigating ; you can have stock-exchange speculation and so on unless you get to the controlled socialistic situation that Mr. Langstone wants ?—I think you will find that the governing factor in all this wild speculation has been this desperate search for something safe to invest in and to do away with the uncertainty as to what the future will hold.

Your scheme is only one alternative of the Douglas plan. Douglas has also suggested a national dividend and putting out a quantity of purchasing-power quite apart from the price factor. You are not adopting that ?—The point is that we may have to adopt that. If we were a completely settled, well-balanced community with the country in good order we may find that the only way to distribute purchasing-power is by a national dividend. We might find that we would have to start it quite quickly, but as far as New Zealand is concerned we feel that there is enough work to employ every man and woman, and we have a long way to go.

In assessing the price factor it is the net investment over a period that you want to arrive at ?—Yes, to arrive at the reduction factor.

But the net investment of a country is greatest at the top of a boom, when we are more prosperous ; so what you are going to do is to inject this purchasing-power—to use a term of yours—at the top of boom, and in a depression when the net investment is nil or very low you are not going to inject it because you have no investments ?—The point is that that apex of the boom will not occur under Douglas credit.

That is an obvious reply. We are at the bottom of a depression now ?—When you are at the top of a depression people begin wondering whether it is safe, and they look around for investment in net capital projects. Under Douglas this sudden depletion of purchasing-power would not happen. There would be a constant demand for goods and there would be no insecurity in the business world as to whether things were safe or not.

But come back to my point. We are at the moment at the bottom of a depression. We are going to calculate the price factor and we may find there was no net investment in New Zealand in the past year, that, in fact, national appreciation might be less than national depreciation, so that our price factor will be 1 and the price will remain the same ?—I agree. In these figures that you are going to get for us they will vary probably over a long time.

If the fraction is 1 you are not going to reduce prices at all, and we must get out of the depression by some other means ?—You must allow for other considerations and not make that zero.

I am making the fraction 1, that is, the ratio of appreciation to depreciation is unity. Now, if the price factor is one-third, then that much purchasing-power is freed. That would be applied to buying other goods ?—Yes.

Those goods are in the warehouses, they are bought, there are no more immediately handy. They will have to be produced and orders sent in, then prices will rise ?—Until those replacements came in there would be a tendency for prices to rise.

That would happen ?—You would cut them down by one-third, and your quarterly balance-sheet would show the fact that the price-level is rising—until commodities had been restored, and you would slow down the purchasing-power ?

You admit, then, that inflation would develop, but it is not so easy to stop it ? This is the position : you cut prices by one-third and release that much purchasing-power which is applied to other goods. Their price rises and they are cut down by one-third, thus releasing some more purchasing-power which

is applied to other goods and so on *ad infinitum*. Is that the process?—You are assuming that prices will rise in direct proportion to the amount of purchasing-power issued.

No?—I consider that this purchasing-power issued would be just enough to take in the slack, and that there would not be a rise in prices, and from what I know of the manufacturers of New Zealand I would say that there is any amount of facility and willingness to replace stocks.

Your price factor is calculated on the net investment in the past year, and yet you say it is sufficient to take up the slack at present. Those are two different unrelated things?—I think they are, but that is my rough calculation that the amount of purchasing-power would have the effect of taking up the slack. That, of course, would be governed by your figures.

I have not looked through your proposals very closely. Every other witness has had to submit his scheme in advance for us to study, even members of Parliament have had to submit their proposals ahead. You have been privileged in bringing your proposal along with you when we were prepared to discuss what Douglas put forward?—Privileged or astute.

Privileged. Do you think that physical cost, apart from financial cost, of production comes into it?—Very strongly.

It does?—Yes.

So that the monetary factor cannot solve everything?—The financial aspect is the reflection of the physical, or should be; it is an indication.

So that if we are physically able to produce something, that should be the basis of the credit we are going to issue?—Exactly.

We can physically produce bananas on Stewart Island—that is an extreme instance, I know—would you take that ability to produce bananas on Stewart Island in glass-houses as a basis of credit?—No, because we can purchase those bananas from Fiji so much cheaper.

You miss my point. That is what we do, but, when it gets to something like Onakaka iron, the cost of production of which is a bit closer to the price at which we can buy it outside, then your problem arises?—If the thing is developed gradually and scientifically we would reach this position: That we are doing all the things we can do efficiently and we have a superabundance of labour. We will put those men to work upon work which can be more efficiently done here than elsewhere, or we will let them remain with more leisure.

That is more planning?—Yes for leisure or for production.

You say we have no workable medium of international exchange. If exchange-rates were stable, would we have a workable medium of exchange?—What do you call stable—a reflection of the true price-level?

Fixed. Stable in terms of 125 New Zealand pounds equal £100 sterling. We stand at 125 with sterling?—But the depression has fixed the exchange-level.

That is not my point. If we had these fixed rates would that be an international means of exchange? If we had a sterling bloc with the rates on sterling fixed would that be a medium of exchange between those groups?—No. The third division of that plan is foreign sale and purchase of exchange, which would regulate that contact with sterling.

You say we have no workable medium of exchange. I say that we may have a sterling group with fixed rates on sterling. There you have a workable medium of exchange?—Reverting to your previous point that our physical production should be the basis of our financial system, why should we be linked to a sterling group as our standard of exchange?

But we have a workable medium of exchange; I am not at the moment worying about whether we should be linked to sterling?—Supposing a sterling position, I suggest you must control your credit, and as we look around we say this is the price for credit. That would mean an equation between our New Zealand policy and sterling policy.

I am afraid we will have to leave that point since you are not disposed to answer it. Talking of foreign exchanges, you say that our imports have fallen in price as much as our exports. We will not discuss that, but leave it to the figures we are going to get out later, but even if import prices have fallen we still have a problem; we have a fixed body of interest payments in London; we have probably fixed shipping-rates (which you have not taken into consideration in your mid-ocean exchange). Those are fixed sums that have not fallen or fallen only slightly, so we have a smaller proportion of sterling exchange to pay for imports; and even if our imports fall as low in price as our exports we still cannot import as much as before?—We have the mid-ocean exchange allowing for shipping, but at the same time I do agree that this is a problem we cannot solve—our foreign indebtedness. I think it is a question of political ethics, possibly, as to whether we will be paying back a certain ratio of money to goods, but I do agree that that is a problem which lies outside our monetary cure.

It lies outside, perhaps, but it affects our situation so greatly that we cannot claim that any monetary cure in New Zealand is going to ease that situation. In connection with increases, we now have to send one ship in three to pay our debt, whereas formerly it was one in six?—Still our production has increased. I think we can overcome it, but I agree that it is a serious point.

Mr. Langstone.] The total production of New Zealand, less than 10 per cent. is taken in payment of debts overseas?—Yes.

Dr. Sutch.] If our exports fall in value to the extent they do under the situation I have just outlined, would you agree that that was lowering our national wealth?—If our imports fall.

If imports and exports fall in price together, would you say that the net result was a lowering of our national wealth?—No. So long as we receive back in exchange for our exports goods in equal utility and value we have not gone down in national wealth.

But we receive for our exports debt payments, shipping, and other things, and also imports?—I thought we agreed on that point. I believe those debt payments are an unscaleable load.

The fall in prices of our primary products has reduced the real income of New Zealand to a great extent because of the rigidity of our debt commitments; that is true. You say "experience having

shown that raising wages merely adds to prices." Prices have risen and fallen for many years but wages have increased. I do not accept your contention that because wages rise prices must rise?—I think that from the point of view of our contention of purchasing-power that is inevitable, that is to say, that if a bootmaker raises his workmen's wages 10 per cent. he will add that 10 per cent. on to his price. I think it is to be assumed that increased wages will not increase purchasing-power.

But there are other factors in industry besides wages. A 10-per-cent. rise in wages might mean a 2-per-cent. increase in price or no increase at all. Henry Ford has increased wages and not raised the price of his cars?—Yes, there is that question. It is not mentioned. One cannot express in one pamphlet all the applications of finance.

Your pamphlet statement is a very definite one?—You say increasing wages is not a means of increasing purchasing-power?

Sorry; I did not. That is a different point. With your price factor you would have a blanket reduction of one-third, for some things you would have one-half, some one-fifth, one-quarter, one-sixth, one-twelfth, and others nothing?—I agree, but it is most difficult to explain. What I suggest is that since we are vendors of electricity and transport they could be weighted. We would give a bigger discount on domestic electricity and take a little off others.

That means planning again? I am glad you appreciate the wide ramifications of this scheme. I see that it means taking every price in the community and assessing some fraction of it. Some of these fractions come to one-third, but each individual fraction is not one-third?—Yes. If the ultimate advantage is worth while a variation will be brought in.

That is quite clear. Major Douglas said that, as well as equating purchasing-power and consumable goods to all goods in the community, he would equate purchasing-power to the second-hand goods as well. Are you going to do that?—That would come within the survey. Obviously that would come into the project if the goods are for sale.

That does not come into the question. They were second-hand goods and he included them?—I cannot see how that can be avoided. How can you distinguish between a second-hand article and a reconditioned article?

I am not proposing to distinguish them?—They cannot be separate. One of the great flows of goods come from the time-payment people as returns; they must go in as the flow of consumption goods awaiting sale.

I have a piano at home which can be regarded as second-hand goods for the purposes of this discussion. That piano is not necessarily going on the market?—Then it does not come into the calculation.

What you are going to do is to go around and say, Are you going to sell that or not? This piano is second hand, do you want to keep it? It is just the ramifications of this plan I want to get at?—We are not bent upon securing a sale. We are bent on introducing into New Zealand £7,000,000 of purchasing-power.

You said that was only a tentative amount?—Our objective is not to sell the goods; the objective of the Douglas proposals is to get £7,000,000 into the possession of the people as purchasing-power.

But you stated that you were going to assess the things that were going to come in as second hand?—It does not want a detailed analysis for that.

When we put your plan into operation, assuming that we do, a detailed summary would be necessary?—I do not think it affects the formula to any great extent. I think the margin of error will allow for that.

You cannot establish a ratio between two things until you get them priced in a market. If you have some legs of mutton you want to sell you do not know what they are going to sell at until you have the money units already given. Without a given supply of money and goods there can be no price. You cannot equate money and goods because there is no common scale on which to equate them?—It is relative, but you must do it otherwise there is no means of calculation.

You would fix a price; until the goods come into the market that price does not arise?—The goods are on the market. They have their fixed prices—that is, the first detail you work from your calculation is the money to provide those.

Can you tell me the value of a ton of butter?—The amount of physical support which it will give to a man with a family.

So that the value of a ton of butter is not determined at all by cost of production or demand; it is going to be determined by what you have just confessed to me. I think it is important—another solution of the problem of value?—The point is that neither of us have the mentality to follow that to the conclusion. We cannot find any common denominator of value; we can only get a sense of values.

But you have given me a standard, a somewhat vague one, which you are going to apply in this Douglas credit?—I just give it to you as purely an abstract basis to work from.

But you must have some basis. You are valuing a ton of butter on its power to sustain a family. That, theoretically, is how you are going to proceed. That is all I wanted to get at. Is it necessary that consumers should have enough money to pay for the immediate costs of producing consumption goods?—No.

It is not necessary?—No.

In Great Britain, payments between producers are roughly nine times as great as payments to consumers. In the United States of America the figure is 11—that is, 1,100 per cent. The resultant disorganization of industry caused by issuing an amount of credit equal to this total of A and B payments would surely lead to chaos?—No, because our calculation is not based upon the differentiation between A and B payments. We would want those figures that you have offered to help us with. There are other factors, the time and destination of the money. Deficiency of purchasing-power will be the determining factor in calculating what are A and B payments.

Do not you accept the A plus B theorem ?—As an analysis of the deficiency of our purchasing-power I think it is the discovery of several centuries.

You accept the A plus B theorem and I have given you some figures which indicate that the B payments are eleven times the A payments. To make up the deficiency you would have to increase the A payments 1,100 per cent. ?—That is not true ; they have misread what are B payments.

Even if you accept the A plus B theorem, do you say that in the A plus B you have a cure for it. In reality your cure is based on the net amount of investment ?—No. The amount of goods awaiting purchase here in New Zealand. The amount by which that exceeds the purchasing-power is the basis of the A plus B theorem.

I can see no correlation ?—The A plus B theorem has been brought into the foreground because it is the happy hunting-ground of our economists.

You told us yesterday the just-price factor was the happy hunting-ground ?—This morning it is the A plus B theorem. If the result of that analysis is deficiency of purchasing-power it is disclosed in the economic balance of national economic survey.

You have already agreed that the deficiency of purchasing-power is represented by the balance of net investment ?—The amount available for net investment.

Not at all. It cannot be available ; it was spent last year. You are going to base the estimates for 1934 on the 1933 figures ?—Has that disclosed deficiency of purchasing-power ?

Anything that is disclosed can only be so disclosed by what has been done in 1933 ?—That is not sufficiently clear for our purposes.

Previously you agreed that those figures would be sufficiently clear for your purposes. I do not want to go into the A plus B theorem, but does Douglas mean that total A payments tend to fall below not the A plus B payments of the whole system but the A plus B costs of the retailer ?—It is the retail point where the valuations are made.

Does that answer my question, " Does Douglas mean that total A payments tend to fall below not the A plus B payments of the whole system, but the A plus B costs of the retailer " ?—The A plus B of the wholesale system ?

No, the whole production system. Does he mean that ?—There is where your figures are beginning to multiply ; you have forgotten the time factor.

I have no figures ; I am discussing Douglas theory ?—You must have one or two to strike a balance. You cannot take one point. You have to trace that system through the manufacturer and find out in periods of time where those A payments went to.

My question is still unanswered, but your reply envisages some more planning and control and investigation of every stage of production here and abroad, and it applies differentially from firm to firm and factory to factory ?—I will give our favourite attack—if you brought all the industries into one room the A plus B theory would vanish. It is the time factor which explains that.

If you can explain to me the answer to my question as to what Douglas meant I shall be very happy.

There is another question in connection with the price factor that I did not ask. This is just for the purpose of further clarity. Services are one of the major things for which we exchange money. Would you apply the price factor to services also ?—Those services which are directly connected with the production of consumption goods.

So that the services of an actor, a lawyer, a doctor—they would not have a price factor applied to them ?—No.

They would still be just as expensive as ever ?—Yes.

That is interesting. And when you are calculating your price factor, do you include services in the calculation ?—You will observe that those items I submitted were those which would cover roughly necessaries of life, and they would be varied, of course, by the national credit authority, and they would, as I said before, be variously weighted.

Yes. I know you would weight them, but in calculating this national appreciation and depreciation would you include the values of services ?—You would have to qualify that with regard to the immediate utility of those services. For example, our unemployed would have to be very seriously written down. We could not say that they are directly standing by, ready to produce new goods. That would be a matter of technical, shall we say, conjecture, the degree to which they would be immediately available.

Your reply is not very clear. You also say that a true indication of the amount of purchasing-power is always the goods awaiting sale ?—Yes.

Is not that a somewhat different definition of purchasing-power from what you used earlier this morning ?—No. We have the flow of purchasing-power, the flow of consumption goods coming on the market. If they are coming on the market they are awaiting sale.

And that is your flow of purchasing-power ?—Yes.

Whatever the value of those commodities to the people is not a factor ?—You mean what their real physical value would be ?

I do not think you could define the physical value of any commodity ?—I agree.

What I mean is : There are the goods. Whether the people are going to buy them at a certain price or not does not come into the question in your scheme ?—No. The current physical needs of the people in consumption goods would be the nearest description we can get to that term, the flow of consumption goods coming on the market.

What I am getting at is the difficulty of valuing something that has not had a value put on it by entering the market ?—Yes. I agree that there would be room for error there, but I think the errors would be compensating. I think it would be for the Government to make an economic survey.

There is another point, and that is : The remark has been made that our national income has gone down from so-much in 1929 to a certain amount this year. There is a difference of £50,000,000 in the national income. The question is this : Where has this money gone ? Perhaps you can tell us ?—That is what we are trying to find out.

This is a question I am putting to you ?—The slowing-down of services, the non-utilization of services, the destruction of the various processes which ordinarily provided us with income.

So, as a matter of fact, it is not really the destruction of money ?—Are you speaking of the financial income or the real income ?

I am speaking of the favourite quotation of speakers in this country. The national income is something that is computed not exactly, but it is an estimate, and it is certainly not real wealth, whatever you mean by that. It is a money calculation ?—Yes. It is a money calculation but a physical return.

Well, there are services in it as well as physical things ?—Yes. It has been brought to a slowing-down process by reason of the lack of the medium of exchange.

It does not mean that £50,000,000 of money has disappeared ?—It would mean that that amount of the medium of exchange has indeed ceased to operate, and as far as the incidence of it is concerned it has disappeared.

That amount of the medium of exchange was probably never in existence in New Zealand. Now, getting back to the Douglas proposals when he met this Committee. What does he mean by the statement that his proposals do not traverse the existing system ?—He means that it does not involve any readjustment or any criticism of the present system, assuming that you are satisfied, as indeed he did.

Assuming that—— ?—You do not propose to make any rearrangement of the present financial system.

It was not a matter of what we proposed to do or what we assumed. It was what his language meant. He said that his scheme did not traverse the existing canons of finance. This word "traverse" was used by you differently in your speech. I merely wanted to get at his meaning of it ?—I think his meaning of it was that it would not move across. It would not in any way be in opposition to what are termed now the canons of sound finance.

You will realize that there are one or two involved things in this statement that have not yet been cleared up. For instance, there is this one that has been picked out. What did he mean in paragraph VIII of his proposals when he said that, "The dividend on all preference and debenture stocks allotted under the preceding clause was to receive a dividend at the agreed rates" ?—I take it that it is a guarantee that this dividend shall be paid on the shares which have been acquired.

But the reading in short is this: "The dividend shall receive a dividend at the agreed rates." That is what in effect, it says ?—I think the meaning is clear. The implied meaning is that it is to make sure that those dividends are paid out to the recipients.

The language is certainly not exact ?—I think the intention of that clause is fairly distinct.

There is another thing I would like cleared up. He used the term "preference shares" and "debenture stocks." Why did he choose those two terms when he meant one thing, which was neither of these phrases ?—As this will be something quite unique, I suppose he thought that there was some doubt as to what was the exact term to use. I know of nothing in present-day practice which would be the equivalent to this distribution of practically what one might call gift stock.

There are one or two other things like that, that occurred to me in reading it through. For instance, his use of the word "natural-born." He meant "native-born" surely ?—Yes.

And another statement that Douglas made was this: "This creation of credit needs only a physical basis." It was the word "only" that worried me. Can you explain that ?—I think he is trying to discount this feeling of worship for a metallic basis.

But that is a bald bare statement is it not ? "The creation of credit needs only a physical basis" ?—Yes. Still, I think that it is not ambiguous.

No. It is not ambiguous, certainly ?—It could have been expressed better, perhaps, but I think he means that so long as we have those tangible assets that credit can be created. Where does that occur, by the way ?

That is in his replies to questions—not in his actual letter. In connection with this monetization of assets, I have looked into some figures in the United States to see what would happen. Could I read some of these out, Mr. Chairman ?

The Chairman: Yes.

Dr. Sutch.]

The following table sets forth some figures estimated for the continental United States:—

1. Date.	2. Wealth.	3. Income.	4. Transactions.	5. Money.	6. Wealth: Money.	7. Income: Money.	8. Transactions: Money.
1900	88,517	17,965	194,000	5,620	15·7	3·2	34·5
1904	107,104	..	256,000	7,130	15·0	..	35·9
1910	..	30,530	415,000	8,920	..	3·4	46·5
1912	186,300	..	474,000	9,880	18·8	..	47·8
1922	320,804	65,500	..	21,700	14·8	3·0	..

Columns 2, 3, 4, and 5 are expressed in millions of dollars.

Column 2 is derived from the United States census.

Column 3 is taken from W. I. King's "Wealth and Income of the People of the United States," which is based on the United States census.

Column 4 is taken from I. Fisher's "Purchasing-power of Money" and refers to the money value at current prices of all monetary transactions in the United States of America.

Column 5 is taken from the same work, and refers to the sum of all means of payment in the United States of America—coin, bank-notes, and bank deposits liable to be drawn on by cheque.

Columns 6, 7, and 8 are derived by dividing the figure of column 5 into those of columns 2, 3, and 4 respectively.

It is thus seen that the amount of money in use in the United States of America between 1900 and 1912 was between one-fifteenth and one-twentieth of the total wealth of the country, less than one-third of its income, and between one-thirtieth and one-fiftieth of the money value of the transactions that it effected. You follow that?—Yes.

Well, I do not suggest that this applies to any particular proposals. Perhaps it may apply to what has been said elsewhere:—

> Let us consider the effect of applying the proposals of the monetary reformers to a country in which the amount of money in use is one-fifteenth of the money value at current prices of its aggregate wealth. All wealth which is not already pledged to the banks is taken to the central institute and "discounted" for notes or checkable bank deposits. The volume of money is increased fifteen-fold. Prices would rise correspondingly and the money value of wealth would consequently appreciate. It might not appreciate proportionately to the increase in the quantity of money, but it would probably rise to at least ten times its former money value. Thus only one-tenth of its new value would have money issued against it, leaving nine-tenths of its new value available as a basis for the further omission of money. This would raise prices still higher and leave a further unpledged equity to be "discounted." In this way a cumulative inflation would be set up, ending in a complete collapse of rational monetary accounting, as in France at the time of the assignats or in Germany during the years 1920–1923.

Now, I take it that the kind of thing that I envisage there is not what Major Douglas means by "discounting" assets?—No.

He does not mean that?—No.

I wanted to make sure of that point. In creating the Suspense Account I take it there will be different amounts from different banks. I am referring to writing up the value of bank assets in his scheme?—What section is that?

Banks Suspense Account No. 1, paragraph III?—I have not it with me.

Shall I read it?—Yes.

"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." I take it that each bank would keep that Suspense Account?—Yes.

At that rate there would be a different proportion applied to the reduction in overdrafts for different banks?—That is true.

That is, there will be differential treatment of borrowers?—Yes. I cannot see how that could be avoided.

I take it that you would agree that the present tendency of any of the banks is inflationary, is to advance more credit?—They would if they had the opportunity.

You would not say that the normal policy of a bank was deflationary?—Not at this time.

Do you think they would inflate if they had the opportunity?—I think that cause and effect are linked. They have told us here that if they saw something safe and stable to invest in and there was a certainty of repayment that they would be prepared to advance.

And if not, they will not?—Yes. And unfortunately, speaking objectively, until they make that advance there will be nothing safe and stable to invest in, and there will be no likelihood of it being repaid, so that, although the individual attitude of banks is to restore credit, collectively the banking system prevents it.

It is deflationary in tendency?—Yes.

There is this other question that I raised before. Under this scheme of giving back money to borrowers, there will also be differential treatment of borrowers in so far as the best accounts will not get as big an absolute reduction as the second best accounts?—Yes. That, obviously, will occur.

In setting up Insurance Suspense Account No. 1 Major Douglas has a rather roundabout procedure for raising funds. You yourself have just told me that he does not mean to monetize the assets of the country in the direction I indicated in my quoted statement that debenture stocks against these assets would be given to people, but not for purchasing-power purposes. That was the general tendency was it not?—Yes.

Well, he says, in paragraph VII, that in setting up this Insurance Suspense Account the funds to be provided shall be provided by rediscounting the disclosed reserves with the New Zealand Reserve Bank, and the disposition of the funds so provided shall be as in the following paragraph. Now do you not think that is a very roundabout method for raising these funds. My point is this: That the procedure of rediscounting at the Reserve Bank is not only useless, but harmful, in that it needlessly issues funds, to use the Douglas term, for long-term purposes. The debenture stocks are certificates issued against insurance company reserves. No funds are necessary?—I agree, but the point is: That the particular process here was to reverse the present system of demonetization, and it has taken this particular form in order that this process shall be reversed in the direction and in the degree to which it has taken place previously.

But no funds are required. You are handing a certificate to these native-born New-Zealanders. That undisclosed reserve exists. You issue a certificate against that, or some central authority does it. That is all. That should be sufficient control?—Yes. That would secure the same result.

Well, why go to this circuitous way of doing things?—I think it is just to manifest that it is following the same channels in which it has gone in.

But there will not be any rediscounting necessary?—That point was raised, I think, with Major Douglas.

Yes. I raised it. His answer was, "What other way would you have me do it?" which was not an answer?—No. But I think that he inferred that if any shorter simpler way commended

itself he would accept it. He said, "Well, discount it any way you like." The point he raised in his conversation appeared to me to be that if there were any other way he would be prepared to accept it.

There is obviously a simpler way. I should say that Major Douglas should have picked it. He claims to be familiar with the banking system ?—I think he is, too. It is just this, that apparently he is not particularly attached to any one method, and so long as the results were achieved he would admit the alternative.

He says that his scheme did not traverse the existing canons of finance, but the practical result of that proposal was to provide a national dividend. Do you not think that traverses the existing canons of finance ?—I do not think so. We get dividends under the present system.

Not national dividends. People who have not invested anything ?—Some few do.

But this is an entirely novel plan. He said so himself ?—I think those two can be reconciled. The proposals that I put before you yesterday and the ones which are known as the Douglas Credit proposals do involve a reorganization of existing systems. Now this one——

Does not ?—The proposals of the Douglas Social Credit movement do involve reorganization.

The one that Douglas put forward to our Committee, he said, did not involve any reorganization, did not alter the system one whit ?—I say that the proposals I put before you do traverse them, do alter the present system, and then, in introducing these, he says that these do not traverse the present system, meaning that these could be applied by Parliament now without altering ownership and without altering the machinery, and I think that matter of the dividend being issued can be done, as he says, without traversing the present system.

I take it that Douglas was not going to distribute the undisclosed reserves of the insurance companies ?—No. Not physically. We now come to this definition of what we mean by monetization.

Major Douglas said, in answer to a question, that he was going to distribute the undisclosed reserves ?—I think in answer to another question, when you suggested confiscation he said monetization.

No. I did not suggest confiscation of insurance reserves. I think Major Douglas and I agreed that he was merely monetizing the insurance company reserves. I quite understand that ?—Major Douglas said that his proposals were designed to monetize these reserves, and not take the reserves themselves.

Only in respect of the insurance companies. Would you agree that the modern production system is an exchange for goods and services ?—Yes.

Major Douglas did not agree ?—I think so.

In answer to Mr. Lye he says it is not ?—Where is that.

I do not know whether you have it. Have you a full report there ?—What is the exact question and answer ?

The question was, "Is the modern production system an exchange for goods and services ?"—As far as that gold inquiry goes, I think it is so. It is hard to say exactly what was meant when it is taken away from the surrounding conversation, but I think that is fairly obvious.

Would you say that money and credit should not be cancelled unless there is a net wastage of assets ?—I think that is the theoretical basis of credit, that it should not be cancelled until the article which has called it into existence has fulfilled its term.

If we say, just for the purposes of this discussion, that £1,000,000 is the difference between the balance-sheet and the market value of a bank's assets, and this is transferred to Suspense Account No. 1, would there be another £1,000,000 similarly available next year ?—As a second reserve ?

Banks have reserves valued in their books at a certain amount. Now, they write them up and transfer the additional amount, which (quite arbitrarily) I am assuming to be £1,000,000, to the Suspense Account. Will there be another similar amount next year ?—No.

Could this scheme of monetizing assets be extended to all the existing assets of the country ?—No. It would produce too big a medium of exchange.

Douglas replied to that question of mine that he would do it in time ?—As the necessity arose ?

No; he did not add that. Assuming that the scheme increased the purchasing-power of the people, would the value of all producing assets go up ?—It depends on the flow of money released in that manner. I do not think it would involve the amount released from the bank's reserve.

I am assuming that the scheme increased the money in the hands of the people. Under that assumption, would the value of producing assets go up ?—I do not think so.

Under the Douglas scheme, would it affect the exchange-rate at all ?—You mean this monetization of reserves ?

Yes ?—I do not think so, because, you see, we are working in the dark until we know the extent of those profits and reserves. We are not able to say with any degree of certainty what is the amount. I will just put forward what a preliminary survey indicates, that those secret reserves are £26,000,000. We cannot say what effect it will have on the price-level until we know what figure we are working on.

I was thinking of the exchange-rate. Under this scheme would you say that we should make our exchange-rate go to parity ?—There are other conditions now. There is the condition of the import trade, the condition of the farmer. I would say that these alterations are now so interwoven with our present position that it would be very difficult to pronounce an opinion.

Would you say this, that we should get more purchasing-power by bringing the exchange back to parity ?—No. It appears that that is recovering from some intoxication, and it will be a painful one.

Do you suggest that in order to recover we have to come down to parity ? Do we have to deflate ?—No. Possibly not. It appears to me that moving the exchange up was a year late.

I am inclined to agree with you ?—It did not accomplish what it might have done, but, having now been moved up, there are certain readjustments which have taken place and it would require very grave thought and calculation to decide how that would be brought down again. I think it is beyond

the powers, possibly, of any man in New Zealand, not knowing how prices will move in the future, to say how that exchange could be adjusted. It is probably an empirical matter.

In the Douglas social schemes, books, and plans that I have read there seems to be no discussion of the maladjustment in the price returns in the last decade between agriculture and industry. You know that maladjustment exists ?—Yes. And is still taking place. I think, however, that since the points you raised earlier this morning as to whether or not the Douglas plan would give flexibility, and I claimed that it did, I believe that this technical change which you refer to can be better catered for under the Douglas plan than under the present lack of plan.

It is not necessarily a technical change. I am referring to this fact, that throughout the world, as a general statement, it can be said that agriculture has been depressed and has not obtained the return consonant with that obtained from manufacture. Throughout the world there is a maladjustment between the returns in these two branches of industry ?—I think it is of technical origin primarily, in the vast wheat production of the United Soviet States of Russia.

You do not think it is due to deficiency of purchasing-power ?—I thought you were discussing the distortion of the production system.

It is a distortion of the production system. It is a big distortion. But you do not think it is due to deficiency of purchasing-power ?—A deficiency of purchasing-power has brought the collapse of all prices.

Do you think this distortion itself has been brought about by deficiency of purchasing-power ?—The variation between manufactured goods and exported products ?

The phenomenon I have been talking about ?—No. I do not think it has affected one more than the other. The whole purchasing-power of the world has declined.

In Douglas's covering letter to his proposals he said that the covering letter should be read as part of his proposals ?—Yes ; 21st February.

Well, there he assumes certain hypotheses. Paragraph 2 : " I am therefore attaching " it begins. In that paragraph he states his hypotheses and under these conditions the defects in our industrial, social, and economic systems are due to maldistribution of purchasing-power. That is so, is it not ?—That is your point ?

No. Read the whole paragraph if you like. I think it is the first paragraph. " From your letter I gather that you regard the proposition put forward in paragraph 4 (*a*) of my letter of the same date as still *sub judice*, to which attitude I cannot, of course, take exception. It will, I feel sure, commend itself to you that it is necessary to establish the facts of the situation before proceeding at any length to put forward proposals which, to have any value, must be relevant to the facts. I should prefer, therefore, with your permission, to await the publication of your conclusions in regard to the existing financial system before taking up your time with the consideration of more far-reaching proposals which assume that fundamental defects have been exposed." It is assuming that the existing financial system is the correct one ?—Well, that is one way of putting it.

He attaches certain proposals in outline based on the working of the monetary system in its present form, which for these purposes it is assumed (without admitting such to be the case) to be self-liquidating ?—Could we say definitely that it is not self-liquidating ?

But we had to treat all these proposals with that assumption in mind ?—And that involves the assumption that sufficient purchasing-power exists at any time to buy the goods that are for sale.

That is a very difficult assumption to fit in with the previous one, unless we assume several Douglas Credit principles, but at the same time we will let that assumption go. Do you think he means by that paragraph that some of the national income goes to classes who do not spend it in consumables ?—No. The purpose of that paragraph is this : He wishes to put this plan before you and if we extract from the monetary system those frozen reserves which are there, if we can get them out, then the system should be self-liquidating.

But this maldistribution, that is the maldistribution to which he refers, is it ?—Yes. And if that maldistribution is corrected we should be able to say whether or not the present system is correctly balanced.

Suppose I am going to embark on some capital construction, how do the Douglas schemes help me ? Take the one you have here to-day—how does that help me ?—The one I submitted yesterday ?

Yes ?—In that case, the national credit authority would have the right to issue notes and credit.

Against what ?—Such assets as you put forward.

Assuming I am a contractor ?—You would do that through the commercial bank. It would operate through the credit authority as it would through the central bank.

If I am going to produce a raw product or intermediate product destined ultimately for consumable goods ; do I get any price discount ?—No, the discount is given to the consumer.

Just the consumer ?—Yes.

So that I may be producing something for export but I do not get help ?—I think you have missed the point. The help is not given to the seller. If it were so, it would become one of the production bonuses which cause such harm. As the seller of an intermediate product you would not be affected at all, one way or the other. The advantage is given to the consumer ; therefore you would not be affected. You would not be placed at a disadvantage to the seller of the initial goods.

The B payment trouble does not arise in the intermediate product ?—As I said, this just price would not be regulated by an indirect calculation of the B costs. It is calculated upon the amount discovered to exist in the country—that is, the deficiency of purchasing-power.

That was the point I made before : That the A plus B theorem was not related logically to the calculation of the just-price factor ?—It is the foundation of it, but the just price is calculated upon the total deficiency of purchasing-power within the country.

Coming back to Major Douglas's proposals : In his covering letter he gave a list of observed defects. The one numbered (*h*), which starts, " Competition for foreign export markets." In the observed

defects, he says, "Competition for foreign (export) markets to offset failure of home markets—*i.e.*, pressure to export real values for purchasing-power." You notice how he places the order—"failure of home markets and pressure on foreign markets." Is not the position with New Zealand, Australia, Canada, even Russia and the United States of America that the failure of the export market is the trouble, and that this becomes reflected later in the home market?—I think one cannot really fix the order of that occurrence. It is just that over a period of time the inability of a nation to buy its product makes that nation seek for an overseas market.

That is an inaccurate simplification. In the instances I mentioned, the first factor was the failure of foreign markets?—No. If you will observe, the competition for foreign markets was the effect of the failure of home markets.

Douglas says that, yes. He means that the home markets have fallen first; to offset that, they export abroad?—Exactly.

But in the case I quoted this morning, I mentioned it was the failure of the export market that was the trouble, and the home market failed later?—That is the third development of the cycle. Douglas has drawn very largely from historical experience, and that last paragraph gives you the key to his thought in that matter. I have referred repeatedly to these authorities and Professor Cramb says that is is that inability to buy within the boundaries of the country that has led to that struggle for overseas markets that has been the curse of trade for over a hundred years, and the last reason suggested has been this failure of the export market causing them to fall back on the home market.

The present depression has been caused in part by failure of export markets rather than home markets?—The failure of a remedy.

Douglas speaks in that same paragraph of a pressure to export real values for purchasing-power. Does he mean that this purchasing-power is necessary in order to sustain the sale of domestically produced goods in the home market?—No. It is to gain something from abroad which we cannot produce here, and we have been forced to send out real values, real wealth, in order to make good that necessary purchasing-power. I think that that has particular reference. The one which shows it in its most acute form is the case of Japan where they are throwing out their exports at any price whatever in order to make good their deficiences in raw materials.

They are not throwing out their exports at any price whatever?—Have you spoken with the Manufacturers' Association on that point?

I have had more than the evidence of the Manufacturers' Association on that point?—They have very bitter complaints over the Japanese goods.

I know that. That is a side issue at the moment?—It is the point, I think, which shows in its most acute form those two paragraphs.

Take the New Zealand situation: Would you say that our exports overseas are just in order to get purchasing-power to buy locally produced commodities?—No; I have often resented that suggestion of making one process dependent upon another. It is a chain of goods travelling overseas and coming back again and they are all linked, and I have objected to the opinion advanced that we export to pay for imports or anything else. It is a succession of operations which results in that overseas trading.

I did notice that your order yesterday was that it was the imports that came in that enabled us to pay for our exports?—I mentioned that quotation from A. C. Davidson in order to show that the distribution of purchasing-power here in New Zealand would help our exporters to sell their produce here or in London. I quoted him as saying that, by stimulating our purchasing-power and imports, we would help our foreign markets.

He was quoting that about Australia?—Yes.

The foreign market that New Zealand represents for British goods is very small. Are you suggesting that if we have a greater demand for goods and if we buy more British goods, we are going to improve the British market for buying our meat and butter?—Yes.

You think they are in direct relationship?—I am sure, and I quote, I think, the most well-known authority in the world, Professor Taussig. His final conclusion in his book on International Exchange is this: Over a period exports and imports tend to equilibrium. In other words, if you will not import, the price of your exports will tend to sag.

That is a slightly different matter; that is a matter of balance of payments over a very long period?—But the tendency is to amend them.

I substantially agree with that. My point is: If we buy more British goods in New Zealand we are not necessarily going to give the British consumer very much greater power to buy our butter and our meat?—What kind of goods are you buying here?

British manufactured goods?—I think we are.

We are giving him something, but not necessarily an amount which he would spend on imports, or bring an equivalent increase to the price of our goods in overseas markets?—I think it is an impulse and quite a strong impulse.

I think it is a fairly weak impulse. The price of our goods on the overseas market is not determined by the amount of goods we buy from England. There are many factors that enter into it. There is Danish butter, Australian butter, Irish butter, Home-produced butter; all those things are affecting the price of our butter?—I agree, but I still maintain that there is a strong impulse to support the price of our produce overseas when we are importing from that area.

As a long term, very general tendency, that may be true, but from year to year the balance of payments can swing millions against us, and it does not affect the immediate situation. There are so many other factors that come in. I think it is too bald a statement?—I agree that there are other factors, but I still maintain my point.

How long has this alleged deficiency of purchasing-power been a feature of the productive system ?—It began with the industrial development of England about the eighteenth century.

Would it also be a feature of, say, the Phœnecian civilization which had a fairly advanced development ?—It developed in the Roman Empire, but not to the extent it has developed since we have used industrial power.

What does Douglas mean by cost of production ?—Those physical units which are used by individual processes.

How does he get any cost attached to it at all ? He has got to enter it into a book ?—Yes. There, again, we are going back to a point that we have to start upon some relative line.

I know we are. How are you going to determine cost of production ?—I think the difficulty is one encountered by all economic surveys.

True, but he is basing his proposals on cost of production. We want to find out what the cost of production is ?—Expressed in money terms ?

Yes ?—Then we must estimate the actual physical wealth used in production and translate that into money terms which equate with the community consumption.

The cost of production of the dairy-farmers would cover the price paid for fertilizers, is that a price you can use ?—That price is not necessarily a value.

Does it not enter into the cost of producing a ton of butter ?—That price is arranged by manufacturing firms, and so on. Although it is a price, it is not necessarily a value.

We will say super is £4 a ton ; it is a farmer's cost which he wants returned to him. Would you go further back with it ?—No, you have merely fixed it at £4 a ton, it is not a value.

How would you fix its value if you did not have its selling-price at £4 a ton ?—The only satisfactory basis of value, I think, is that one developed by Irving Fisher, a composite commodity ; or possibly the League of Nations index figure. They are the only two lines which I know which one can accept.

Does economic rent come into cost of production ?—For what purpose ?

For calculating the value of a ton of butter ?—Round figures in those sixty-two articles.

Economic rent ?—Can be derived from that.

The economic rent enters into the cost of production of a pound of butter ?—Yes.

Is it your opinion that economic conditions will become worse ?—Yes.

If so, will business assets become less in value ?—What kind of business assets ?

Reserves, capital, equipment ?—It all depends on the degree of survival or flexibility we possess in New Zealand. I feel that as a nation producing foodstuffs we may maintain or even increase our relative position in the world.

You say economic conditions will become worse ?—I think there will be a crisis. I believe it may take the shape of war within twelve months, in which case the producers of foodstuffs will gain a greater power over other factors in the world.

If economic conditions become worse without this war which you envisage, it will be prudent for a business to value its assets at less than current market values, because things are going to become worse. Is it wise for them to do that ? In proposals V and VI of the Douglas plan he would discriminate when he writes up the market value of the banks' assets, and would weaken those institutions as economic concerns ?—You are assuming that value and price are synonymous.

No ; I am citing the Douglas plan. If things are going to become worse, it is wise for a man to write down his assets, to have a reserve for contingencies. If that is so, it is wise for a bank to do it, and these proposals would take that hidden reserve away, therefore it would perhaps be unwise to do this, seeing what the future holds ?—I cannot accept that. The greatest social and civic struggle which occurred in Europe during the war has resulted in the lifting of the price-level and just such items of human welfare as are touched upon here.

We are not assuming war ?—I was not talking of war ; I was thinking of political upheavals in Central Europe.

I am assuming that economic conditions are getting worse ?—The general effect of the deflation ?

Yes ?—I believe there is a limit to which this deflation can be carried. I cannot admit that price-levels are a reflex of the exact condition a country is in. There might be a rising price in times of revolution.

This proposal of Douglas contained in V and VI would discriminate in favour of business men who obtain working capital by means of overdraft as against those who finance by debentures or in other ways ; would discriminate against businesses with a high proportion of fixed capital, and in favour of weak businesses as against those sounder concerns ? Do you think that is justifiable economically ?—The point is this. You will remember that I have been subjected to attack because my monetary proposals involved something in the nature of a charitable bequest, because it is something for nothing. These proposals are returning directly to those who gave that money the money that was taken from them, without introducing anything humanitarian or beneficial. That being so, this should be removed from criticism.

There is no economic justification for it ?—There is, because the money came from those people.

It came from those various people I have mentioned ?—Those people who have had a long and heavy overdraft from the banks. That is where they draw their profits, and to that point it must be returned. That is making an automatic return. I thought that would have earned your commendation, as you did not like my humanitarian point of view.

I do not object to your humanitarian point of view at all. Would you agree that purchasing-power could not be increased under the present system until the banks grant additional purchasing-power to the amount of any overdraft cancelled ?—That if this overdraft were reduced they would have to increase it back again before the purchasing-power could be returned ?

Yes ?—That is the indirect way in which the people would benefit.

Say we have a bank's balance-sheet. On the liability side you have capital, reserves, deposits, and one or two other things. On the other side, the assets, you have advances and bank premises; generally speaking, one or two other items, too. They balance. If you write up bank premises, say, by £2,000,000 (I am just taking that figure) you would form a Suspense Account on the other side of another £2,000,000. Do you agree so far ?—Yes.

You then take £1,000,000 of that Suspense Account and use it in paying off advances; you agree ?—Yes.

So that your balance-sheet still balances. You have got capital, reserves, deposits, and 50 per cent. of your Suspense Account left on the liability side, and on the asset side you have advances reduced by £1,000,000 and bank premises written up by £2,000,000 ?—Yes.

So that the position is this: the bank premises are finally written up to market value and next year there is going to be very little to add on ?—Next year those people who have their overdrafts at a certain limit put forward their usual claim for more loan to equip them with further working capital with which to expand their premises or pay wages.

Where does that come in ?—If they have had £1,000 overdraft and by redistribution of profits they get a reduction to £900, they should be entitled to another £100 and certainly will apply for it.

As you have just said the banking policy at the present time is deflationary. The banks are not necessarily going to reissue even the same amount of credit because their reserves position has been weakened and they will tend to draw in their horns a little more under the scheme ?—The banking system is deflationary in operation, but the banks are looking for sound investment, and if they have advanced £1,000 as a good investment this year, they will make it £1,000 next year.

But some of these overdrafts have been carried on just because they know if they try to get them repaid they will drive the firms into bankruptcy, and they are not good investments ?—Is that very widely the position ?

I would not say it is widely the position, because I have not the figures to substantiate it ?—I was hoping you would admit it.

We get to this position, then, discussing Major Douglas's proposals, not your own. He is proposing to transfer purchasing-power from bank shareholders and insurance company share and policy holders to other individuals. The majority of these shareholders are not rich and Douglas said it was not a class question, anyway. If the right of private investment is accepted as one of the principles of our economic system, Major Douglas's proposal is quite arbitrary, unjust, and irrational. But what is more, the dividend transfer plan will aggravate the disease from which we are suffering. It will actually decrease purchasing-power. One-quarter of the amount that has been transferred to the Bank Suspense Account No. 2 will be sterilized, frozen, or whatever term you wish; but that twenty-five per cent. means a net decrease of purchasing-power. Under the insurance scheme the debenture stocks are not transferable, not security for loan, not purchasing-power, and cannot add to purchasing-power, but the dividend paid on them is purchasing-power. In so far as there is any amount remaining in the Insurance Suspense Account No. 2—that is, the Dividend Equalization Fund—this amount is by that much a decrease in purchasing-power. Douglas himself said that, in time, this scheme could be extended to all existing assets of the country. The more we extend this scheme, the more we destroy purchasing-power. The insurance scheme and its application to other institutions is therefore wholly deflationary in that it would pay out only a part of what would otherwise have been paid out. The transfer of bank dividends over 6 per cent. is similarly deflationary. It is also the Douglas contention—and you, Colonel Closey, have supported it—that the normal banking policy is deflationary. Therefore, even the reduction of overdrafts by writing up the book value of assets is not necessarily adding to purchasing-power, but probably decreasing it. The only logical conclusion from the proposals and evidence put forward by Major Douglas in New Zealand and by you is that—quite apart from their arbitrariness, their injustice, and irrationality—if put into effect, they would bring a net decrease of purchasing-power, and would add to the burden of unemployment and reduced incomes. And this is Major Douglas's scheme for New Zealand ?—I disagree with various assumptions. It is possible, as you say, that the banks having overdrafts reduced by means of this description would not agree to advance the overdraft again to the original limit. On the other hand, I cannot see why not; if it was safe for £1,000 now, they would extend it later on, and undoubtedly a great many firms would not have it so restored, but those which did have their overdrafts restored would find themselves in possession of extra funds with which to carry on their business, and that would be an increase in purchasing-power.

I think we dealt with that point and agreed that we could not get any figures on it. It is quite possible the banks would not advance any more because the position was more precarious ?—I challenge that assumption. I also say that, whatever our indebtedness may be, there is a limit to the amount this scheme can be carried to. It deals only with insurance companies and banks.

But Major Douglas said he would extend it in time; and the more it is extended the less purchasing-power is going to be available, because so much of it is sterilized in Suspense Accounts ?—If this plan is extended it will have to be in quite a different form. It cannot apply to any other than the banks and insurance companies.

Major Douglas said he would extend it to stock and station agents, and ultimately throughout the community ?—But it would not be extended under this scheme.

How do you know it would not be extended; Major Douglas said he would extend it ?—As I see it, its machinery would have to be changed.

But we must accept Major Douglas's statement at its face value ?—I think you are ignoring the opening paragraphs in which he stated he would not traverse the existing banking system. You are suggesting——

I am not suggesting at all. Major Douglas himself said he would bring in stock and station agents. In reply to me, he said he would extend the scheme further ?—How much do you think could be got from the secret profits of the stock and station agents—perhaps £1,000 ?

I am not suggesting anything. I am taking this scheme as handed to us by Major Douglas ?—You are misreading his statement. Probably he meant that this principle would be applied to others.

Even if the principle, it is the same result ?—This scheme cannot be enlarged beyond the particular institutions it is set down for.

He said something like, " In the degree to which they accept the deposits and create credits " ?—The point is we know that the number of stock and station agents who do this is very limited so that qualification I think was valueless, and I object to the manner in which it is misused by the members. " In the degree," that is the qualification.

We do not know exactly the number of stock and station agents that do take deposits and make advances. There are many more than one stock and station agent doing that. These big firms in New Zealand take deposits, make advances, and act as bankers ?—Does not that make Major Douglas's statement perfectly correct, cautious, and balanced ?

I am not saying it is incorrect. When I asked Major Douglas what were the limits of the extension of his scheme he replied that the fundamental question was whether it could be provided out of the resources of the country. He says " to the extent " ?—I say that this scheme cannot be extended. The principle of it can be, in which case we cannot discuss it here, because we do not know its machinery clauses.

Mr. Munro.] I have just one or two questions. The first question I want to ask—I hope you will not take it as personal because I think it is going to eliminate a certain amount of prejudice against your movement and I have met with it a lot—is this : In the protagonists of the Douglas Credit proposals we have quite a number of ex-military gentlemen ; Douglas is a major, you are a colonel, our esteemed friend on the Committee a captain. That seems to be creating in the public mind the idea that the members, ex-military members, who are propagating this proposal of Douglas are usurping the place or taking to themselves the knowledge that they are experts and that the expert or so-called economists are not experts. I take it that it is only coincidence ? — No ; it is more than coincidence. I think that there is quite a definite explanation for it, and I may say that I do not resent the question in the least. I think it may clear up the criticism that has been levelled against the movement. I say that there is no section in New Zealand to-day who have been so bitterly affected by this monetary question as the returned soldiers. We have heard a great deal during this discussion of the effect of moving price-levels. These moving price-levels have certainly brought about great loss and suffering. Professor Cassell described the deflation movement as having caused, intensified, and prolonged the greatest tragedy in recorded history ; and I think it does not apply to any section more than to the returned soldiers here in New Zealand. The position was that those men who left New Zealand for overseas made the usual provision with their belongings, and put money in the bank. For each twenty shillings they put into the bank for safe-keeping, there was restored to them when they came back 11s. 3d. in the shape of a deflated £1. They thought, as a great many people have thought, that that piece of paper was £1. Now, in the closing months of the war, an educational move was evolved to induce the returned soldier to become a citizen, a capitalist citizen, and the financial provisions made for him were widely advertised throughout the Forces. When he came back he was offered facilities to borrow £3,000, £4,000, or £5,000 to become possessed of a farm, or £1,200 to £1,400 to become possessed of a home ; and those mortgages accepted in 1919 and 1920 were effected on this deliberate policy, and that indebtedness which in the usual way was £3,000 was deliberately made equal to £5,400 when the financial authorities, raised the note to 19s. 8d. Under these circumstances, the returned soldier was absolutely betrayed. He could not possibly carry on. Now, then, the position developed that there had to be a reorganization. To show what effect that has had—I put this forward not as a matter of sentiment but as an economic thought which perhaps should be understood—this is the position here in Auckland : The returned soldiers are now between the ages of forty and fifty-five years, they are an even cross-section of New Zealand society ; they have settled back into their occupations better than any other ex-soldier organization in history. They have been helped magnificently by New Zealand to the very limit of her powers, and now two-thirds of the returned soldiers are unemployed—that is to say, two-thirds of those men here in Auckland have reached that stage of destitution which enables them to come and ask for relief work. I say this is the most pregnant economic fact that could possibly be disclosed to this Committee, and it is a responsibility that this nation cannot escape. When the returned soldiers, including myself, began to examine why this was so, we began to look for the blame. It was not the fault of the returned soldier ; it was not the fault of the Government or the people ; nor was it the fault of the schemes, which were well thought out. It was because New Zealand had no control over its money system, and a group of men in London have betrayed the returned soldier. Now, that point has been raised, and I appreciate it, because it will help in outlining again what I opened my address with—to give you an idea of the idcology of the movement. I say this is the strongest factor in the Douglas Credit movement, this feeling possessed by those returned soldiers that no matter what it costs them in time, labour, and sacrifice, another generation will never be betrayed as the returned soldiers have been betrayed.

I want to ask just another question. I think it was in answer to Mr. Langstone that you said your movement was not concerned about the question of interest ?—Not definitely. It is not one of our major points. I mention that because a great many monetary reformers can see nothing else but interest. We think that comes more in the realm of social reform.

I wanted to get at that point. So long as you are allowing interest up to 6 per cent., which was in the scheme that Major Douglas presented to the Committee, do not you think that the more money you have in circulation, the greater possibilities there are of people making more money out of it that

way ?—No ; we consider that if money is withdrawn from circulation in that way it will disclose a shortage at the next accountancy period, and it will be made good. As far as industry is concerned, we think that interest-rates have been maintained by the dire necessity of the borrower, who, in order to become capitalized, will pay high interest on loans. Now, by the degree that we can restore prosperity and make it possible for men to live contented and fruitful lives, by that degree will they be unwilling to pay a high interest. It does come within the scope of our reforms, but I do not attach to it the importance that others do.

Well, take it from another angle. The more money (cheap money) that goes into circulation, the more the rate of interest will tend to come down, will it not ?—Yes, that is so.

Then there may be another objection from another section of interests against these proposals, that you will flood the money-market until such time as interest will almost come down to zero ?—We know that that is a very strong objection indeed.

It will have that effect ?—Yes.

Hon. Mr. Downie Stewart.] There is only one point on which I want to ask a question or two. I would like to explain that my reason for confining myself to one point is that—I do not wish to be discourteous to Colonel Closey, because I have been interested in his very earnest and clear statement of the views he holds—in the first place, as Colonel Closey will recognize, this question has been in debate for, I suppose, ten years : 1922 or so it started ?—Not in a concrete form.

Well, at any rate, Douglas moved in the matter about ten years ago, and quite a lot of books have been published by him which are all available to the Committee, and replies and criticisms have been made by various authorities—of various schools of thoughts—all of which are familiar to Colonel Closey. Replies have also come from the Douglas movement, so that the whole ground has been canvassed and gone over again and again. All this is available to the Committee, and I think the Colonel will admit that every question he has been asked to-day has been very frequently asked before at some stage of the discussion. In order to save the time of the Committee and the other witnesses who are waiting to be heard, I shall ask, for my own information, only one or two questions on one point. There is a further motive I have, too ; that it seems difficult to ask questions without appearing to take sides. I have noticed several times, when members are asking questions, that the Colonel appears to assume that they are in an opposite school of economics, and he rightly asks that everybody should keep an open mind as much as possible. I am quite prepared to do that, and to look over what he has told us, in conjunction with the other information available. The point on which I wished to ask for information is purely this : At one stage of the discussion yesterday, Colonel Closey said, "Let us try an injection of purchasing-power for one year." Well, that interested me as a man who is engaged in practical politics. Will you tell me what is the smallest scale or community or group on which you could try out as an experiment the merits of your scheme ? I would like to amplify that question a little. I think it is common ground that your movement is a very powerful one, with a great deal of support, and, with its enormous support, it sprang to my mind that, to save these long years of controversy, if it is possible to apply it in a limited area, where its merits or demerits could be demonstrated without putting so much at stake, it seems to me that is the best thing the movement could do. But to put at stake the whole finances of New Zealand on a policy on which there is such grave difference of opinion between different schools of thought seems to me to be asking a great deal. I want to know, for example, would a community like an island in the Pacific, such as Fiji or Rarotonga, assuming you could make arrangements with the authorities to test out that scheme, with an indemnity against loss if it proved a failure, would that be within the range of your purview ?—No, I am afraid not. In the various authorities, it appears to be recognized that that particular area which is given a political entity is the one where a definite scheme should operate.

Well, you have a political entity say in Fiji, in Malta, in many Crown colonies belonging to the British Dominions ?—Well, unfortunately, the real source of the gain is the releasing of the powers of production which we possess here in New Zealand.

I want to put less at stake than New Zealand, if I can ?—I am disappointed, sir ; I thought you were suggesting that we should try it out here in New Zealand for twelve months.

No ; that was your suggestion. I say, let us try it out on a small scale first. I had hoped that you would give us a detailed plan for this twelve months. I am allowing you the full merit of your plan, and I am proceeding on the statements that have come from all schools of thought, that they regard it as leading inevitably to chaos. You do not agree with that, I know, and I want to get your point of view. You referred yesterday to that, and among the various economists who were quoted Cole's name came up prominently. Cole investigated this scheme in conjunction with such brilliant men as Sydney Webb, a number of English members of Parliament, Sir Leo Chiozza Money, and all these men agreed that it was theoretically unsound and unworkable in practice. You disagree with that ; but, when you follow the whole line of thought of the orthodox school, and they say that it will lead to inflation and loss, does not that raise any doubt in your mind as to the practicability of it ?—The point is that we are prepared to allow the safeguards which other schemes have demanded. For example, we would allow Cole's safeguards, and Blackett's too—that is, a stable price-level.

But, even assuming that, a matter of that sort very easily gets out of hand ?—Not where it is worked upon regular calculations. It could where no other safeguard is employed except a bare observation of price-levels ; but where you have a number determined, then it seems to me that we can go steadily and avoid any detrimental action.

Well, Colonel, my comment on that is this : Though you may set a limit to your scheme, we know that as a matter of practical politics, politics override arithmetical calculations, and under this control scheme pressure will occur to an extent far beyond what you intended. You do not apprehend any risk in that ?—It appears to me that it is not so dangerous or so formidable as what is looming up at present in our position of affairs.

Take it from another angle. The common complaint made against all socialistic experiments is that they are never content to try out their schemes on virgin soil. They always want to build on what the capitalistic system has gradually evolved in centuries of painful experience, and graft themselves on to it, and though they, in fact, may survive for a year or two, it is simply by living on the vitality of the tree they were hanging on to. If your movement is prepared to say, "Give us any place on a small scale where there are no great financial institutions at stake," do you not think you would make more progress ?—No, because this movement is not, as has sometimes been said, a plan for getting something for nothing through monetary adjustment. We are trying to release the inherent wealth in New Zealand, which we think is a colossal amount, and we think that in a simple island community there simply would not be that inherent wealth to release.

But would it not be better to try it out on a small scale first ? It is just like a man building an engine. He builds a model first, as you said yesterday, and then, finding that it works, he builds a bigger one. Would not that stop all these years of controversy ?—Well, it appears from our point of view that the experiments of this nature are being tried out in several countries. I am not sure whether you have received those charts which have come from New York; but it would appear that those experiments are being tried, and if we could get rapid data, we would see what is happening there. We are becoming quite mild reformers.

Would your movement work in a State, such as one of the American States, by itself ?—There is a suggestion that Alberta will probably be the first to try it out, but unfortunately, they have a disbalanced economy.

That is so ?—But they are worse, I think, than we are, because the wheat commodity has been made the subject of a great onslaught by the Russian people. They have a committee there—the Government is almost wholly in accord with the Douglas Credit proposals, and it may be tried there first.

Well, that should be valuable to you to demonstrate the principles of your proposals ?—Except that we have such very great trouble in transmitting to the people the results of these experiments. I wonder how many people in New Zealand know that this analysis sent out to the business men of Auckland says that if conditions in America continue as they are doing now, within twelve months the position will be a 100 per cent. inheritance-tax and no fortune over 5,000 dollars.

That may or may not be so, but the fact remains that as long as this matter goes on it is a matter of endless controversy that has never been put to the test ?—We think that if we grow in the next twelve months as we have in the last, we shall have to seek for the last man to be converted.

You may say that you win before you start, because you are offering a remedy, and the public wants some remedy, and so will grasp at anything. That may be quite possible. I am not disputing that. But the issues at stake are enormous for the future welfare of New Zealand. Assuming that by any remote chance you were wrong, what would you apprehend to be the result of a failure ?—We think the result would be this, as was found out by the Russians: The Russian figures were published up to 1931 and then they were discontinued, and I suspect that their calculations were wrong. There is inflation taking place in Russia. Here in New Zealand, if we began this injection of purchasing-power, the national credit authority might issue too much money. The result would be a rise in the price-level. You will remember that at Ottawa that was decided to be in every way desirable. It may be that the price-level would rise, and that would cause some disturbance in the relationship between creditor and debtor, but it seems to me that it could be checked very quickly. We are prepared to give those safeguards of price-level. In fact, we will do more than that. If there is a sign of this movement taking place at a more rapid rate than we intended, we will be prepared to concede that is a signal for slowing down.

Do you know that the moment people find prices rising, and you step in through your currency to stop it, there will be division as Foster says. Once they find things are running the way they want, nothing will stop them ?—It seems to me that if we cannot trust the people, the world is a hopeless place to live in.

It has been tried again and again, and the whole of history is strewed with the wrecks of such plans ?—You will remember the bank authorities quoted the assignats. Now, it is a curious thing that those bank authorities disclosed how in those days in France inflation did occur through issuing this paper money, but they forgot to mention that included in their monetary scheme were three revolutions.

I do not suggest that your scheme is under the same opprobrium as the assignats ?—No; we would not have the accompanying revolutions.

I want to find out what is the minimum size of the community in which it could be tested ? Could it be tested out in Auckland, without reference to the general economy of the whole Dominion ?—I am afraid not. Blackett says in his plan that action must be taken within the political area concerned, and I think it would have to be taken in that area subject to that political authority.

Well, you have a political area in the municipality of Auckland ?—Well, I am sure we will be very pleased to have the issuing of this surplus purchasing-power.

I want it tried out in Auckland before it is tried out in Dunedin ?—That may be used against you.

Well, it may be. Your people are very powerful down there, but it was one of your own colleagues in Dunedin—and I am not laying this at the door of the Douglas school at all, because it may not be a correct report—who said that the virtue of the scheme is that it can be tried out in a country, in a State, or in an industry. There is an easy task. Get an industry and give them an indemnity, and try it out. But you say that is not possible ?—I doubt it. I would not care to take the responsibility of disturbing our national economy by having a national survey, and then issuing money in one particular area.

What about a place that is a political entity like one of our Crown colonies ? Is there not enough manufacturing there, or what is the difficulty ?—It appears to me that the great trouble here

the cause of this disproportion, is the machine. There is no doubt it comes down to that, and the greater the mechanization of industry the more the Douglas analysis applies, so that if we were to have a simple rural people without this machine equipment, there would not be that inherent wealth to draw upon.

With the enormous backing your movement has, why not buy that machinery and try it out ?—Well, we will leave that.

I believe that is a decoy ?—I am sure Mr. Stewart would be pleased to give us the moon.

I am trying to be reasonable. I think you will agree that the best test of every movement is to solve it by experience, and when you find such writers as I have quoted, and you have quoted with approval, saying that they consider the matter is full of possibilities of chaos, it makes it necessary to try it out on a small scale ?—That report was drawn by a political organization who were rather concerned with the rival claim, and, I think, with the idea of reporting back to that political organization as to whether or not Douglas had an alternative.

Now, this morning somebody quoted an article by H. T. N. Gaitskell, a lecturer at the London School of Economics. You have read it, of course. You will agree that he is judicial and restrained. He tries to find whatever element of truth there is in it ?—Yes.

He says on page 372, " There can be no doubt that Major Douglas's proposals are inflationary, in a sense, and would lead to boom conditions if they could be put into operation without panic." There seems no reason to suppose that they would not also lead to collapse. As another point, he says they are not nearly so inflationary as the public suppose them to be. He is not so unjust as to say that, but if he sees the prospects of either inflation or collapse, would not you think it wise to limit it to the smallest community possible before you try it ?—I would sooner limit it on certain lines of issue. I think we must seek one political entity, and I would suggest that if our figures show that we are £12,000,000 deficient in purchasing-power, let us start with £5,000,000, and after two quarterly periods——

That is granting your premise ?—In that case, the premise we submit to you will be that of Keynes, who suggests that we should, by means of increasing work on the fixed capital investment, distribute the necessary purchasing-power.

But I understood you to say that you did not accept Keynes ?—Not on his borrowing-process. As I said, what appeals to me about Keynes is his idea of the gold certificate.

Well, has the matter been considered on the lines I am speaking of ?—Well, I assumed that, taking these debates which have occurred between R. G. Hawtrey and Douglas, that you accepted Hawtrey's conclusions.

I have great admiration for Hawtrey, but the point is this: As you perhaps know, in America when there is a new play to be produced, they do what they call " trying it on the dog." They go to one of the provincial towns and try it out there before taking it to New York. I want you to try out your proposals somewhere else than in New Zealand ?—I certainly have not thought of it along those lines. I doubt whether we could. I would prefer to carry out the Douglas proposals, and accord all the safeguards necessary. I feel so confident that they will not be called upon.

I have no doubt at all that you would have safeguards in mind, but I am looking at it from the practical point of view, that all safeguards are swept aside once the public appetite is started. I see great difficulty in any machinery stopping it once it has started. I may be wrong, but that is my view ?—Well, we must then devise some political scheme whereby the people are enabled to exercise this most important sovereign matter without that risk.

That is what I cannot solve, as a practical problem. But so long as it is under parliamentary control or popular vote, I apprehend the difficulties will be greater than I think you will allow ?—That is a point I would like to raise. The French philosopher Maurois said that in his opinion the New-Zealander had the highest developed sense of citizenship in the world. Now, if we have that moderation, that reserve (and I think we have an inherent sense of fairness), and if the people of the world are ever to have control of their currency, this is the place where it should be tried.

We can demonstrate that, I think. You will remember that when I tried to curtail borrowing, which is an evil in your view, I got it down gradually so that it would not be too sudden a shock to the people, and, as a result, I was thrown out of office. The public were clamouring for more money; they did not care where it came from, so long as it was available to keep prices and employment going. That is what happened as a matter of practical politics, yet it looks so easy, so simple ?—It appears to me that in that case they were suffering individual hardship in order that collective hardship might be avoided. In our case we would be asking the people to accept prosperity and happiness and not press on to inflation and ruin.

I admit they were suffering a hardship when they got rid of me. But you admit that political factor ?—It seems to me that bold action is necessary in the world to-day, and some nation must say that the people can be trusted with their monetary system; and if there is any nation that is justified, and has earned that right, I think it is the New Zealand nation. I think that the risk is not nearly so great as we took in 1914.

There is one question I am asking. I was not present this morning, but I understand that the scheme put forward by Major Douglas in Wellington is still submitted for approval ?—Yes, it is put forward as what I might term a reconnaissance in force, to procure the necessary information for our economic survey—that is, exactly what are the extent of the banks' resources and their secret profits.

I do not want to go over all that ground again. I do not know whether you happened to read the questions I asked Major Douglas. You agree with his answers ?—They are abbreviated in the news out of shape, but I think those points have been gone over several times.

You personally do not think there is any injustice or hardship in dispossessing people of property that they have been saving up to acquire under the existing system ?—The problem turns on whether we do dispossess them of these assets. We contend we do not; we demonetize them.

It is the same thing ?—We do not think so. Suppose, now, the National Bank here had a building which appears on the balance-sheet at £50,000 instead of its value of £150,000 or its cost of £250,000. If that is monetized and distributed to all the people who have overdrafts—I will try and work out a case where they could get possession of the physical assets. Suppose we went round all these men with overdrafts and collected this extra amount; we then may go and buy the building. We would then get possession of a physical asset.

That was not the question I had in mind. The question I put to the Major was this: A widow saves up an amount and her friends tell her the safest thing she can put here savings into is bank shares. The nominal value is £1 and the market value £4. The question I asked was: Did he not recognize the broad principle that you do not dispossess a person without compensation. That widow immediately finds her shares no longer worth £4 which she paid, but worth £2 or £1 10s. ?—He said that it was a case for special compensation, and I would agree. I would say that the widows, the whole three of them, should be specially considered.

I do not want to go over all those questions again, because, as they stand, the answers are there, and as long as you endorse the Major's answers I will not trouble you further. But there is a minor point that you have no doubt had put before you from time to time. In arriving at this just price, criticism has been raised; if you give a discount of 25 per cent. on a purchase, there is nothing to prevent fraud or collusion between the vendor of the article and the buyer who keeps on selling the thing until the buyer has four or five credit notes of 25 per cent. I have never seen an argument against that ?—That is a machinery defect, and I would say that that applies also to income-tax and sales-tax. It is quite true that people fall, and equally true that when they are found out they are deprived of privileges. The threat would be this: That if any firm were discovered having any connection with fraud, they would be denied that discount. I believe that would be a sufficient deterrent to avoid any fraud.

I think that was asked of the Major in Canada; he suggested he would stamp the article ?—I doubt whether that would be necessary. We have not found it necessary with the sales-tax. I think that difficulty exists in a far greater degree in the sales-tax.

Do you think there is any great truth in the contention that there would be enormous obligations in this process ?—No, I do not.

This writer we have quoted before (Cole) says, "One must add that the technical difficulties of any such price regulation would be enormous, owing to the difficulty of discovering how far the price reductions were or were not genuine, for since the prices considered are those of retail goods, the range and quantity would be colossal and far greater than those which are usually included in wholesale indices" ?—The point is this: You will observe that in my plan I have restricted it to those articles which are necessaries. If it was found, for example, that the discount on coal were likely to be abused, that should be struck out. The objective, I think, is very often lost sight of. We are not concerned with selling the articles, but concerned with getting into the possession of the buying public £7,000,000. We could simplify it.

If such goods are necessaries—such as bread, clothing, boots, vegetables, and so on—would that mean that every time a housewife goes out and buys some cabbages in the market, she gets a credit note for 25 per cent. ?—That would be a case where the bookkeeping would not be worth while. I have just given the range there; I suggest that some of them can be weighted, electricity and others, in order to get this purchasing-power out with a simple system.

I could understand it if it was on a truck of vegetables, but then that is no benefit to the housewife. She wants to get it on the actual purchase ?—The point would be that the month's receipts, stamped and possibly initialled by the vendor, would be presented to the national credit authority, and the retailer would be the recipient of 25 per cent.

You do not apprehend that with all these enormously detailed regulations it would mean—— ?—If we found that any particular line was giving trouble, just cancel it. The objective is to get the money into circulation. We chose those necessaries on account of their assistance to the general public, but if any were found to be a trouble, we would fire them out. We can apply it to very much fewer lines.

I do not want to go over that any more, but I would like you to consider and be able to tell us more clearly what would be the effect if the scheme failed. Do you consider that the recovery would take fifty years or a matter of twelve months ?—I would like to revert to the point of failures in the past. I challenge that there have been failures where there are not some other outside influences. I believe that we are a balanced community with a high sense of citizenship, and we are a slow-moving people politically. I believe we could put this through and hold the people on to a certain line, and the first development as predicted by our critics would be a rise in price-level. We would be so relieved at the recovery that we would cheerfully submit.

As soon as prices begin to rise, you stop the issue ?—Check it down.

Is not that exactly the same as the banks do; but to the extent to which you check it down, you stop the process ?—Yes. Suppose we reach a level of prosperity with all the unemployed back to work again and paying their rent, and when we are utilizing our resources fully, we may then have to call upon the people to retard a little of their prosperity. I think New Zealand is suffering quite a large amount of sacrifice willingly; I believe that if they were told that this increased prosperity must go at a slower rate, there would be nothing but complete and cheerful resignation.

Reference is made as to whether this would work all the time. You are a colonel and I am a lieutenant. How would it do if we started at Kawau to see how it works. You would be in charge ? I want an island to try it on.

Mr. Massey.] In addressing the Committee yesterday you made many statements, some of which have been answered by Dr. Sutch, but one or two have been left out. Probably the speech that you have delivered to this Committee yesterday has been delivered on previous occasions; is that correct ?—No; not on those lines.

Very well. I want to draw your particular attention to one statement you made: You mentioned a little while ago that as far as New Zealand is concerned, New Zealand will get further into the mire, or words to that effect, than what she is at the present time?—I would like to quote Mr. Downie Stewart when he returned from London. He said, "If the commodity price-level did not rise, New Zealand could not pay her way."

I am afraid that that is no answer. We are looking for information?—You do not accept my authority? Then I say, if this is satisfactory, that I consider New Zealand cannot pay her way on the present world prices of commodities, and I say there is no indication in the world to-day to show that the price-level will rise.

Dealing with the world price-level: The world price-level or the price-level of Great Britain has increased considerably during the last few months in respect to certain commodities which are exported from this country. Is that correct? Wool, meat; you mentioned one commodity yesterday when you said "farmers' hides" were unsaleable. I know you did not mean that term?—The local ones are too thick.

But you will admit that as far as cattle-hides are concerned, they have increased enormously during the last twelve months?—Exactly, since the Americans began to put the price up.

Nevertheless, the increase is there. There is an increase for lamb; just before Ottawa lamb was 4d. per pound; to-day it is about 7½d. The same thing applies to wool, only to a greater extent. I just want to bring you back to that point of the statement you made yesterday; you said you would inject further credit and further moneys into New Zealand industries. You mentioned public works. You gave us an illustration of just exactly what is occurring in Auckland. You said there are only five large concreting-plants in Auckland and they are all lying idle?—There are five complete roadmaking plants in Auckland.

And are all lying idle?—Yes.

Have you been along the Great South Road lately?—Yes.

Is there not one operating there?—There are still five which have not worked for two years.

The impression you created in the minds of the Committee yesterday was that none of these plants was operating?—How long has that one been going?

The fact remains that they are starting, and that we are gradually recovering?—I think I pointed out that Keynes said, "The mists are lifting, and disclosing the gulf ahead."

How long ago did Mr. Keynes write that article?—September, 1933. The League of Nations said six weeks ago that there was no indication of a rise in price-level. They pointed out that England's trade certainly is rising. She has stolen the South American steel trade from the United States; she has taken the motor-car export from the United States; she has also taken Belgian glass, Polish coal, and German ship-building, and this League of Nations report says that those nations have made a tremendously greater loss in their export business.

Are conditions in Great Britain improving to-day?—In the southern areas they are improving. In cotton they are hopeless. They have lost five-sevenths of their trade, and I think that within a few months their woollen trade will receive the back lash from Japan.

The back lash—how do you mean?—Japan took 3,000 bales of wool in 1930, and 639,000 bales this year. She is now making plans for the capture of the English woollen trade.

I notice there is some difference of opinion about the schemes submitted by Major Douglas to the Committee for consideration and the opinions you have expressed. You say, in effect, that money and credit is the most important item or factor in any industry?—It is, to-day. It is the key to our present depression and the key to our recovery.

Then you followed that up and made a statement that the planning of industry is very essential?—I did not make that as a primary statement, but I agree.

Now, Major Douglas when he landed in New Zealand said that planning was no solution?—I agree; we must have a monetary instrument before we can plan.

But I put it to you: Is not this monetary business only one factor?—The key factor.

Probably it may be the key factor, but what is the use of a key if you have not a door to put it in?—The doors are there, in the first paragraph of my series. "The science of production throughout the world has excelled its plan, but is crippled by a faulty monetary machine." You accept that, do you?

What is taking place in Germany and France to-day? Have they not got complete embargoes against the importation of milk-products?—What kind of products?

Milk-products?—That is to develop their internal husbandry. That is not confined to Germany, and it brings us back to your first point. The whole of the nations of the world are erecting walls to protect their peasantry, and that is the German plan.

This is the main point I am trying to make: You have already admitted that the planning of industry is very essential. That is entirely different from the opinion expressed by Major Douglas?—I do not think so.

He made a statement which was published in the press that the planning of industry was no solution?—Without a monetary plan.

Was no solution, and I am trying to draw your particular attention to the fact that there are other considerations which must be taken into account?—Would you recommend putting a wall round our peasantry?

Decidedly not, but I want to follow it up. Supposing the British Government were to suddenly place an embargo against the importation of milk-products from New Zealand; what would happen to New Zealand?—A general election.

But that is no answer to the question?—There are other things. There would, of course, be a complete paralysis here and there would have to be a reconstruction of all our import sources.

Perhaps it may not be so great a disaster as you might think. I think, if our goods are of sufficient quality and in the right volume, we can find markets somewhere.

Where do you suggest we would find those markets ?—Wherever we chose to purchase our wants.

Then the introduction of the quota system in connection with dairying products in New Zealand would not be so bad as the public seem to think ?—I think the quota system in New Zealand will mean the utter breakdown of our efforts to meet financial obligations, and I think this present system of a subsidy in London is probably as serious as the quota. It means that the price-level now will not rise.

I am very glad to get that admission ?—An admission ! It is a claim !

Exactly. I have made that claim already myself. That brings me to another point : In New Zealand we have a central banking Act which will be put into operation shortly. Under the provisions of that Act we will be able to control our own currency in our own country in our own way ; is that correct ?—No ; because you will observe that the powers of the Governor and Deputy Governor represent practically the administration and the control of the bank. The basis of the money is sterling balances, and those are dependent upon the United Kingdom price-level.

How are we paid for our exports to Great Britain ?—After a deduction for our financial commitments, we receive back the balance of imports.

Yes ; and the balance ?—That is the balance. After we have satisfied our commitments in London, the remainder we get back in imports.

We are actually paid on the balance in British sterling : Is that correct ? That is to say, we receive imports back for the balance ?—Yes.

Then there is a slight balance ?—A small one, yes.

We are paid in British sterling ?—Yes—that is to say, funds are realized by the sale of our produce and utilized to pay for imports into New Zealand.

Our products pay for goods ?—Yes.

You said that you would inject currency from certain avenues. Australia adopted a system some years ago of pegged exchange ; was that artificial or was it the correct value ?—It is a controversial point. The Bank of New South Wales said it was the natural exchange-rate.

It represented the natural exchange-rate ?—From the movement of funds to and from London.

As a result of the increased exchange, primary production increased enormously in Australia ?—I do not think that is cause and effect. It increased in New Zealand. It increased, too, in other nations where they had not such a barrier.

Nevertheless, the fact itself remains that primary products in Australia, more particularly butter, increased enormously during that particular period, and that butter was subsidized under the Paterson scheme ?—That increase in butter was at the expense of other products, but I yield that point—there was a big increase.

It was largely as a result of the increased price which was provided by the injection through pegged exchange of additional credit ?—Yes, I think so.

Coming to New Zealand, what is the position here ? When the New Zealand Government about eighteen months ago pegged exchange at 110, was it a direct value or an artificial value ?—Somewhere near the natural rate.

Are you certain it was not below ?—I would not be dogmatic about it, but the opinion was that it was somewhere round it.

I presume you have studied the subject ?—Yes, I have.

The question I am going to put to you is this : Is the present rate—the pegged rate in New Zealand—an artificial rate or not ?—Yes, it is.

In your opinion, should it go higher ?—No.

Seeing that we have given up borrowing in London ; seeing that our imports are increasing at the moment ?—Are they ? Not to my knowledge.

Very much so ?—They are nothing like they should be to preserve anything like a balance.

Seeing that we have given up borrowing, and seeing that the imports are increasing enormously, and seeing that you have studied the subject, do you not consider that the present rate of 125 is low ?—No ; because the proof of equilibrium is the fact that sterling balances should be zero. The fear of the importers is that it might move, but it is not a natural rate by reason of the disproportion of funds.

Do you not consider the easiest way of putting additional credit into the pockets of the people of New Zealand is by medium of that exchange-rate ?—No ; that does not place extra purchasing-power in the possession of the people of New Zealand. It enhances the New Zealand ratio of money which comes to New Zealand. The first people to get it are the bankers ; the next are the stock and station agents, and the residue reaches the farmer and through the farmer it goes to some one else who does not hold it very long. That represents a very small proportion of the money which comes from England. On the other hand, the importer has to face the full embargo of 25 per cent. The exchange-rate, to my mind, is a manifestation of the price movement, and should not be used to correct that difference.

Dr. Sutch.] Imports have not gone up 25 per cent. in price ?—They are yet a long way down from what one would expect.

Imports have increased enormously during the last two or three months. I have not the paper here at the moment, but the last issue of the *Abstract of Statistics* clearly shows that the amount of money lying on fixed deposit in the commercial banks has increased enormously during the last two years as compared with, say, 1928. Does not that go to prove that there is any amount of money there ? It is purely a question of getting it into circulation ?—There is more than money ; there is unlimited credit, but they want to have something safe and stable to lend on, and the prospect of immediate repayment.

And, in your opinion, if it were possible to plan industry in such a way—I presume you agree with the planning of industry ?—Yes.

So that we could lift the price-level for the commodities that are shipped overseas, it must have a decided effect on the taxpayers of the country, speaking in general terms ?—What is the project ?

To try and lift that overseas price-level ?—Unfortunately, we cannot. We have no influence whatever on the English price-level.

I admit the point, and a very decided point ; I quite agree. But we can work in co-operation with those who control Great Britain and as a result of the planning of industry, as a result of the agreements arrived at in Ottawa, the price-level for certain commodities increases enormously. You agree with that ?—What was it the result of ?

The Ottawa Agreement, the planning of industry ?—Do you attribute that to the Ottawa Agreement ?

Yes, partly. As far as Great Britain is concerned, she is placing quotas against foreign countries. I think you will agree that, so far as we in New Zealand are concerned, we must take notice of what is going on outside New Zealand ?—I wish more people would.

I quite agree with you ?—You think, then, that there is a prospect of the English and world price-level rising ?

I am putting questions to you ; we are here to judge ?—I was wondering what your intentions were. I have quoted the League of Nations' report showing that it sees no signs of recovery.

The cheques for New Zealand wool this year will be more than double ; the cheques for New Zealand lamb will be near enough to double. Probably the increase in the price-level in Great Britain will show that we will actually ship in meat and wool quantities which will provide possibly £10,000,000 more as compared with last year ; is that correct ?—Yes. Is that world recovery ?

I am talking about Great Britain ?—I have pointed out that Great Britain has made several raids upon foreign trade and to that extent she has benefited and we are benefiting as a result, but I cannot see any prospect of general world recovery.

Captain Rushworth.] The Hon. Mr. Downie Stewart was concerned about the risks of trying the experiment here in New Zealand. Do you know anything of the risks that President Roosevelt is taking in the United States ?—Yes.

They are very considerable risks, and he is going a great deal further than any suggestions that have been advanced by Major Douglas so far as this country is concerned ?—Incomparably so.

Forty-eight sovereign States, each with their own independent legislators, he is endeavouring to plan and monetize in a variety of ways ?

Hon. Mr. Downie Stewart : Let us see how he gets on before we risk it.

Captain Rushworth.] I was only suggesting that a degree of caution was being advised that was not justified by the circumstances at the moment. Reference has been made to the A plus B theorem. That was really the mathematical proof of a shortage of purchasing-power ?—That is so.

Is it seriously questioned that there is a shortage of purchasing-power ?—Apparently not ; but they are disturbed at the way in which it is put forward so accurately.

So the A plus B theory is a dead horse once it is recognized that there is a shortage of purchasing-power ?—Yes. I might say that the only thing it rests upon is whether after two years of prosperity the A plus B theorem will be proof of this gradual injection being necessary.

Another point was made as to the origin of the statement that the national income had fallen. The last Budget of the Hon. Mr. Downie Stewart was responsible for indicating that the national income had fallen according to the taxation returns from £150,000,000 to £90,000,000 ?—Yes.

That the fall in the national income was £60,000,000 a year. That is the origin of that statement which has been made ?—That is correct.

The impression was that that suggestion had been fabricated.

Dr. Sutch : Not at all. I knew where the statement had come from. I wanted to know where the money had gone to.

Captain Rushworth.] We have been asking that question for years. Columbia University has been referred to. Dr. Rauchenstrauch issued a formula some few months ago showing that in the United States the population is increasing as a square on the increment of time ; that production is increasing as a cube on the increment of time ; and that debt is increasing as the power of 4 of the increment of time. That was put to Major Douglas, and he agreed that that probably represented the ratio throughout the western civilization. Do you draw any deductions from the fact that debt is increasing so enormously ?—It is, in effect, that the monetary machine is not working correctly ; it is a sign that our purchasing-power is being derived as a loan from the monetary authorities. I might add that there was a further line which is that the employment of labour is decreasing as the square root of the increment of time, which brings about our unemployment problem, declared even here in New Zealand to be insoluble.

For some time past nations and individuals have been carrying on by an ever-increasing load of debt ?—That is proved by history.

What would be the effect on world affairs if an international loan of, say, £20,000,000,000 were to be floated on the moon and we were to shoot off all our surplus products to the moon ?—The need for Douglas Credit would be avoided.

That would be the only solution of the present system ?—I may say that Dr. Nicholas Butler made use of that expression, and said the world is bankrupt, and will not call the receiver in.

Reference was made to the fact that Major Douglas said that the Bank of England paid a dividend of 6 per cent. Dividends can be calculated on the nominal capital, the subscribed capital, the paid-up capital, or the market price of the shares. Each one would be different ?—Yes.

The suggestion advanced by Major Douglas was that the amount of profit by the banks should be limited to 6 per cent. You know that under the Reserve Bank of which we have heard a good deal lately the profits are limited to 5 per cent.—Yes.

On the question of that Reserve Bank, the bank, as established by law, has to operate on either gold or sterling balances ?—Yes.

So whoever controls the gold or sterling balances controls that bank ?—That is a serious point.

And the question of control is one to which you draw attention ?—Yes, as a danger.

You have studied the monetary question pretty widely ?—Yes.

You think that the Douglas analysis is the best diagnosis of the problem ?—I think that it is, and I believe it has cleared up more trouble in the financial investigation than any other discovery I know. It fits the case everywhere.

If you knew of any better explanation you would accept it ?—Undoubtedly.

The Chairman: I hope you will not think me discourteous in not asking questions, but we are short of time, and I must remember that another witness has been waiting here since 9.30 a.m. I want to point out that while questions have been fired both ways, I do not want you to go away with the idea that any of the members here are biased. When we sit here as a Monetary Committee we simply wish to get the views of other people, and it is only natural that the Committee should ask questions both for and against. I want to thank you for your contribution, and I would like to take the opportunity of congratulating you upon the way in which you have championed your cause and also for the ready way in which you have answered all the questions put to you.

Colonel Closey: I would like to make an explanation, too. Possibly I might have displayed a certain aggressiveness in answering questions, but it is a military rule that if you can upset the mental equilibrium of your enemy you have won 75 per cent. of the battle.

WELLINGTON, MONDAY, 23RD APRIL, 1934, AT 10.30 A.M.

First statement submitted by Mr. H. I. FORDE.

Non-monetary Factors in the Depression.

My object in placing evidence before the Committee is to draw attention to phases of the economic situation which are non-monetary. The point I wish to bring out is this: So long as there are non-monetary factors in any depression, a purely monetary solution will not be sufficient to restore economic and social equilibrium. In times of prolonged industrial depression, it is perhaps natural that men should single out some factor in the tangle of economic difficulties and make it the scapegoat of the world's improvidence. When times are good the average man does not concern himself with social or economic phenomena, but when times are bad he looks round to see what has hit his purse or his stomach, and, not being sure through unfamiliarity with human vicissitudes, seizes upon the first plausible explanation that comes his way. To-day the monetary theorists are in full cry, and their panaceas are attracting widespread attention. One does not wish to discourage them, but, at the same time, I think that it is only right to point out that there is a danger of their diverting the public mind from the harder and more complicated solutions of our difficulties. As the English economist, Mr. Dennis Robertson, has put it in his criticism of Major Douglas during the course of a B.B.C. Broadcast debate:—

> When I heard Major Douglas declare that if his proposals were adopted poverty and the fear of poverty would disappear for ever from this country, I felt as sorry as I should if I heard somebody who set up as a medical expert make the same claim about disease. For I believe that his assertion that the difficulties of the world are in essence mere book-keeping difficulties, which he knows how to solve, has done much harm in spreading false ideas and raising false hopes in the breasts of many sincere and well-intentioned people. . . . Though I am not myself a Communist, I have some sympathy with those who reject Major Douglas's proposals, because they hold that drastic changes in much more fundamental matters than the mere machinery of credit will be necessary to put things right.

Another pertinent comment on this point comes from the Socialist economist, G. D. H. Cole, who states,—

> Money, being by tradition something of a mystery, lends itself readily to mystifications and plausible jugglings with formulæ guaranteed to set the world to rights. There are, however, strong reasons for holding that, while there is plenty wrong with the existing monetary system, the evils of the present order go far too deep to be cured by any alternative method of monetary management.

It is not my contention that the economic depression is purely non-monetary and that monetary reforms are not necessary, but my endeavour is to place before you some of the factors that seem to have been left too far in the background during this inquiry. I wish to make it clear also that I have endeavoured to take a positive rather than a normative viewpoint, because I believe that it is better to find out all the facts before formulating any theory, rather than set up a theory and then fit in the facts. The only suggestion I am making is that there should be a central control for all the financial institutions (both public and private) for the purpose of achieving a unified policy for the Dominion. I will deal with this question later on.

One of the difficulties one encounters in studying economic phenomena is the lack of complete data in some of the vital aspects of the problems which are confronting us to-day, and this, plus the complexity of many of these questions, makes one very diffident about dogmatizing either as to what has really happened in the past or what will happen in the future. Even the Russians, who have more control of their economic system than any other country, confess that they have obstacles to overcome. Surely, then, a system like our own which is a mixture of control and free play, is even more difficult from the viewpoints of both the diagnostician and the prophet. Economics does not offer any complete formula for human activities, because it is only one of the social sciences. Thus it would seem the height of absurdity to take one aspect of economics, the monetary aspect, and contend that here is the missing link between poverty and prosperity. Such a contention would necessarily assume, for

instance, the infallibility of politicians, and I think that the members of the Committee would be the last to claim that attribute. For the purpose of illustrating the complexity of the economic situation I wish to place before the Committee a summary of some of the findings and opinions of some of the men who have made a comprehensive study of conditions around them. These men have various shades of political thought from individualism to Communism, and without exception they hold the view that there are salient non-monetary factors as well as monetary in the present unfortunate situation. Some even go as far as to say that the non-monetary factors are the basic causes of our troubles and that the monetary factors are only symptoms.

In his book "Planned Money," Sir Basil Blackett, a director of the Bank of England, stresses the importance of planning in the particular field of money and finance, and he contends that planning is hardly conceivable under a monetary system in which the general level of prices is subject to violent fluctuations. It is particularly significant, however, that in his opinion "a stable price-level is impossible without planning in other economic fields." In other words, Sir Basil Blackett recognizes that mere monetary manipulation is not sufficient to carry out his planned money proposals.

In an article in *The Times*, Hartley Withers, a former editor of the *Economist*, in dealing with the theory that our present difficulties are purely monetary, states,—

> This argument includes (*a*) the assumption that production has increased in an orderly and symmetrical fashion—which is very much open to question, since, if that had been true, the fall in all prices would have been approximately equal; (*b*) a statement—that there are no observable impediments, physical or moral, to the exchange of commodities—which ignores the existence of new and higher tariffs, economic nationalism, war debts, political disturbances, and many others that might be mentioned; and (*c*) another assumption, that gold went to the United States and France merely because the central banks failed in co-operation. The Federal Reserve Bank and the Bank of France were condemned as guilty of all mischief without any inquiry as to causes, possibly beyond their control, which may have sucked gold into their vaults against their will. If business men are always going to be alarmed and nervous when gold in any quantity leaves their country, central banks are forced, in spite of their better judgment, to indulge in that gold scrambling and gold-hoarding which may have contributed to the present crisis and accentuated the effects of the far deeper and wider causes that produced it.

Professor Friedrich A. Hayek, Tooke Professor of Economic Science and Statistics in the London University, has also some pertinent remarks on the same point. He says,—

> It is a curious fact that the general disinclination to explain the past boom by monetary factors has been quickly replaced by an even greater readiness to hold the present working of our monetary organization exclusively responsible for our present plight. And the same stabilizers who believed that nothing was wrong with the boom and that it might last indefinitely because prices did not rise, now believe that everything could be set right again if only we would use the weapon of monetary policy to prevent prices from falling. The same artificial view which sees no other harmful effect of a credit expansion, but the rise in the price-level, now believes that our only difficulty is a fall in the price-level, caused by credit contraction. There can, of course, be little doubt that, at the present time, a deflationary process is going on and that an indefinite continuation of that deflation would do inestimable harm. But this does not, by any means, necessarily mean that the deflation is the original cause of our difficulties or that we could overcome these difficulties by compensating for the deflationary tendencies, at present operative in our economic system, by forcing more money into circulation. There is no reason to assume that the crisis was started by a deliberate deflationary policy on the part of the monetary authorities, or that the deflation itself is anything but a secondary phenomenon, a process induced by the malajustments of industry left over from the boom. If, however, deflation is not a cause but an effect of the unprofitableness of industry, then it is surely vain to hope that, by reversing the deflationary process, we can regain lasting prosperity. Far from following a deflationary policy, central banks, particularly in the United States, have been making earlier and more far-reaching efforts than have ever been undertaken before to combat the depression by a policy of credit expansion—with the result that the depression has lasted longer and has become more severe than any preceding one. [This was written in July 1932.] What we need is a readjustment of those elements in the structure of production and of prices which existed before the deflation began, and which then made it unprofitable for industry to borrow. But, instead of furthering the inevitable liquidation of the malajustments brought about by the boom, all conceivable means have been used during the last three years to prevent that readjustment from taking place; and one of these means, which has been repeatedly tried though without success, from the earliest to the most recent stages of the depression, has been this deliberate policy of credit expansion.

He further states,—

> To combat the depression by a forced credit expansion is to attempt to cure the evil by the very means that brought it about; because we are suffering from a misdirection of production, we want to create further misdirection—a procedure which can only lead to a much more severe crisis as soon as the credit expansion comes to an end.

Professor Hayek also makes the point I made earlier that we must be painfully aware at the present time that we really know little of the forces which we are trying to influence by deliberate management. If some of us knew the difficulties in the way of commodity indices and other things that are glibly talked about by those who have never endeavoured to compile them we would be more guarded in our reference to them.

I would like also to draw the attention of the Committee to the resolution adopted at the annual meeting in July last at Lausanne of the International Commission of Agriculture, which claims to represent the combined views of national agricultural bodies in many countries. This resolution, which recognizes that mere monetary manipulation is not the way out of economic depression for the farmers, is as follows:—

> The general assembly considers that a judicious organization of production and exchange will constitute one of the most effective means for fighting the agricultural crisis and establishing the prosperity of nations on a new basis. The first step would be to substitute orderly marketing, through the agency of associated bodies, or by means of systematic State-controlled quota import arrangements, for present unregulated offers of large quantities on world markets.

This resolution may at first sight appear to be irrelevant to the inquiry. I submit that it has a direct bearing on the point I am endeavouring to make—that factors other than monetary must be taken into consideration in formulating a plan for reconstruction.

In a paper on world economic planning, Dr. Max Lazard, a French economist, laid stress on partial overproduction, and contended that this phenomenon was a substantial factor in causing a fall in price and a paralysis in trade. In a particular enterprise it can be explained as due to an error of judgment of the director or some other cause, but it is more difficult to give a definite diagnosis when it comes to general overproduction. Nevertheless, experience of recent years makes it difficult to deny that overproduction in more than one industry occurs from time to time and aids the movement from prosperity to depression. Particularly was this so in America prior to the 1929 crash.

One of the points stressed by Dr. F. C. Benham, of the London School of Economics, is the immobility of labour, and surely this is a factor in New Zealand where we have so much seasonable labour. It is certainly a problem in Great Britain where we sell most of our produce. Dr. Benham estimates that of every sixteen unemployed in Great Britain, the idleness of five is attributable to the familiar causes of maladjustment in the labour market; six to conditions peculiar to England after the war; and five to the general economic crisis.

An interesting view is that of one of the Russian economists, Mr. Valery Obolensky-Ossinsky, who, when addressing an international gathering stated:—

> Anarchy of production and the circulation of commodities, finance, &c., and the divergence between producing and purchasing capacity are not isolated phenomena. They cannot be removed separately, while the whole complex of conditions, which for the past hundred years has inevitably and constantly given rise to these, is preserved.

From this point he develops the Marxian theory of surplus value, and I think that at this point I will give you the version of G. D. H. Cole, who is not a Communist, but who holds that Marx's theory is valid. His contention is:—

> There are strong reasons for holding that, while there is plenty wrong with the existing monetary system, the evils of the present order go far too deep to be cured by any alternative method of monetary management. For, in the first place, despite the assertions of some of the monetary reformers, there is under capitalism no persistent shortage of purchasing-power in relation either to the volume of goods on the market or to the productive power of society. There is, on the other hand, a tendency to alteration between an excess and a deficiency of purchasing-power, corresponding to the alternate expansions and contractions of bank credit. In booms credit is expanded, so far as to raise prices without a balancing expansion of output, while in slumps its effective use is so far curtailed as to cut off demand and cause production and employment to be seriously reduced. That this is a grave fault in the present mechanism of the monetary system is clear enough; but whence does it arise? It is due at bottom not to a purely monetary cause, but to the inherent instability of the capitalist system. Bankers cannot effectively create money unless there is a demand for it; and the business demand, under Capitalism, can arise only from the expectation of being able to use it at a profit. For the most part the bankers in creating more or less money, are following, and not initiating, the rise and fall of profit-seeking demand for the capitalist entrepreneurs. It is, of course, true that, at the present, a deliberate attempt is being made to bring back prosperity in the United States by means of monetary reflation, and that bankers can do something, by the mere emission of additional credits, to give an impetus to business optimism and trade revival. But the events in America during the past few months sufficiently show that, if a forward movement generated by these methods is not speedily to collapse, other forces besides the emission of more money must be brought into play. . . . This endless cycle of capitalist boom and depression is often exaggerated by bad banking policy; but what lies at the root of the trouble is not the mismanagement of the monetary factors, serious as it is, but the inability of capitalism to provide at one and the same time a sufficient profit incentive to get all the productive power which will enable consumers' demand to expand in due proportion to the advancing productivity of the economic system.

Witness: Mr. H. I. Forde.

Mr. Forde: In my first statement I endeavoured to point out a number of non-monetary factors in the depression and to support those with quotations from various authorities who had made a deep and comprehensive study of the position. In the second statement I have gone a little bit further with that point, and after quoting further authorities have endeavoured to develop one of the non-monetary theories which are concerning us at the present time. My second statement reads,—

"A formula much wider than monetary reform is offered by J. A. Hobson, who, in his book 'Wealth and Life,' gives an economic framework for a conception of the progressive welfare of humanity. His conceptions are—'(1) Increasing productivity by improved control over nature and better human organization of economic activities; (2) an equitable and wasteless system of distribution of the product of economic activities; (3) improving arts and standards of consumption with their reactions upon productive processes; (4) such control over the quantity and quality of populations as is attainable with better knowledge of strains and racial values, and increased willingness to accept such controls.' Sir Arthur Salter in his preface to H. V. Hodgson's 'Economics of a Changing World,' states,—

> "At this period we halt between two systems, suffering from some of the defects of each and failing to get the full advantages of either. The old automatic system which effected adjustments through changing prices in a field of free competition has been impeded and obstructed by a hundred forms of control; but control does not include deliberate planning which is the alternative method of adjustment. We must either re-create the conditions under which the first will again operate without intolerable waste and injustice—which I personally believe to be impossible—or we must substitute the opposite system, as, for example, it is being tried in Russia, with both economic and political consequences which most of us contemplate with grave misgivings; or—which I believe to be the right course—we must construct a new system which will combine the advantages of both the opposite extremes. We must place private enterprise within a more intricate and skilful framework of control and planning. This I believe to be both practicable and advisable, and to constitute the distinctive and fundamental task of our age and civilization.

Professor A. C. Pigou says, 'Optimistic error and pessimistic error, when discovered, give birth to one another in an endless chain.' Professor Schumpeter declares that innovations—inventions and so forth—come in waves and initiate periods of activities and depressions. The late Professor Thorstein Veblen saw an inevitable circular motion in prospective profits, governing the actions of business men

who have in their hands the conduct of the money economy. J. M. Keynes holds that the price-level of consumable goods changes in the relation of saving and investment, as effected by the rate of interest, and he also adds, in his 'Essays in Persuasion,'—

"The pace at which we can reach our destination of economic bliss will be governed by four things—our power to control population, our determination to avoid wars and civil dissensions, our willingness to entrust science with the directions of those matters which are properly the concern of science, and the rate of accumulation as fixed by the margin between our production and our consumption—of which the last will look after itself, given the first three.

Professor Todd, in his latest book, 'The Fall of Prices,' suggests that this latest fall is to a large extent due to the Wall Street crash and its world-wide repercussions. Mr. R. G. Hawtrey has put forward the explanation that when the banks have large reserves they reduce discount-rates, and thus encourage borrowing and business expansion, which grows cumulatively until the banks find that larger cash requirements are impairing their reserves when they adopt a restrictive policy. This list is by no means complete, but it serves to illustrate the number and deviation of the various theories current. I have purposely not inflicted the Committee with the non-monetary factors enunciated in the Macmillan report, as I understand that they have already been placed before the Committee, but, as the Committee is confronted with a similar inquiry to that undertaken in England, I would like to direct attention to the final paragraph of the first chapter in that report: 'While the non-monetary causes which have contributed to the present distress, strictly speaking, fall outside the scope of our inquiry, we have found it impossible to avoid some discussion of them, for it is only by estimating their effect that we can arrive at some delimitation of the sphere of action of monetary causes properly so-called.' I will now proceed to outline some of the salient non-monetary factors which the currency reformers blissfully ignore in their fervent search for convenient facts to fit their theory. In the first place there is the political factor. One has only to read J. M. Keynes's 'A Revision of the Peace Treaty' to realize the big mistakes that were made by the politicians at Versailles: and these mistakes have not yet been rectified. The British notes to America were further ample evidence of the economic consequences of the war. The remaking of political frontiers and the redistribution of colonies has also had undesirable economic consequences, and it may be many years before these are obliterated. As I have stated above, politicians are not infallible, and if they make mistakes they can cause as much damage as even bankers. What is more, they hold their positions, perhaps less so than formerly, at the will of the people, and because they displease the people they are frequently displaced. Every change of Government whether for better or for worse causes disturbances, and no one can reasonably deny that these changes and disturbances have not been frequent during the post-war years. The war was also responsible for several other severe repercussions. It was responsible for a swift change in the relationship between debtor and creditor countries. Before the war London was the financial centre of the world, but after the conflict her place was disputed by New York, which had become the financial centre of a creditor instead of a debtor country. The losses and interruptions of the war had the effect of unbalancing industry and finance, and, owing to the comparative immobility of labour, there have been serious unemployment problems in the countries most affected. In my opinion the effects of the war are yet with us and cannot be discounted in any part of the world which has international trading relations. As Professor Henry Clay has pointed out, England's industries before the war were able to adjust themselves bit by bit to the 'new competitive conditions with which they were faced by the growth of modern manufacturing industry in other countries.' But the war 'interrupted this normal piecemeal and day-to-day adjustment to changing conditions.' The countries involved in the war were thrown out of line with the long-run trends of world-wide economic evolution. Moreover, the war and its consequences changed the direction of these trends, and the leading nations of Europe found themselves out of touch with world forces. The story of post-war international investment has been vividly told by Sir Arthur Salter in his book 'Recovery.' The sudden failure of international investment in 1929 was every whit as powerful a determinant of the subsequent economic catastrophe as the payment of war indemnities or the uneven distribution of gold reserves. Moreover, it exposed flagrantly the folly of some of the lending that had been made, since debtor countries were left with obligations which under no reasonably probable circumstances could they possibly redeem, and which forced upon them policies of deflation bound to prove disastrous to the whole world economy. These debtor countries had to adjust their balances of trade to new circumstances, and the adjustments had to be made by deliberate and painful devices like prohibitive tariffs, dumping, organized wage-reductions, and international price warfare. The different rates of recovery from the war have also deeply affected practically the whole of Europe. It will be remembered that the United States of America obtained a flying start after the cessation of hostilities, and for a while she practically had the markets of the world at her feet. Her industries were capitalized on a most optimistic basis, and the measure of prosperity she enjoyed led to an unjustifiable elation. America's desire to become the workshop of the world was one of the reasons for the tariff walls which were erected by those countries experiencing a more slow and painful recovery. During the war also the world consumed a great deal of its capital. There was a general shortage and high prices. This situation led to feverish activity, and in no previous period in the history of the world has science aided human effort to a greater extent. There were rapid technical changes in both the manufacturing industries and agriculture, and these have led to swift changes that no monetary system could cope with. New types of manufacture and new processes of industry have had a mushroom growth, and those countries in the best position to take advantage of these have made tremendous progress. The cotton and rayon industries are examples of this change. They gave an opening for Japan to become a world competitor. Japan was not hampered with past expenditure on obsolete or obsolescent plant, and was able to take full advantage of the new fruits of science which destroyed to a large extent the traditional ability of the operatives of the older countries manufacturing these commodities

and made the automaton as efficient as the skilled workman. With all these productive resources at their command, is it any wonder that the entrepreneurs in a number of industries overestimated their market? Let us take a simple illustration: There is a market for motor-cars at a profitable price. An entrepreneur sets out to supply that market and he meets with success. His good fortune attracts others into the field, and there is then a race for the market which begins to weaken because of the shrinking demand. There is a price war, and perhaps another stimulus of the market through advertising, more intense salesmanship, and lower prices. This gives further encouragement to the industry, and then the market falters again. The smaller output at the lower price results in losses and whole factories are shut down. The employees in these factories are no longer able to maintain their purchasing-power with the grocer, the butcher, and the draper, they become behind in their commitments, and the effects of their dismissal spread like a ripple on still waters. This case is hypothetical, but concrete instances of parallel cases are cited by various economists and others who have made researches into post-war industrial trends. There are illuminating examples in Stuart Chase's 'Men and Machines' and F. Henderson's 'Economic Consequences of Power Production.' The main trouble is that the entrepreneur is frequently governed by the price and not by the total effective demand, and such a situation cannot be cured by mere monetary manipulation. Suppose, for instance, that there has been over-optimism on the part of the motor-car manufacturers and they glut the market. The cure of the currency reformer would be to 'equate goods with purchasing-power.' He carries out the 'equation,' and what happens? The people who obtain the money buy radio sets. The cure is not so simple as it looks. However perhaps the motor-cars can be turned into 'costless' credit, because they will certainly be worth nothing if there are no buyers. Another aspect of the question that the monetary reformers overlook in hatching their plans is that purchasing-power is not merely tokens or notes. It represents goods or services. For instance we are often told of the superabundance of wheat in the United States and the starvation because of the lack of wheat in China. However, the point is this: The potential consumers in China can secure the required amount of wheat from the United States only by selling their own products in exchange for it or by obtaining the necessary credit with which to buy it in the United States. Both possibilities are closed to the Chinese, because the national production of China under existing conditions is inadequate and the international credit of China is nil. The same rule also applies to the exchange of goods and services within a country. I am not saying that there could not be a reorganization either nationally or internationally for a more rational and more balanced state of affairs, but what I assert is that it cannot be done by tinkering with the currency. The planning that is required is more far-reaching. This point has been stressed by those who would plan within the present system and those who would abolish the present system and replace it by something else. President Roosevelt has illustrated the necessity for changes far deeper than mere monetary reform, which might be termed a comforting but spurious philosophy for timid Socialists. Few will deny that planning is necessary, because the only alternative is the removal of all control and the revival of the doctrine of *laissez-faire*, *laissez-passez*, which is too narrowly removed from anarchy to be justified either economically or socially; but conscious planning is something more than messing about with nebulous purchasing-power and 'costless credit.' It is a question of controlling the whole of our economic activities, and it is the extent of the control that is the big political question of the day."

Pursuing that question of control, I would like to offer one suggestion to the Committee that I indicated in the policy part of my statement. In this country we have a large number of lending Departments, lending institutions, both Government and private, outside the scope of that of our central monetary system. When I talk about the central monetary system, we are endeavouring now to establish a central bank to co-ordinate our banking system, and yet we seem to have overlooked several important factors in that co-ordination. Take the Government Departments which have power to make advances: There is the State Advances Department, Public Trust, Rural Intermediate Credit Board, Government Life Insurance Department, Public Service Superannuation Fund, Teachers' Superannuation Fund, Government Railways Superannuation Fund, National Provident Fund, Land Development Board, Native Land Settlement Board, Small Farms Board, and Unemployment Board. The private institutions include the various insurance companies, investment trust and trustee companies, loan and agency companies, and there are several others. The list altogether is a fairly lengthy one. I will put in the list as it appears in the Stock Exchange:—

Insurance: Australian Provincial, Mercantile Mutual, National, New Zealand, Queensland, South British, Southern Cross, Standard, United. Investment Trust and Trustee: Dominion Banking, Dominion Investments, Perpetual Trustees, Wellington Investment Trustee. Loan and Agency: Abraham and Williams, Canterbury Farmers', Dalgety and Co., Equitable Building, Farmers' Co-op. Auctioncering, Finance Corporation of N.Z., Goldsbrough Mortgage, Mercantile Finance, National Mortgage, Newton King, N.Z. and River Plate, N.Z. Farmers' Co-op., N.Z. Guarantee Corporation, N.Z. Investment Mortgage, N.Z. Loan and Mercantile, N.Z. Mortgage Security, North Auckland Farmers', Reliance Loan, Traders' Finance, Wairarapa Farmers', Wellington Trust, Loan, and Investment, Wellington Deposit, Mortgage, and Building Association, Wright, Stephenson.

I think it is just as important that we should have unified control of our financial system as to have unified control of, say, our transport system, and if the Central Bank is going to be an effective control of banking and credit in this Dominion, then it must take those institutions into consideration.

Dr. Sutch.] You are speaking of the co-ordination of financial institutions. How would you suggest that the Public Trust be connected with the Reserve Bank?—I do not think that it should be linked up with the Reserve Bank, but the Reserve Bank should have some control over the lending policy of the Public Trust. For instance, an institution might lend contrary to the national economic policy of the country. If an institution has power to lend and can lend without reference to any other authority, it might upset the applecart, so to speak, if it is powerful enough. You had that instance in America. Several of the large corporations in America carried on big banking business privately with their

customers and employees during the boom, and many of them, by building up a large reserve of liquid resources in the form of cash and Government securities, were able to finance their own short-term credit requirements without having recourse to the banks, and that has undoubtedly been a factor in the American depression. We in New Zealand have a wonderful field for disastrous speculation in land, and if there was a sudden boom in products it would be necessary, I think, for the central control of the financial system to have some over-riding authority in order to stop that speculation.

There are one or two Government Departments you mentioned in your list, Crown Lands and Rural Intermediate Credit Board, State Advances, and one or two others. Do you think that they should be amalgamated ?—I have not gone into that question, but a question I have gone into is that of control. I think that the control should, as far as possible, be pyramidical, that all financial institutions should come within that pyramid. There should be no interlopers and no free lances.

We have a Loans Board at the present time. Do you think we should have a similar Board, or should the Reserve Bank be the Board ?—If the Reserve Bank can handle it, well and good. The central authority, then, has wider powers, and has greater scope for co-ordination.

That is true. The Reserve Bank would have to go very carefully I suppose for a year or two ?—Yes.

You mentioned some institutions there on that Stock Exchange list. Why would you co-ordinate investment trusts ?—For the same reason as I would co-ordinate the Public Trust and the State Advances. If they are not going to have national responsibility in their lending, then they can do just as much harm as, say, a State institution.

Have you looked into this point. If co-ordination took place in New Zealand it might be possible for people to borrow in Australia rather than have resort to New Zealand institutions ?—Yes. That is a point.

Is there any means of getting over that ?—The only means of getting over it would be to control investment generally. If you had control of investment, then you could divert investment from one channel to another. For instance, if we found that Australia was going to create a land boom in New Zealand I should imagine it would be quite competent for the Government to take the necessary action to prevent that. If the Australians were to invest in this country they would have to play the rules of the game, the same as our internal investors.

You think that is a Government responsibility—to direct investment ?—Not to direct it altogether, but to control it. I am talking now within the scope of the present economic system.

Yes. It is not any change-over from free competition or free monopoly ?—No. If I were talking about Socialism or anything like that I would be talking a different way.

There are one or two firms on that list, Abraham and Williams, Dalgetys, and firms like that, how would you link those up with the central institution ?—The same way as I would link up an ordinary trading bank.

By requiring it to have a percentage of those liabilities held with the Reserve Bank ?—Yes. I think it was pointed out to the Committee recently that, although the banks might desire to bring down the rate of interest, they were unable to do so because of outside competition. If they bring down the rate of interest they have naturally got to bring down the rate of deposits. Well, these people have the power to attract deposits and therefore you cannot get any co-ordinated policy for a general lowering of the interest-rates, and that was one of the reasons why I put forward this suggestion.

Do you not think that banks are powerful enough to reduce rates on their own ?—No. As long as they are meeting competition from people who are desiring deposits, then they have not got absolute control. The list is rather a formidable one when you put it all together, including the State Departments. Our State Departments are very big lenders. We have only got to look at the advances made by the Public Trust. We have an everlasting monument in the Chateau to that. The Unemployment Board is making big advances.

Those are not usual business advances though. The examples you have just quoted are ?—But they are advances for capital expenditure, and overcapitalization can be very detrimental to a country.

That would be the capital market, but the banks do not deal generally with the capital market do they ?—They generally deal through an intermediate institution if possible.

Could you give us an example of that ?—Stock and station agents.

The banks lend to the stock and station agents, and they in turn lend out ?—Yes. Although I think some of the stock and station agents accept deposits, and they can lend their own deposits.

Do you know the definition of a bank in the Bank Act of 1908 ?—I have seen it but I could not repeat it from memory.

It is a very loose one. Any business that does the business of banking, or something like that. According to our law at present, then, they could be included ?—Yes. The question of definition, of course, is important, but the most important thing is whether the definition will be acted upon. After all, you can define a thing and then wink at certain procedures.

Do you think that stock and station firms had anything to do with the land booms that have happened in New Zealand ?—I should imagine they had, seeing that they were the prime cause of financing the farmers, and one has only to look at their liabilities at present. A lot of those are in land, and that naturally leads one to the conclusion that they had something to do with it. A company like Wright Stephenson—I believe they have got an overdraft of about one-third of a million with the Bank of New South Wales. Those are advances to farmers that cannot be met at the present time.

The difficulty appears to be ability to control such firms without interfering with their other business ?—I would not be frightened of interference at all. After all, if as we mentioned here it is a question of how far we are going to interfere, and that is purely a political question, it is quite obvious that we cannot allow the free plan of economic features to operate in the future, if we are going to iron out booms and depressions.

That brings me to the quantity theory of money. Do you think that that is of much value in actual policy ?—No, but it cannot be ignored. For instance, take the price-level: It tends to equal the aggregate of the currency multiplied by the velocity of circulation and divided by the volume of trade. That in general is irrefutable; they are underlying features that modify it.

But you know the Keynes's analysis ?—Savings and incomes ?

Income deposits and business deposits ?—Yes; I have his formula here.

You think that would be more helpful as an exposition of the quantity theory ?—It may be, because Keynes points out that investments and savings are promoted by two different sets of individuals, and that so far we have not been able to co-ordinate those two sets of individuals. My proposal for the co-ordination of the whole of the banking and lending institutions goes a step in that direction.

If we assume that the quantity theory of money is correct, does that mean we can pump more money into circulation, and prices will rise ?—Other things being equal, the tendency would be that way.

Other things being equal seems to be the trouble ?—Yes. The quantity theory of money does not mean that all individual prices will rise in the same proportion: it is just a general trend.

I think it has a difficulty in it in that you cannot pick out which is the causal factor in a price rise ?—No; that is the difficulty.

If you cannot pick out which is the factor of causation, how would it be possible for us to control the price-level ?—I do not think it would be possible to control the price-level under our present economic system.

You do not think it is possible ?—No.

Mr. Clinkard.] Would you mean individual price-levels or general price-levels ?—General.

Dr. Sutch.] Do you think we could aim at controlling the price-level by some index number ?—The difficulty is in compiling the index. So far the science of index prices is in a very experimental stage, and while you can control a static index, an index at a particular date applying to a particular group of commodities, quite well, the thing is to compile an index which will move over a one-year or two-years period and still give you something like an equitable basis for your currency. Prices shifting, demand, and things like that are all the time upsetting a wide index. If your base is narrow, your index is subject to error.

A general price-level would have to be more than that, surely ?—Yes; then that would not give you a true reflex of the general price-level.

I had an interesting example of that. My friends were watching indices to see how production and price-level were going, and something happened that was not at all in accord with the trends, and they found that radios and refrigerators had come into public favour and were occupying a good deal of production and consumption, but were not included in the industries at all ?—A new commodity may come on the market and have mushroom growth and have to be weighted and put into the index. You may have a different one each month, and then there would be the question of what was to come in and what was to go out. It is quite easy to get an index for a particular date, but to get a moving index that would be equitable is a different thing.

Assume we try to get one for a particular date: If I want to find the general price-level in New Zealand (there is no such thing at the present time) what would you include ?—You would have all your commodities for a start, interest-rates and various things.

Rents ?—Yes.

Investment transactions and stock exchange ?—Yes.

The price of electricity ?—Yes; that in a way is a consumable commodity and would have to come in.

Interest-rates would come in. How would you weight them ?—I would not like to sit down and work it out offhand, but they would have to be taken into consideration. In a competitive society interest-rates are a charge on production and must naturally be weighted in in any costs.

You would have wholesale prices and retail prices ?—You would have to fix it on either wholesale or retail prices.

What about import prices and prices of semi-manufactured goods ?—You would have to take a general basis on either wholesale or retail prices; otherwise it would be too complicated. That is the difficulty, the complication of the thing. People talk airily about it, but when one tries to work it out it is a different matter altogether.

Do you think it would be of any value even if you did have a general level of prices—if you could get that index number ?—Yes, in a way. It would certainly be illuminating data, but it would be very difficult to peg a currency on to it.

Do you think there is any such thing as a general level of prices ?—No.

It is just an abstraction ?—Yes.

Similarly our cost-of-living index probably fits no man in the country ?—Oh, no. The *Abstract of Statistics* does not go so fully into it as it used to, but at one time they gave the different prices in the different centres. For instance, they had rent in Wellington down to ½d.—no one paid ½d. rent in Wellington; it was just an abstraction of general conditions in Wellington, and then it was a question as to whether his index was full enough.

Do you think your price-level would remain stable and conditions would also be prosperous ?—Yes; you can have prosperity and falling prices.

With a stable price-level, this Statistician's index number was stable but concealed two or three contradictory movements; for instance, the price of manufactured goods might be stable while imported goods were rising in price, exports falling, and wholesale prices perhaps only slightly falling. Do you think there would be much value in just watching that one composite index ?—No; the index would not show you those trends.

It would be better to watch many trends rather than one ?—Yes. If you had two opposite trends and they were cancelling each other out, it would blind you to that fact.

If you were Governor of the Reserve Bank, would you prefer to watch an internal price-level index or many indices ?—I would rather watch as many as possible. I think by that I would form a better picture of the general conditions.

So that it would be unduly limiting you if you were compelled by law to watch one index ; it would not be a good thing ?—No, not a good thing for the country at all.

Do you think we can have prosperity and yet the value of our monetary unit alter ?—Do you mean prices falling ?

Put it this way : Could a worker be better off than before despite the fact that his pound-note will buy less or more ?—Well, he certainly would not be better off if his pound-note would buy less.

But he might have more pound-notes ?—He would have to have a corresponding rise in the number of notes he was receiving. If his wages remained the same obviously he would be worse off. If his nominal income kept abreast of his real income, it is of course a different thing.

Do you think it advisable at the present time to cut down capital values to their real earning-capacity ?—It is certainly advisable if it can be done, because, after all, even if you are going to start to plan, you must get rid of some of the maladjustments. For instance, if an industry is overcapitalized and its output say is far beyond what any demand is likely to be or will be through competitive conditions, then that adjustment has to be made some way or other, and that is one of the difficulties of raising the price-level ; you do not make those adjustments. Those adjustments can easily be made either by some controlling authority such as Parliament or by allowing absolute free play of economic forces which may bring chaos.

Do you think our troubles in New Zealand are due to monetary manipulation or to forces on the side of production or marketing ?—I think they were predominantly non-monetary. I do not think the banks are any more infallible than any one else, but there are other fallible people as well. The banks will lend when there is an opportunity for some one else to make a profit. We are predominantly on a profit-making system.

What about the monetary system, leaving aside the bankers ? Is there something wrong with the system in New Zealand ?—How do you mean ?

We have the system of advances, deposits and repayment of advances against security—what the banks have given as their policy in the past. Do you think there is anything inherently wrong with that ?—There is nothing inherently wrong with the mechanism of it.

It is the absence of control that is the trouble ?—Yes ; but the control must extend far beyond the banks.

It is not sufficient just to control the banks ?—No.

Do you think in a predominantly competitive regime that banks should be wholly State-owned and State-controlled—I mean the trading banks taken over ?—I do not see any harm in State control at all. After all, the general trend is towards State control of banks. There are few central banks in the world that are not State controlled.

I will leave that. Have you in the course of your reading found out why Japan has been able to flood the world's market with low-price goods ?—Because Japanese industry has had the assistance of the Government.

How ?—I heard that discussed the other day by Mr. Beckerleg, and I looked up the question. The first point I got on that was from the League of Nations' latest publication, "The World Economic Survey, 1932-33." There it was pointed out that the Japanese Government debt to the Bank of Japan amounted in 1930 to only 15 per cent. of the note circulation, but at the end of 1932 it had risen to 45 per cent. From 1929 to 1933 financial years the Japanese internal debt had risen from 5,831,000,000 yen to 6,741,000,000 yen, and there has been further borrowing since. I got hold of a publication from Japan, "Present-day Japan : Her Goods in World Markets," and this gives an outline of Japanese political and economic policy.

Mr. Schramm.] Is the State in control in Japan ?—Yes, very much so. For the last financial year the Japanese budget had a record deficit of 962,000,000 yen, and to meet this deficit they have been borrowing, from the Bank of Japan mostly.

Mr. Langstone.] That is what we have been doing in New Zealand ?—They have been doing the same thing.

What is the difference between the Japanese situation and ours ?—In the Japanese situation they have a larger amount of inflation than we have—a deliberate policy of inflation. This article reads,—

> Japan has since 1931 undergone remarkable changes politically and economically. The Government has had to take up the so-called emergency measures to tide over acute financial difficulties. Our economic policy for some years past has been framed to meet a chaotic economic situation, as it will be in the future. The financial depression, however, has swept over the whole world to-day and our measures, in many respects, are like those of other nations under the capitalistic economic system. Although Premier Saito stated emphatically in the Sixty-fourth Session of the Diet that abuses of the inflation policy could be almost entirely avoided by the proper handling of the currency policy by the Bank of Japan, the keynote of our economic policy is no other than the carrying-out of an extensive inflation programme, whether or not there follow such abuses as the Premier fears. The suspension of the gold standard in 1931 led to a marked decline in the yen, sometimes to figures just under twenty dollars, which it was hoped would be the lowest point. To check a further fall the Government resorted to the law against the flight of capital. This law was a prelude to the Exchange Control Bill, which was submitted, as a Government measure, to the Sixty-fourth Session of the Diet, and was meant to exterminate exchange speculators, though not to end the so-called "exchange inflation." In view of the difficult financial situation, there was nothing for it but to go forward with the inflation policy even if it meant only temporary relief ; and for this purpose the Budget for the current fiscal year, amounting to the enormous sum of 2,309,000,000 yen was passed by the Sixty-fourth Session of the Diet. To cover the deficit loans amounting to 1,100,000,000 yen had to be floated. Thus in the 1933-34 fiscal year the inflation, as the natural and inevitable result of the reimposition of the gold embargo, is changing from an exchange inflation to a financial and bank-note inflation.

It goes on to say,—

In these days every nation under the capitalistic economic system is passing through a transition from a *laissez-faire* to a State-control policy, and measures for controlling trade and exchange have been adopted in many countries as an important means toward this end. In Japan, too, a Foreign Exchange Control Bill was passed by the Sixty-fourth session of the Diet, as a Government measure, the control of trade being thereby made somewhat possible through control of the backbone of international trade. It is a plain fact that during the past few years the keynote of our industrial policy has, as already shown by the example of the Control of Basic Industries Act, been the strengthening of controlled economy. All the important industries distressed by the former rigid deflation policy have been brought, through the Act, step by step under some sort or other of cartel or trust to get through the chaotic financial crisis.

Has not the policy in Japan, then, succeeded in keeping the price-level more or less stable when it otherwise would have fallen ?—I have not got a copy of the Japanese price-levels, so I could not answer that.

That has been the position largely in Sweden, as in New Zealand ?—The Swedish price-level, of course, is practically the English price-level. There has been very little difference between the two. The fluctuations have been almost as wide. I have Swedish wholesale price-levels here: From January, 1933, to January, 1934, taking 1913 as 100, the Swedish price-levels have fluctuated from 105 to 110. It has been a general upward trend, and English price-levels during that period have fluctuated from 97·6 to 104·6, so that there is not a great deal of difference.

In New Zealand there is still less difference in the fluctuations in the wholesale-price level ?—Yes.

Getting back to Japan, has the Government, through the banks, given to industry any credit which was not repayable ?—If they have done that, I think they have subsidized the interests to a certain extent, but the Government itself has had to take on the liability. In England in 1927, I think, the British Government subsidized the coal industry. As far as the coal industry was concerned it was costless, but as far as the taxpayer was concerned it was extremely costful.

The Japanese taxpayer in the future will be paying for this development of industry ?—As the League of Nations pointed out, the Japanese debt has risen from 15 per cent. of note-circulation in 1930 to 45 per cent. in 1932; that has got to be met some time.

Unless they have a financial collapse ?—Yes; it might, of course, be wiped out. There is a legal term, "force l'Dieu"—an act of God, you might call it.

You seem to be of the opinion that the cause of the economic breakdown is due to causes other than monetary ?—Predominantly, not wholly. Bad banking policy can aggravate it or good banking policy can alleviate it to a certain extent.

Do you think it is inherent in the capitalist system ?—Yes.

And that banking is a capitalist institution and only records the effects ?—Yes. I think one phrase that might be applied is the anarchy of production.

But there has not been so very much wrong with production, has there ?—As far as the science of production is concerned, it has been a marvellous progress. But what has happened, in America, for instance ? Production has been allowed to run riot.

What would you consider the keystone or the most important factor in our capitalistic society to-day ?—The control of the forces of production.

Yes. In controlling production and distribution, what is the strongest factor ?—The man who controls the credit and who is in a better position to obtain credit.

They hold the most strategical position ?—Yes.

The man who is able to command the credit is the person who is controlling the credit ?—Not necessarily.

Suppose you are director of a bank and you are also interested in other concerns, industrial, &c., and you want financial accommodation, and I am only an ordinary person and want financial accommodation, who gets in first ?—I would very likely get in first.

Yes, of course you would. Then, if you are in that position, you also control as well as demand it ?—Yes, but a man who can show a profit can, I think, obtain credit. You have that instance multiplied over and over again during the boom in America. Stewart Chase has given examples where industries have been vastly overcapitalized owing to the overoptimism of the entrepreneur. The glass industry grew to such an extent that they could supply the whole of their market capacity in seventeen days. If you are going to allow an industry to run roughshod to that extent, you are approaching the period of anarchy. These people obtained all the credit they wanted and built their industry up to such an extent that they were harmful to the community. I read in the London *Times* where Elliot says he wishes now to cut out the price war with retail firms. Take the transport system in New Zealand; they got into a chaotic condition because there was no control. It had nothing to do with the banks at all.

Are there not a lot of people in America and a lot of people in New Zealand to-day who would make more use of the transport system if they had the income to do it ?—If you have uneconomic transport no monetary system will cure it. You have to make the adjustments within the transport system itself. You are only aggravating it if you do that.

Are not all these things that you have submitted just evidence of the ability of the people to have them. There is nothing comes into existence unless it is paid for, even transport ?—But if a thing goes out of existence it might not be paid for finally. For instance, you could see transport companies going bankrupt every day.

Then somebody else helps to pay for it ?—Yes. The community pays for it in the long run.

Everything is paid for. There is nothing in existence that is not paid for, but you have got a lot of things in existence and they cannot be distributed. Why ?—Nobody wants them for one thing. Take the glass that I was talking about.

How many new homes are wanted in New Zealand to-day? We had evidence in Auckland where a sawmill had over 5,000,000 ft. of timber in its yard and at the same time there were two families living in a five-roomed house in Freeman's Bay which had been condemned, and they had to move out of it?—It would take more than a monetary cure to fix that.

I can assure you the sawmillers want to sell their timber, and I can imagine the families want to live in good houses, and it seems to me the only factor that is missing is the lack of the monetary factor?—No. You have to reorganize your community in order that these people can give economic service in order to obtain the timber to make their houses.

But the timber is in existence, and if we had the carpenters, instead of being on relief works, building houses, would not that be giving economic service?—You could certainly put the carpenters that are now on the Unemployment Fund to building houses, but it entails a reorganization much deeper than the mere manipulation of the monetary system.

I quite agree that there is not only the monetary system, but we have got to make a start somewhere?—I absolutely agreed with Cole's thesis on that.

Well, what caused prices to fall. Even in your letter to the Committee you do not give any indication of what caused prices to fall. You say that it was not the monetary factor, and it is left there. There is nothing definitely stated as an alternative?—I have not definitely stated an alternative because, as I pointed out in the first place, this is more of an objective study of it.

Did you say that it is positive rather than normative. You say you want to be positive in the matter, but you do not say what has been the cause. Now prices are purely the financial indicator of values?—Yes.

So that that is purely monetary. There is nothing else in it than monetary prices?—We will express them in money because it is the most convenient term.

And prices do not fall down from heaven do they? They are man-made?—Yes.

We have it on the evidence of Dr. Walter Leaf that the Government of Great Britain definitely pursued a deflationary policy and took approximately £500,000,000 out of circulation. That is purely interfering with the monetary factor. He definitely stated that, and he was a banker of no mean order. He was chairman of directors of the London and Westminster Bank. He was chairman of the clearing house bankers, and he was also chairman of the International Chambers of Commerce, and a man with very wide experience?—I should imagine if you are going to have a competitive society that you have to make those adjustments through deflation.

Through the banks?—Through deflation. That was purely a Government action because inflation does not get rid of economic maladjustments.

No. Even with plenty of money you would still have difficulties?—That is the point I am making. For instance, you have got fixed charges. You have those necessarily under your present economy. Well, inflation eases those: deflation makes them more difficult to meet.

In reply to Dr. Sutch you made a statement that the Japanese had a deficit of 962,000,000 yen. Do you know what rate of interest they are paying for that?—I know that they are in debt to the banks for it.

But what rate of interest are they paying?—I could not tell you that.

The Bank of Portugal is controlled, and their arrangements are that of their profits that they make they charge to the Government 1 per cent. for accommodation. Five-eighths of that 1 per cent. goes to pay off the loan and three-eighths of 1 per cent. is kept by the bank. That is fairly cheap money is it not?—Yes. As a matter of fact, short-term money practically all over the world is very cheap at the present time.

I am not talking about yesterday. I am talking about 1924 and the years before that, so that it is the interest payment that is the dead-weight debt, not the debt itself?—That is so.

That means, then, that if this 962,000,000 yen have been brought into existence to square the Budget the money is there. Everything is paid for. The only thing that is left is a debt owing?—Yes. That is, if there is no interest. I do not know if there is interest or not.

But even if there is interest, that proves that the banks are able to bring into being a sufficiency of money to balance the Budget?—Yes. And there is a corresponding liability there, for instance, on the Japanese Government. For every credit you create you must create a corresponding debit.

But evidently they used the national credit to do it with?—Well, the national credit must pay for it in the long run.

If the Government did it itself instead of doing it through the bank, what would be the object of the Government paying its interest. It would only be unnecessary book-keeping?—It would be possible in New Zealand for the Government to issue Treasury bills of its own accord in anticipation of taxes. If it did that then the Treasury bills on the one side would be a debit and they would have to collect those taxes to cancel out those Treasury bills.

But if they did it instead of taxes it would be the same thing?—No; what would be the debit on the other side?

It would be a matter of creating the necessary amount of credit to make good the deficit, and the amount of deficit would offset the other. They would cancel out?—You cannot create credit without creating a liability on the other side.

But where does this credit come from? How has it originated, that 962,000,000 yen?—It has originated from the Bank of Japan.

Well, they created it. They monetized that much wealth in Japan?—Yes. They have a lien over that wealth.

Would it not be possible for the Government to do exactly the same thing—monetize it?—Do you not see that if they create a loan they have got to lend something. They cannot lend nothing.

Well, the banks have lent nothing, evidently ?—Yes ; but the banks lend in anticipation of a man making a profit. If he does not make a profit they take over his plant, and sometimes they burn their fingers over it.

But you have never heard of a bank taking over a Government ?—No ; because the Government's ability to pay is much more inexhaustible than that of an ordinary individual.

And then, of course, a Government has statutory authority and can either let the banks keep in existence or put them out of business altogether, so that they have got to be careful how they handle Governments ?—Very likely.

The point I want to come to is this : You read the statement by the Treasury given before the Committee. It was published in the papers that our banking system is linked definitely by usage, practice, and everything, to a sterling-exchange standard, and that New Zealand's monetary market is controlled in London, owing to that fact ?—Our ability to make advances is controlled by the sterling balances in London.

Yes. Therefore, New Zealand is only the echo of London. Whatever financial policy is pursued by the bankers in London reflects out here ?—No. Our policy is governed by the price we receive for our products on the London market—according to that.

But the price you receive for your products is determined by the amount of money that is in circulation ?—No. It depends on the demand, for one thing, at the other end.

But demand can only be backed up by money. Demand without money is not demand at all ?—But it goes much further than that. If we were getting 1s. 6d. for our butterfat and 1s. 8d. for our wool then our sterling balances would be considerably greater than they are at the present time.

And they would reflect here in increased deposits and possibly pay more for advances too. So we would get a twofold benefit. We would reduce the advances and we would increase the deposits and make money more plentiful ?—Money would be more plentiful, yes.

I think you were here the other day when Professor Tocker was before the Committee, and he showed us by a graph how there had been continual eccentric movements of price-levels. That is a definite record and a true record of our control from London. Is that satisfactory ?—Seeing that the price of our exports is so vital as far as we are concerned, it is very difficult to avoid it excepting through the manipulation of the exchange-rate. That is one way in which it could be levelled. For instance, we have levelled it to a certain extent by raising the exchange-rate, and I think that if the Government had the power to say that the exchange-rate will remain at 125 for the next ten years we would have a considerable amount of internal inflation in this country up to that level.

That would adjust itself ?—So we would still have a different price-level from that of England.

Only in so far as the 25 per cent. exchange affected it, but our export trade is only part of our total trade. Our internal trade is our total trade ?—Yes ; I think about 55 per cent. of our total trade is governed by our export trade.

No ; 39 per cent. of our exports and 60 per cent. is production that we do not export at all ?—But a lot of our industries in New Zealand are governed by export prices.

I know that ?—And finally you get about 55 per cent. of our internal trade that is governed by external trade.

That is because the policy is here. You try to stabilize exchanges and let the other go hang and fix itself. Do you not think it would be better to change our policy—to fix internal prices and let exchanges go hang ?—You can do that. You can fix an internal price-level if you let your exchange fluctuate. You cannot have it both ways.

Well, it is the best policy. We have tried to anchor everything to overseas trade, that being the governing factor, and we have been all wrong. Now that would mean a change of policy, to fix internal price-levels and let exchange look after itself. Which do you think it would be better to do ?—My answer would depend on the amount of control you are going to use for your economic system. If you are just going to fix internal prices for the purpose of perpetuating the maladjustments we have at the present time, I would say, No. I would rather see them liquidate out.

You said we had no indexes available ?—No. I said you could frame an index for a particular date, but the difficulty is to fix a commodity index that will move over a period of time. You have got one for a particular date, but the difficulty is fixing it to move over a period.

You know that the Government Statistician is continually publishing in his *Monthly Abstract* the index prices of groceries and milk and meat, and housing, and all sorts of things—that they got a record of it. Would it be a superhuman job to go and average those over a period ?—Yes. As a matter of fact, I do not place much reliance on the Government Statistician's present index figures. I did some research into those figures about two years ago, while investigating the purchasing-power of wages, and I found those indexes extremely unsatisfactory.

Because they are not sufficiently full enough ?—Yes. And because they are based, for one thing, on the cost-of-living inquiry that was held in 1912.

They make 1913 their base, and they have arranged alterations in the price-levels of goods accordingly ?—One of the difficulties is that the shifting character of demand upsets an index continually. The Government Statistician, as far as I am aware, has ignored that to a large extent, and that has nullified the value of his index.

Well, we will cut that out. But I suppose that in every industry and enterprise, even a farm, if it is run properly, they have got some statistical record of their costs of production. It would not be a very great difficulty to get somewhere near their cost of production ?—No. At a particular date it would be very easy.

And you could even make allowances and leave a margin, and you could fix the price surely ?—Yes. For a particular date. But the difficulty I see (and I have done some research into it, and I have also had a look at Professor Irving Fisher's attempts) is of fixing a reliable index that will serve for,

say, five years; even making compensatory adjustments from time to time is an extremely difficult thing to do.

But do you think you would be able to fix a price-point somewhere and regulate everything to it afterwards as it went along?—You could do it for a particular day, but it would be extraordinarily difficult to fix an equitable index for a period.

Would not that, coupled with fixation, straighten out any anomalies that occurred?—Not if the anomalies existed in the index itself.

The index could be altered then?—That is the difficulty—altering it.

Mr. Lye.] This issue by the banks in Japan for the purpose of enabling the Japanese Government to balance the Budget, I think it was 962,000,000 yen; now that becomes a debt does it not?—Yes.

Is there anything to show that that is not to be repaid and that the State, having power to tax the people, will ultimately repay that loan to the banks?—That is the way I should imagine they would repay it.

And in the meantime it is nothing else but pure inflation?—Yes. And whenever a Government continually borrows from the bank for the purpose of bridging a deficit in the Budget it puts more money and credit into circulation and creates an inflationary situation.

It is authoritatively stated that when a period of inflation takes place it is always followed by an increase in the price-level. Has that been the case in Japan do you know?—I could not tell you that. I have not got Japanese price-levels. I could certainly get it for you if you wanted it. I think the League of Nations publishes the price-levels for various countries.

It would be useful, because when you state the case of an issue by the banks to the Japanese Government of 962,000,000 yen, it would be very interesting to follow out the operation of that to see whether there was the usual corresponding phenomena of the rise in the price-level?—You would get it this way: The yen has appreciated. Then there must be, there has been, a tremendous appreciation of the yen.

I suppose that the factors that determine our general well-being in New Zealand are really costs and prices are they not, and the relationship between the two?—Yes.

Coming to the question of costs, the interest cost is a very powerful factor in determining the final cost, is it not?—Yes.

And from the reading of your paper you advocate co-ordination of the lending institutions, and it has been suggested that if that were done they would have greater power to reduce the interest-rates?—I noticed Mr. Fussell in his evidence said that the banks at the present time did not have the power in their hands to reduce interest-rates because of outside competition, and I suggest that if the Reserve Bank is going to be effective it will have to control that outside financial competition.

Do you suggest that that can only be done by legislation?—Dr. Sutch has pointed out that the definition of a bank under New Zealand law is so wide that it could be very likely done without legislation.

Do you not foresee a tremendous amount of difficulty when dairy companies and stock and station agents and many other companies accept moneys on deposit for the purpose of relending to shareholders, perhaps, of their own institution?—There is a difficulty that way.

And it might be necessary to legislate to bring about uniformity in lending-rates and deposit-rates?—Yes. If the Central Bank is going to control the financial situation, it should be in a position to do so, and unless these outsiders, the State institutions, and the various other lending institutions are brought under its control it has not got the absolute control necessary.

A short-cut to that desired end would be by legislation would it not?—Legislation would fix the thing for all time.

Apart from that, for ordinary purposes of lending for business enterprise, you do not propose in your evidence to interfere with private lending, do you, such as the lending of money on mortgages on real estate?—Do you mean between individuals? It would be practically impossible to stop that. I would confine it to institutions.

I am not suggesting that you should, but I want to get that point clear. You do not suggest that?—No.

The big lending institutions, having arrived upon a common basis of understanding of procedure, the fixed deposit-rate, and the lending-rate, that would largely determine the private lender's rate?—Yes. After all, a private lender only lends to some one he knows something about—a personal friend. I would not interfere with that.

We now come to the question of prices. You further, in your evidence, suggest that it is necessary to go in for a policy of the planning of industry, so that production will proceed along the lines of effective demand?—Yes, and I think that will be the economic trend of the future. Even a Conservative like Major Elliot is starting to plan production practically right throughout the whole of English economy. I saw a statement of his in the London *Times* (I have mentioned it before) where he is urging the retailers to cut out the price war and organize their own industry on a more co-operative basis; and you, as a farmer, would be well aware of what he has done with agriculture.

Do you anticipate that, as in future every effort will be made to induce people to produce according to effective demand, it will be necessary to enforce by legislation, to take away the right of the individual in the interests of all, in the interests of the common good?—I think the tendency in the future is towards economic planning.

I suggest to you that one of our difficulties in New Zealand has been brought about because there is no margin left as between the cost of production and the selling-price?—Yes, the margin has gone the other way.

Consequently there is a shortage of real purchasing-power over and above the cost of production. If we are to have a material rise in the price-level, there would be a margin left of what might be termed "purchasing-power"?—Yes.

When that takes place it would place in the hands of the producers who were getting a remunerative price the capacity to increase their power or ability to exchange goods and services. Would that be termed the velocity of circulation—the capacity to exchange goods and services? Would the rise in price-level which left the margin of purchasing-power in the hands of the people be speedy?—It would increase the velocity of circulation, because there would be more trade and money would go round more quickly, but the velocity of circulation is bound up really with the quantity theory of money. If you increase the volume of money there would be a tendency to decrease the velocity of circulation.

Do you attach a great deal of importance to what is known as the velocity of circulation?—Yes.

And the quantity theory of money?—Yes.

Sir Basil Blackett mentions that same thing?—Yes. The point is that maladjustments have grown up, and those have got to be controlled or eradicated before a monetary policy would be of any use. Dr. Hayek, the Austrian deflationist, believes that, and it is a certain line of philosophy that is fairly widely held. Professor Gregory adopts a somewhat similar approach.

Mr. Clinkard.] They hold that is by depreciation?—Yes; by allowing the price-level to drive the maladjustments out of existence. There are others, like Sir Arthur Salter, who want to control the economic situation from top to bottom. It is a less dangerous way, I should imagine. In the other process you may develop revolutionary situations. That is the difficulty of allowing free play of economic forces.

Further on you say, "There can of course be little doubt that, at the present time, a deflationary process is going on and that an indefinite continuation of that deflation would do inestimable harm." Do you really believe that a deflationary period as far as New Zealand is concerned is going on, when we have increased the exchange-rate to 25 per cent.?—No, I think it has been checked somewhat in New Zealand. I was talking of the world affairs there.

While many people hold that the present monetary system is at fault, and is very largely the cause of our difficulties to-day, do you know whether these same people claimed that the money system caused the period of prosperity in 1924–29? If the system is wrong to-day, must it not have been wrong all through?—Yes, it is the same system. In a period of depression you always get the cry of the monetary theorist, and it is easy to understand because things are expressed in money and we assume that the price-level is a purely monetary phenomenon and is governed by purely monetary phenomena.

It is only in times of depression that the public say the monetary system is wrong?—In times of prosperity very few people study it at all.

Mr. Beckerleg said the other day that the banks can issue £20,000,000 of notes. If that is correct it shows that the deflationary policy in New Zealand had no justification at all. Would you agree that what is known as "the just price regulator" would be a satisfactory means of injecting purchasing-power into the system?—I imagine that would be pure inflation.

And what would the effect be?—It would be just like a dog chasing its tail.

You would not consider that to be a sound solution at all?—No.

Do you believe that the policy of the banks in expanding credit when prices are high and then when prices are falling restricting credit played a very important part in helping to aggravate the position?—It has aggravated the position.

To any great extent?—Yes, to a fair extent; but the thing is that the banks are governed by the conditions in industry itself. If prices are falling and profits disappearing, the bank would be committing suicide to do otherwise.

Their action of restriction of credit from time to time is justified?—Yes. They would just go out of existence if they did not: they would not be able to meet their liabilities.

Their action of restricting or expanding credit from time to time according to what may be known as economic opinions is not a crime at all: it is a necessary protection and in the interests of safe-guarding their depositors' money?—Yes. The policy of the banks, after all, is governed by industrial and economic conditions, and for them to fly in the face of this would be suicidal as far as they are concerned; but if you can in some way iron out this economic difficulty, by some kind of planning, that is the way out. Then the banks would adjust themselves to the new conditions.

Planning for effective demand of industry would render unnecessary the restricting and expanding of credit from time to time?—Planning will not be an easy thing. There will be a lot of mistakes made but we are making mistakes now; and one of the political problems of planning is how much control are you going to exercise.

In your opinion, can we have an internal price-level without regard to world parity—without running very grave risks of inflation?—It would be inflation.

You say that is just a vicious circle, like a dog chasing its tail?—We could have any price-level we wished, and it might be in our interests to raise our price-level. The Government has already considered the question of raising the price-level to primary producers, but just to raise the price-level for the sake of raising it would not result in any benefit to the people of New Zealand.

What is the net result? By the raising of the price-level you automatically depreciate. Is there any ultimate benefit?—There might be a short-run benefit.

Does it work out unfairly?—It works out unfairly to those who are receiving wages and to those who are living on fixed charges. You get the extreme case in Continental countries after the war where the inflation went to such an extent that the whole of the rentier class was wiped out of existence. In Germany for instance they consolidated the industrialist at the expense of the financier.

Captain Rushworth.] You do not ascribe the prime cause of the depression here and elsewhere to the monetary factor?—No.

Lord Milner, in his "Questions of the Hour," says, "What has gradually grown in my mind is the conviction that it is of no use dealing with present-day economic problems unless one has a perfectly

clear conception of the money and banking factor, which under modern conditions is of such supreme importance." You do not agree ?—I agree that it is of tremendous importance, and that we should understand it. But by our understanding I think we would not place the whole of our reliance upon monetary manipulation as a cure for our present difficulties.

Has there not been monetary manipulation going on all the time ?—What do you mean by monetary manipulation ?

We need not go back beyond 1844. Has it not been going on since then ?—Certainly ; it was governed to a large extent by the conditions ruling, say, in industry and trade. We have had a lot of disturbance since 1844 ; that you cannot blame money for.

That is a matter for me to decide ?—Not logically. You could not blame money for the war.

You do not blame the monetary factor, is that it ?—Yes.

You did mention the originating cause of the trouble in the last page of the first document you gave us. You finish up by saying, " But what lies at the root of the trouble is not the mismanagement of the monetary factors, serious as it is, but the inability of capitalism to provide at one and the same time a sufficient profit incentive to get all the productive power which will enable consumers' demand to expand in due proportion to the advancing productivity of the economic system."—That is a quotation from Cole.

Is that your opinion ?—Yes, practically.

Could you make it intelligible ?—I thought I had done so in the second part of my paper, where I gave a hypothetical instance of the motor-car industry. That had actually occurred in America. It is what the Americans now call " the anarchy of production."

You agree that the quotation you finish with as it stands is unintelligible ?—No ; this is the quotation : " This endless cycle of capitalist boom and depression is often exaggerated by bad banking policy, but what lies at the root of the trouble is not the mismanagement of the monetary factors, serious as it is, but the inability of capitalism to provide at one and the same time a sufficient profit incentive to get all the productive power which will enable consumers' demand to expand in due proportion to the advancing productivity of the economic system."

Would you again go over the quotation from the words " productive power " ?—" . . . productive power which will enable consumers' demand to expand in due proportion to the advancing productivity of the economic system."

What productive power is required to enable consumers' demand to expand ?—You have got to go back to the fact that the figures are based on profit.

You say " to get all the productive power " ; What does that mean ?—Power to produce.

Factories, harnessing of power, discoveries of science, and so on ?—Yes. The difficulty is that the entrepreneur unregulated is often governed purely by the price factor and not by the total demand, and the particular depression through over-optimism can create in turn a general depression which is purely non-monetary. If this country could consume ten million pairs of boots per annum and five people with the capacity to produce that amount of boots had a race for the market at the same time—that is what happened in several of the key industries in America—you would have fifty million pairs of boots, and we could not possibly consume them. The result would be that the operatives of those five boot-factories would go out of employment, and they in turn would affect all those people with whom they had economic relations, and you get into a kind of spiral that may spread almost interminably.

That would have no bearing unless there is an under-production in some other commodity ?—If you glut your market beyond the desires of the people, then you have got to call a halt.

You consider that the desires of the people of New Zealand are fully met now ?—No, I do not consider that by any means at all, but what I do consider is that certain industries have fully met the desires of the people. The motor-car industry was a striking example ; the radio industry is another example.

What industries here or elsewhere have failed to meet the desires of the people ?—We could say the desires of the people are almost interminable, but they have got to be evened up by some demand, and have to have the ability to exchange something for those things that are offered to them. We talk about the markets of the East, but, as long as the Chinese are only earning enough in a week to buy a pound of butter from us, it is not much use trying to sell butter to the Chinese, and one of the reasons why the Chinese cannot have more money is that their national economy is such a primitive one. In order to become a buying factor in the world they would have to reorganize internally.

We cannot sell our butter to China because they have no money, and we cannot sell except for money ?—Because they have nothing to offer us in return—because of the primitive conditions of their economy. I remember reading a book by Lenin ; he pointed out then the danger of Russia having small farms like the Chinese and each one living on 1 acre and not being able to capitalize any of their returns. That was the reason why he advocated collective farming. Whether he was right or wrong in his general philosophy is another thing ; but he did point out a salient feature there.

Do you think a policy of deflation has been operating ?—Yes, brought about by the industrial and trade conditions.

You do not agree, apparently, with Professor Gustave Cassel, who said most emphatically that the deflation of the monetary systems is a deliberate policy designed to increase the power of the possessors of money ?—No.

There are many other well-known authorities on the subject who say much the same sort of thing ?—Yes ; it is questionable whether some of them are authorities. Gustave Cassel, of course, is, but I think he made a mistake also in his analysis of the gold situation. He was well out in his forecast ; he said that the world's requirements of gold increased at the rate of 3 per cent. per annum ; this was being met only by a 2 per cent. increase, therefore the price-levels would fall by the disparity.

That was about 1927 or 1928. We have had a cataclysmic fall of prices since then; so that his prediction has not been right.

Was he not following on the lines of the Gold Committee of the League of Nations?—Of which he was a member? Yes. He amplified that in an address to the Oxford University about that time. The Gold Delegation of the League of Nations practically adopted his arguments; he developed them some years previously.

You know that the Gold Committee reported that by 1926 the amount of gold that was discovered would only make good the wastage, and would not provide for any expansion at all?—They have been well out. We have had a bigger fall of prices than the disparity—between the price of gold and the supply.

Do you say the monetary factor plays no part at all in the depression?—No. There are so many factors.

It plays an important part?—Yes, it is an important part.

What I am trying to get at is that we must not ignore other factors that are perhaps more vital. If it does play an important part, why do you take such great exception to monetary reformers endeavouring to direct attention to defects?—One of the reasons is that they ignore other factors very conveniently.

It is an important factor?—Yes, but you must take a balanced view of the position.

At the same time, if it is an important factor and the other factors are dealt with, leaving this factor alone, surely you have no solution?—I have not ignored that factor at all. For instance, in the quotation from Hawtrey, he stresses the monetary factor, but I set out in this paper with the deliberate intention, as I stated in my introduction, of placing the non-monetary factors before the Committee in order that they would not be put too far into the background. I had made a study of them, and I thought the other factor has been stressed to such an extent that I might be of some service if I placed the non-monetary factors before the Committee.

You give a list of them: new and higher tariffs, economic nationalization. Are not those obviously effects of a defective monetary system?—Not at all. Take the efforts for recovery after the war. America got a flying start; other countries lagged behind because they had been shattered to a far greater extent by the war. These countries naturally did not want their industries crippled by America, who had held a superior position, and took measures to prevent that being done.

But America has the highest tariffs of all. Why?—She thought at one stage she could trade one way.

You gave us the illustration of the devastated, hard-hit countries, but why did the creditor countries require tariffs?—They had an idea that they could trade one way, that they could export and not import. They are apparently finding out that is a mistake. The latest policy is to bring down their tariffs.

As soon as they wiped them out altogether all the debtor countries would seek to pay in goods. What would happen to American industries?—They would certainly suffer the same as German industries suffered when France repaid her debt after the Franco-Prussian War. One of the mistakes was made at Versailles where they insisted upon reparations and war debts, and it has not been cleared up yet. Even a man like Keynes, who is predominantly a monetary theorist, recognizes that mistake in at least two of the books he has written.

The attempt to pay debts in goods causes the country that receives payment to get into great trouble?—Very often.

Monetary difficulties?—No, industrial difficulties.

But caused by monetary shortage, naturally?—No: the difficulty in the first place was political. It was the politicians who framed the Treaty of Versailles—not the bankers.

I am not talking about that; I am talking about the tariffs that prevent goods coming into a country?—That is a political business, too.

Why does the political business operate?—An industry will come along to Cabinet and say it can start as long as they get a 25 per cent. tariff.

That is to prevent other goods coming in; there is not room for both?—If the home industry did not get protection by the tariff it would never start.

We are talking of the United States at the moment?—That is exactly the theory that the United States adopted.

Let us assume for the purpose of argument that no country is able to purchase the whole of its own output. If that is the case every country would seek to export its surplus and obtain the shortage of purchasing-power from some other country?—No; it would obtain goods in return.

We are assuming that no country is able to purchase the whole of its own output. That being the case, it would have a surplus and seek to sell it to obtain purchasing-power in that other country to make up its own deficiency. Every country is apparently operating on that basis?—Almost every country.

The defence that is put up to that act of piracy is the erection of tariff walls?—That has the effect of stultifying it.

If that is the case, then the tariff barriers are the effect of the monetary defect and not the cause of it?—No. For instance, we could not consume all the butter we produce in this country.

But we must be able to purchase all the butter we produce in this country?—No; not necessarily. It would not do us any good if we could. We send our surplus butter to England and we get manufactures in return.

But do we not purchase manufactured goods that come here?—We purchase them with butter.

Well, we purchase our exported butter, in effect?—You can put it that way if you like. I do not agree.

I am saying that we must have the power to purchase the whole of our production if we exchange part of that production for something else ?—The butter we export gives us that power.

Quite so. But it does not give us the money ?—We do not want the money. It is a case of goods for goods.

We have to do that through the operation of money do we not ?—The money expresses the price of those goods.

We buy imports with our exports, and we must be able to buy the whole of our product ?—We buy our imports with our butter. It is goods for goods, but money is the common denominator of value. If we were on a barter system we would exchange butter for dynamos.

And if there were a barter system there would have been no depression, would there ?—It is quite possible there would have been a depression.

Why ? What are we short of in the way of barter ?—For instance, take a hypothetical case of barter between the Samoans and the Fijians. The Samoans might have a glut of coconuts and the Fijians might have a glut of bananas. Well, the Fijians might not be prepared to take all the coconuts that the Samoans would offer them, and *vice versa*. Therefore, there would be a glut on both sides and there would not be a complete barter.

But in that case, would they be poorer because they had too much ?—No ; they would not be poorer exactly, but the barter would not be complete, and they would just have to sit down and wait until the market was favourable again.

Sit down and starve ?—No ; they could live on their coconuts.

What is happening throughout the world is precisely that same thing is it not ?—Not exactly.

Is there any industry in the world that you have ever heard of that is working to capacity ?—The only country I know that is working to capacity at the present time is Russia.

I am not talking of a country. I am talking of an industry. Is there anything that we are short of ?—Well, the farmers here seem to be working at pretty high capacity. They are expanding all the time.

Is there not a quota on our meat already ?—But we have not stopped producing meat, all the same.

And are the farmers working to capacity, having regard to the possibilities of science and so on ?—They are working to the capacity of their present resources. If they increased those resources naturally they would produce more.

There is nothing that the world is short of apparently. If there were, surely the unemployed would be put on to producing it ?—Not necessarily. We might be paying for maladjustments in the past, and we have got to correct those before we can go on planning.

In the meantime, because we are surrounded with plenty, we have got to sit down and starve until we plan something ?—Not exactly. I think Salter has put the position correctly when he says we are at the crossroads between two systems.

I think that is obvious. Two systems of what ?—Two systems of economy ; one is a *laissez-faire* system and the other is control.

I agree as far as planning is concerned, but it is an ambiguous term. You can plan to make your monetary system fit your legitimate requirements. You can also cut down your legitimate requirements to fit a defective monetary system. The question is just which you are advocating ?—I am advocating a planning system which will give an orderly expansion.

Of what ?—Of the exchange of goods and services of the world.

That includes money obviously ?—No. It includes goods and services. The money is the means of facilitating that exchange.

Would you leave money where it is now ?—How do you mean ?

Based apparently on nothing ?—I do not admit that it is based on nothing at all.

What is it based on ?—It is just a medium for exchanging those goods and services.

But has the money unit any meaning at all at the present time ?—I would be sorry to say that it had not.

A little while ago it had a meaning for what it was worth ; in the British Empire 120 fine grains of gold was the monetary unit. One-twentieth part of an ounce of gold was a dollar in the United States ?—As long as money has purchasing-power it has some meaning.

But has the unit of money any definite meaning ?—At the present time it seems to be fluctuating.

It has no meaning ?—It has a meaning, but the meaning varies from day to day.

That is the same as no meaning ?—No.

If the meaning fluctuates from day to day, is there any meaning ?—It would have no meaning if you had a pound-note in your pocket and went down and could not buy anything with it. Then it would be worthless, but while you can buy something with it it has a meaning. The trouble is that its meaning fluctuates from day to day at the present time.

You think that is a good thing ?—No ; I do not.

Well, something will have to be done to the monetary unit ?—Yes.

So you agree that the monetary system will have to be planned as well as other things ?—Yes. I have already given a statement on that, as to how we could co-ordinate our monetary system in New Zealand in order to get greater control, and I think that the money system will have to come in with the general scheme of things.

Do you not think it would be a good thing to put the monetary system into direct ratio with the wealth that is produced ?—Do you mean the idea of equating goods and services with consuming-power ?

I mean putting the money into direct ratio with the wealth that is produced ?—I suppose that with a planned economy that is what would happen. It would fit in with the planned economy. Any planned economy that left out the banking factor would not be an economy at all.

So you think a reformed monetary system is necessary ?—I would fit it in because it is a necessary part of the general mechanism to facilitate the exchange of goods and services.

In your objection to the advocacy of monetary reform, have you changed your views recently ?—No ; I do not think so.

You are a member of the staff of one of the city newspapers ?—Yes. When England went off the gold standard in September, 1931, I wrote an article at the time saying that other things would have to be corrected before we could say we had got out of our difficulties. I mentioned then a large number of factors, and I stand by what I wrote then.

Mr. Murdoch.] I would like you to elaborate your proposal to control the credit, taking as the base the central bank. How are you going to control such lending institutions as the State Advances, say, which borrows its moneys principally from overseas at a fixed rate ?—I should imagine that in order to have effective monetary control in this country the central bank should have a say in the general lending policy of the country. Then, of course, comes the question of who is going to control the central bank.

Assuming you fixed your lending-rate for the central bank, say, at 2½ per cent. and the State Advances borrow at 4½ per cent., you have got to meet a deficiency of 2 per cent.?—Yes. In a way we will have to pay for past mistakes. We have got to recognize mistakes in the past and we have got to rectify them, and there is no rosy path towards rectification. After all, we have written down a considerable amount of money already because of mistakes in the past. We are doing it every year practically in our Budget.

Another point arises, about the lending of the stock and station agents—their system of finance. They may get their money from the bank and they may not. They may lend to those of us who are prepared to get stock from them by advancing stock and charging up the 8 per cent., and formerly a little higher. How would you get over that difficulty ?—The argument that I was pursuing was this : That if all the lending institutions were co-ordinated in some central authority the tendency then would be for interest-rates to be lowered, but, while you have competition for deposits, then some institutions might be in favour of reducing interest-rates but because of their competitors they are not able to bring down the corresponding rates on deposits, and therefore their policy is nullified, or their intentions are nullified.

We would require to fix the base and then a *pro rata* base for each of the other institutions ?—No. I only want to bring them under the control of some central authority in order to bring about more co-ordination of our financial structure. The details of the control I am not prepared to work out just offhand. They would take some considerable study, but they are not insurmountable. What I would like to see would be more of a pyramid of our financial structure, instead of a lot of people who are unco-ordinated and just working without consulting the other.

You referred to the fluctuation of exchange as a control in the fixing of local prices ?—You cannot have an internal price-level and a stable exchange unless you have a two-price system. In that you could have an internal price and absolute control of your exports and imports. You could fix those on a gold parity, but you would have to transfer them into your internal prices. The Russians do that, as a matter of fact. They exchange their goods on a gold parity, but internally they have another price system altogether, but they have an absolute control. As a matter of fact, they have two internal prices. It is a most complicated system.

The question of control of outward things has been mentioned here, and the suggestion that we have subsidies to industries. Would you care to express an opinion on that ?—I think subsidies are simply tantamount to throwing money away. They have never done any good in the past, and I do not think we can hope much for that in the future.

The Americans have a system of subsidy with their mail-boats. Now, there is a proposal by England to have a subsidy on their shipping ?—You can see the disastrous effect of that. The taxpayers of both countries are paying for a competitive war between two sets of shipping companies. It would be better, I think, for the British to take retaliatory action and impose the same conditions on American shipping as America imposes on British shipping. You would get a show-down quicker that way. If we prevented American boats from trading between two British ports they would begin to think about the wisdom of their subsidy, but just to simply give the British shipping interests a subsidy in order to carry on a shipping war is sheer waste.

Mr. Schramm.] You could not prevent American shipping trading between two British ports, could you ?—Yes. For instance, we have the Matson Line going to Auckland and then to Melbourne.

Pass a law to say they could not call there. But they would not stand for that, would they ?—That is what they are doing to us now. We cannot go to two consecutive American ports. We cannot take trade. We could adopt the same system as they adopt.

Let them call here and not trade ?—Yes. That is what has happened to our ships in America. A New Zealand ship cannot lift trade from Los Angeles and take it to San Francisco.

But she could call there ?—Yes.

And take trade and go on to England ?—Yes. But the difficulty is that the Matson Line is taking trade between New Zealand and Australia. That is what the shipping interests are complaining about.

They give better service. That is why ?—Then you are subsidizing an inefficient service.

Yes. There was some talk before about the position of Japan. It is very difficult to say what is the real position of industry there ?—Very difficult.

We are unable to ascertain with certainty what the real position is ?—I got hold of one of their official papers which is very interesting. It looks like something corresponding to one of our Chamber of Commerce journals or year-books.

There is no doubt that the Government is issuing credit to the manufacturers ?—Yes. And is also controlling them. There is a tremendous measure of State control of industry in Japan.

Does it look as if they are doing that for the purpose of getting control of the world markets ?—Yes.

And do you not think that under the present system of capitalism that that will ultimately lead to war ?—Very likely. There are the elements of a war situation in the East now.

You said that the Chinese state was such that they could not buy our goods. Of course, that is so at the present time ?—Yes. But if they improved their national economy, just the same as the Russians are improving theirs, then they would be in a position to buy from us ; but they must make those changes first.

You will agree that that is taking place in Manchukuo now under the Japanese domination ?—Yes. And it is also taking place in other parts of China.

And there is a chance, with the present policy of Japan, of it taking place all over China ?—Yes. But whether Japan is going to hold that market for herself is another thing.

She will have to fight it in the finish, according to her present policy ?—Yes.

You mentioned that the non-monetary causes were not the dominant thing to-day affecting the depression. Of course, it all depends what is the real definition of the first cause, does it not ?—Yes. I should imagine you yourself would accept the Marxian theory of surplus value.

I do. I believe it is correct ?—That arises through a particular economy in which we live, and you have to get rid of that economy before you can cure things.

That is the point. I say that the dominant cause of the present trouble is the capitalist system of profit ?—That is much wider than a mere monetary cause, and mere manipulation of money would not get you out of that difficulty, because you are trying to superimpose a monetary cure on something that you regard as unstable.

I agree that a reform of the monetary system will not do all, but do you not think it is quite a step in the right direction ?—There are other things to be done at the same time.

But would you not tackle it at least first ?—Along with the other ones. It is this piecemeal business that I am opposed to.

You believe in tackling the monetary problem and also other problems at the same time ?—Yes. The proposal that I put forward was from the point of view of a capitalist economy, because I do not think that this Committee is going to change the economic system.

I understand that there is nothing that a private bank does to-day under the present system that a bank to-morrow, controlled by the State, could not do ?—No.

You say that there are some things that banks controlled by the State could do that private banks could not do ?—The State could extend credit further, but that credit has to be met. It also incurs a liability, and, after all, if you are going to create capital you must forgo some current production. You cannot create it out of nothing.

For instance, if the State wanted to get money for productive purposes, they could issue credit against their own Treasury bills without interest, and they would be relieved of that debt of interest which has been weighing down Governments for years ?—Yes. I do not see any difficulty, for instance, in the State issuing Treasury bills in anticipation of revenue.

Free of interest, under a proper State-controlled currency ?—Yes. Of course, it is a matter of policy, but I honestly cannot see any difficulties in it. For instance, our income-tax comes in about February, and the money that is derived from that source of revenue is required right throughout the year. So I cannot see any difficulty in the way.

I would like to know, will the State Reserve Bank in New Zealand, in your opinion, help us as it is at present ?—I would like to see the State Reserve Bank under a greater measure of State control.

And I suppose you would like to see the private shareholders eliminated too ?—Yes. I think the orginal charter of the Commonwealth Bank in Australia would have done us.

Yes. There was no capital needed there to start it with ?—Because, after all, one of the arguments was that the shares would disseminate responsibility among the people ; but if you have the whole of the people as shareholders, that is going right to the limit.

Among those non-monetary causes that you set out as being in part responsible for the present depression, you say the first one, in fact, the dominant one, is the political factor, and you cite the Treaty of Versailles ?—That is one of the factors. We know the psychology that was operating then was to kill the Kaiser and make Germany pay, and we have not quite got that out of our heads yet, and the disturbances in Europe have had a big effect. After all, a man living in Germany would be wondering who was going to be on top next, and he would be very cautious about expanding his industrial activities. If he were a Jew he would be extremely cautious, and that must have a detrimental effect.

You talk about profits. Of course, if one person makes a profit some one else must make a loss ?—Yes. It is like buying in the cheapest market and selling in the dearest. Some one must get the other end of the stick.

You would agree with me that under the present system, if there is to be profit, there must be people who have to do without something that is due to them ?—Yes.

Mr. Clinkard.] Can credit exist without an obligation to redeem that credit ? Is there such a thing as credit unless there is that obligation behind it to redeem it ?—No. Every time you create credit you create a corresponding debit, and if you abolish interest you still create a debit.

It is a fact that the reliance on the stability of whoever creates that credit counts on their stability to make good the credit ?—Yes. A lot of people talk about the return of confidence and psychological factors, but those are only the reflex of the conditions around you.

AUCKLAND, WEDNESDAY, 14TH MARCH, 1934.

Statement submitted by Mr. H. W. U. HADDOW.

I. The well-known fact that prosperity for New Zealand follows prosperity among the farming community and slump conditions follow adversity to the farmer is no accident. It is proof that the economic structure of New Zealand is so constituted as to be peculiarly sensitive to variations in the gross income of the farming community, more so than would be expected from the proportion of the national income directly obtained from farming. This is due to the fact that the gross income of the farmer is determined—or rather has in the past been determined—almost exclusively by conditions outside New Zealand, whereas his costs are determined almost solely by internal conditions. Further, farming costs are highly rigid; even prior to the slump some 40 per cent. of farming costs consisted of rigid items fixed by contract, such as interest, rates, and insurance premiums. To-day the proportion, despite statutory reductions, would undoubtedly be higher. The result of the fixation of prices by overseas conditions and of costs by local conditions has been to cause a large portion of any rise or fall in gross income to be reflected in the net income of farmers. Thus the net income of farmers is exceptionally sensitive and variable—in good times being large and proportionately greater than in most other occupations, and in bad times being small (or a minus quantity if proper accounting is employed). This irrational and violent variation of the net income or spending-power of an important section of the community is a potent source of instability in the national economic structure, and consequently in the national income. Any fall in the farmers' income causes, by repercussion first on importers and then by diffusion among the rest of the community, widespread stagnation and unemployment, and a fall in the national income far exceeding in volume the original decrease in farmers' incomes. Similarly a rise above normal in farming incomes tends to cause a larger proportionate increase in the national income differing in no way from an inflationary boom. The flow of funds into new investment follows a similar cycle following variations in export prices, and the constructional industries consequently suffer severe changes in activity.

II. The problem immediately arises as to how much of the change in farmers' incomes and consequently in the national income is within our own control and especially within the control of our monetary institutions and system. It must be admitted at once that part of the loss of real national income is entirely unavoidable and beyond our control. This is the loss caused by the fact that in a period of falling prices the price-level of manufactured goods falls less and more slowly than the price-level of raw materials and foodstuffs. Thus the things that New Zealand sells fall, in a period of falling prices, more than the thing she buys; and a diminution of the real national income is then inevitable. Further, as a debtor country whose external debt is fixed in sterling, we lose by any fall in the general sterling price-level, even if the fall in the price-level of manufactured goods is not less than that of raw materials. I should estimate the diminution of the real national income during the present slump due to these unavoidable causes to be between 10 and 15 per cent. This might be termed a windfall loss. Similarly during a boom we secure a windfall gain in real national income. But even with the increased volume of exports the fall in the national income during this slump is nearer to 40 per cent. than to 15 per cent. I submit that this extra diminution in national income is avoidable, and that if it is avoidable, even only in part or at considerable cost, no pains or preconceived views or vested interests should be spared in the attempt to avoid it.

(*a*) Much of what has been said in paragraph I is a description of the normal course of the trade cycle as it affects New Zealand under the traditional policy of a fixed exchange-rate on London. The effect of a rise in the price of export commodities was to build up the banks' sterling balances and make credit easy. A fall in export prices had the contrary effect. The banks were apparently but passive agents in the flow of funds, following, not leading and not pretending to lead; but merely acting as dealers and intermediaries between borrowers and lenders and importers and exporters. Rates of interest were changed but slowly, and usually only as a last resort to protect the banks' liquidity. There was apparently no difficulty in maintaining parity of exchange with sterling within narrow limits despite huge year-to-year variations in the London balances. This seems to be highly significant, and knowledge of the means by which parity was so maintained would be of immense importance to the Reserve Bank. It is clear, however, that the banking system of New Zealand can maintain any desired exchange-rate in the face of most adverse factors such as an apparent large excess or an apparent large deficiency in the London balance. In short, it may be said that the traditional policy of maintaining the sterling exchange-rate at par permitted the variations in export prices to be transmitted to and reflected in the national income, and did not prevent or aim to prevent the aggravation of those variations by repercussion and diffusion.

(*b*) Latterly we have witnessed a departure from the traditional banking practice of maintaining parity of exchange with sterling in the adoption of the policy of exchange depreciation. The justification of that policy under present conditions, and the relationship between exchange-rates and the national money income, is adequately dealt with in the report of the Economic Committee. I propose, however, to outline the advantages to be derived from the adoption of a policy of a variable exchange-rate as a permanent feature of our monetary system, with the object of preserving our internal economic structure from the violent shocks of changing export-price levels. Before dealing with the positive points in support of this policy it is perhaps desirable to give reasons for abandoning—at least for some years—the traditional policy. Some of these reasons may be summarized as follows:—

(1) The absence of an effective international standard makes it no longer true that a fixed sterling exchange results also in a fixed rate of exchange with all other countries.

(2) The future policy of the Bank of England is unknown and unknowable, and it would be foolish to tie ourselves blindly to follow that policy whatever it may be.

(3) The rise of economic nationalism makes it likely that the Bank of England will tend more and more to adopt a purely domestic monetary policy. It would be merely a coincidence if the monetary and price-level policy best suited to a creditor manufacturing country, such as Britain, was always that best suited to a debtor primary-producing country, such as New Zealand.

(4) The people of New Zealand have no voice in the determination of the course of sterling prices.

(5) The transmission and aggravation of changes in the price-level of our exports on the London markets to our domestic economic structure cannot be prevented if we maintain the traditional parity of exchange or a fixed exchange-rate.

(6) Monetary policy throughout the world is in a state of flux, and it is prudent at least to preserve freedom of action.

The positive advantages which I submit would follow a policy of variable exchange-rates may be summarized as follows :—

(1) The money income of the community can be kept fairly stable and more or less independent of the variations of export prices due to overseas causes.

(2) The comparative stability of the farmers' income will be reflected in steadier trading conditions throughout the country in all branches of industry.

(3) The elimination of some of the element of risk from business due to irrational fluctuations in activity should result in a reduction of various costs—especially interest and bad debts.

(4) The maintaining of stability of the community's money income preserves justice between debtor and creditor, and will tend to make employment more stable, which in itself will tend to promote business stability and will prevent excessive rises and falls in house-property values and will preserve the house-owner's equity.

(5) The imposition of additional taxation at times of falling money income could largely be avoided.

(6) The necessity for State interference in private contracts will not arise—at least in not so acute a form.

(7) The violence of the variation in investment would be greatly mitigated following a more stable national money income which would preserve the value of existing assets. It is the fall in the value of old assets making it cheaper to buy than to build which makes new building fall off so much during a slump.

(8) Increases in efficiency in farming which have been very marked in the past fifteen years can be reflected in lower prices per unit by suitable exchange reductions, thus avoiding the capitalization of efficiency in enhanced land-values. The failure to reflect increased efficiency in lower prices undoubtedly led in America to the Stock Exchange boom. Similarly increased efficiency in farming, without reduction of price of the product, tends to produce a land boom in New Zealand.

(9) Changes in the rate of exchange do not result in equivalent changes in the wholesale-price level of all commodities. Roughly, the observed facts indicate that a change of 15 per cent. in the exchange-rate results in a change of less than 4 per cent. in the general price-level. On the contrary, a change of 15 per cent. in the farmer's gross income money may mean a change of 50 per cent. and more in his net income. It may be necessary to give the central bank a monopoly of foreign exchange transactions to implement this policy. It would also be desirable for the bank to quote a forward exchange-rate.

(10) The apparent loss on exchange on importing capital from overseas if the exchange-rate was below par would be a deterrent upon borrowing in boom times, and the apparent gain when the exchange-rate was above par would tend to stimulate the importation of capital during times of depression.

III. (*a*) No matter what particular monetary policy is adopted the changes in the national income due to external causes can be mitigated by variations in state and municipal spending policy. It has been customary in the past to see both the State and municipalities indulging in heavy capital expenditure at a time when private enterprise was also bidding strongly for capital and capital goods and the services of workers in the constructional industries. Private enterprise of necessity indulges in capital expenditure in a time of prosperity. The additional capital expenditure of the State and municipalities at such a time must inevitably aggravate the factors tending towards a boom, pushing up costs and interest-rates and swelling unduly the industries supplying capital equipment. When the downward phase of the trade cycle is experienced private and public capital expenditure have both dropped to remarkably low levels, causing widespread unemployment in the previously swollen industries. It may be a counsel of perfection, but there is nothing except strength of character required to make the public and private constructional programmes complementary and their demand on the factors of production alternative, and the Reserve Bank can lend its weight in support of this policy. Thus, when private capital construction is falling off, public expenditure on capital works should take up the slack, and *vice versa*. The saving in cost, if the State bids for the factors of production when private enterprise does not, alone justifies the proposal, but the effect on unemployment in preserving the internal economic activity in its accustomed channels are greater benefits. The Reserve Bank can greatly assist in the adoption of such a programme by cheap financing of public works in times of depression and by declining to finance such works at other times. An exceptionally low interest-rate on Treasury bills and municipal bills for financing public works in times of depression should be a permanent feature of banking policy. The central bank should be represented on the Local Bodies' Loans Board to ensure that local body spending is in consonance with its policy.

(*b*) The use of variations in the rate of interest as a factor regulating the economic conditions in New Zealand is almost unknown. The charging of 5 per cent. on Treasury bills during the present depression can only be explained on the ground of sheer greed or crass ignorance, and the offering by the banks of 5 per cent. for fixed deposits was a tragedy which has cost the community dearly in high interest-rates all round, and has delayed the reduction so badly needed.

(*c*) It is important that the community should have confidence in the leadership and policy of its central bank. Many an irksome change of policy, such as a rise in interest-rates, can be borne more cheerfully if the reason for the change is authoritatively published. The bank should take the community into its confidence and keep the public informed as to what it is doing and why it is doing it. Only a cynic would advise a sphinx-like silence as a means of inspiring confidence. I would suggest that regular pronouncement by the bank of its hopes and desires, its views and its policy, be initiated. The closest exchange of views between the trading banks and the Reserve Bank is of course essential.

IV. In presenting a policy to be followed by a monetary authority it must be remembered that it is much more easy to preserve an existing condition of economic equilibrium than it is to restore equilibrium when conditions are badly out of equilibrium. It cannot be too strongly emphasized that the problem of monetary control of the economic conditions is not a simple one. No automatic self-regulating device can cope with ever-changing conditions. Rules of thumb are little better. Cast-iron adherence to a preconceived policy is worst of all. The problem requires constant study, continued exercise of foresight and judgment; courage, but not obstinacy. Commencing with conditions as they are to-day, I now outline the broad points of monetary policy advocated for different phases of the trade cycle.

1. Policy during Incipient Recovery.—The conditions at the moment may be described as one of incipient recovery. Farmers' incomes are probably somewhat higher in the aggregate than last year, and costs are probably somewhat lower. The national income has probably touched its lowest point. Importers are slowly recovering confidence, stocks are low, building is picking up. Enormous sums of money are idle. In these circumstances the recovery can be hastened in the following way :—

(1) Maintenance of interest-rates at low level. Further reduction of fixed deposit and savings-bank rates.
(2) Ready and cheap financing of truly economic expenditure by State and municipalities.
(3) Maintenance of existing exchange-rate on London until price-level of exports has risen somewhat.
(4) Central bank to facilitate budgeting for manageable deficit.
(5) Encouragement where possible of private capital expenditure, especially by facilitating finance at low interest rates.

2. Policy as Recovery Proceeds to Normal Conditions.—(1) Reduction of exchange-rate on London by degrees at long intervals, at first proportionately less than the increase in export-price levels, and later in full proportion as soon as farmers' net incomes seem normal. Rate to be reduced even below par with sterling.

(2) Gradual tightening of terms of financing State and municipal expenditure by central bank.

(3) Perseverance in policy of maintaining low interest-rates until refinancing of existing land mortgages is complete, when funding of floating debt can be accomplished.

3. Policy under Normal Conditions.—(1) Minor fluctuations in the exchange-rate of 1 or 2 per cent., up or down, which have a greater psychological effect than the change actually warrants, combined with judicious open market operations and variations in interest-rates, will usually suffice to maintain stability under normal conditions.

(2) Refusal by central bank to finance or assist in financing public expenditure, except out of revenue or by public loan.

4. Policy as Boom Develops.—(1) Reduction of exchange-rate (below sterling par if necessary) proportionately to or slightly more than the rise in export-price levels.

(2) Sale of securities by Reserve Bank.

(3) Rigorous writing-down of all Government assets, strengthening of reserves and superannuation funds, creation of reserves—all from revenue.

(4) Closest scrutiny of all public and municipal expenditure, and refusal by central bank to finance such expenditure except out of revenue, and only in exceptional cases to assist in raising loans from public.

5. Policy as Boom breaks and Slump develops.—(1) Increase of exchange-rate as price-level of exports falls.

(2) Financing of public works by central bank.

(3) Low interest-rates, easy credit.

(4) Deficit budgeting facilitated by Reserve Bank.

(5) Bank to buy securities.

NOTE.—Several complementary but non-monetary steps which would materially assist in mitigating the effect of overseas booms and slumps on our internal economy could be adopted with advantage.

V. The State has not used its shareholding and voice on the directorate of the Bank of New Zealand in a suitable manner. The objective of the State Fire Insurance Department has not been to amass profits, but to keep the cost of insurance down for the benefit of the community. Whenever it has seen fit to reduce premiums it has done so, and all other insurance companies have had to follow suit, and all are still paying reasonable dividends. It is significant that no reductions have been initiated by private institutions. By contrast, the Bank of New Zealand has acted exactly as a private institution, and joined with its competitors in drawing monopoly profits from the community.

It has accumulated enormous profits, divided some as bonus shares, and consistently paid a dividend which judged by all ordinary standards is exceptionally high. The advantage it secures by having a monopoly of the Government Account is passed on not to the public, but to shareholders. It is obvious that the State's appointees on the directorate should not hold shares in their own right. Had a policy similar to that followed by the State Fire Insurance Department been followed, the profits obtained by all the banks in New Zealand would have been more reasonable and it is probable that the margin between deposit and lending rates would be substantially narrower, or the inland exchange and charge for keeping accounts abolished. The inland exchange is an irksome inconvenience to the community, and is a disgrace to a banking system which has been paying double-figure dividends for many years and distributing bonus shares. It is not too late to initiate a policy of lower dividends and cheaper banking facilities. The State directors on the Bank of New Zealand have had the power to do so all along, and the sooner they use it the better.

Witness: Mr. H. W. U. Haddow.

Mr. Haddow: Mr. Chairman and gentlemen, I will run through this statement very lightly. The first part is just roughly an outline intended to show that the point of contact between the New Zealand domestic economy and overseas economic units is the farmer, and the price-level of exports is of fundamental importance. I show you that the effect of changes in that price-level is diffused through the rest of the community and aggravated under present conditions. After that I deal with the question of how much of the fall—the loss due to falling prices in our export commodities—can be avoided, and I contend that some of it, of course, is unavoidable, due to the fact that primary products decrease in value more rapidly and to a greater extent than manufactures, so that the things we sell fall more than the things we buy. We have to give away more wool and more butter to buy the same number of motor-cars and the same amount of crockery. That is a loss we cannot avoid, but I suggest that the aggravation of this loss can be avoided. Then I deal with some of the reasons why it would be unwise to go back to the old policy of a fixed exchange with sterling, which in the old days was the fixed exchange with all countries on the gold standard, and I set out various reasons why it might be inadvisable, the chief of which is the uncertainty of monetary policy throughout the world; there also appears to be a trend towards nationalism and various countries setting up their own domestic monetary policies, so that the advantages of an international standard are no longer available. We must make the best of what we can with our own domestic policy. The advantages I have set out; the main object being to prevent undue fluctuations in the national money income of the community. It seems to me that by using the exchange-rate as the mechanism of control we can eliminate the violence of the ups and downs due to changes in the price-level of our exports. I do not suggest we should attempt to exclude the effect of these price-levels in the main; some of the loss is unavoidable, and we have to bear it; but we can, perhaps, spread it over the whole community. I think there is quite a difference in diminishing the income of the whole community by perhaps 10 or 15 per cent.—that is a burden which can be borne without undue trouble. I think in New Zealand every one's income in normal times will stand a cut of from 10 to 15 per cent. without ruin; but where, as we have at present, practically the whole of the loss falling on one section, and owing to the peculiar position of the farming industry it falls on his net profit very largely, you find that the income of a large part of the community is almost wiped out; and that has more serious effects than if the loss was spread over the whole community. I deal then with the co-ordination of monetary policy with public and municipal spending. If, as I have suggested, the exchange-rate should be moved to meet changes in the price of export commodities, it may be that that exchange-rate is not what we would call a true rate. There might be a piling-up of balances in London, or there might be a serious diminution of them. That can to some extent be overcome by a proper co-ordination of public spending with the exchange policy. Where, for instance, the London balance tends to become swollen and insufficient importing is taking place, then public works should be speeded up with a view to stimulating internal conditions and internal purchasing-power, which would result in a better demand for imports and a reduction of the balance, and a contrary effect would apply in times of boom. It would, as I point out, be a saving to the State in that the major part of the capital expenditure would be done when prices are low, and a smaller proportion done when prices are high. In the remainder of the statement is set out the policy that I would indicate as likely to be useful through the successive changes and ups and downs of the complete cycle. No one cycle is the same as another, but there is a certain similarity about them. I think the position of the State and its interest in the Bank of New Zealand is set out clearly enough, the idea being that the State directors should use their influence to initiate a policy of cheaper banking facilities rather than a policy of high profits and high dividends.

Captain Rushworth.] Your main object is to stabilize the prices in New Zealand money for our exports?—No; I would not put it quite that way.

You talk of a variable exchange-rate?—Yes.

For what purpose?—For the purpose of steadying the money income of the community. I wish to stabilize the money income of the community, but we must face the fact that some real loss of income results from the fall in overseas prices, and there is no point in trying to avoid that. You must put up with a loss of real income, and that should be reflected in a smaller money income.

The object of the variable exchange-rate would be to make things a little more profitable for the farmer?—It is not the objective, but is the mechanism. My point is that it is not good for the country to have one section of the community suffering a loss of income—perhaps a total loss of income—due to overseas causes.

If prices for exports fell further, the only thing would be to raise the exchange-rate even higher than at present ?—Yes, the main thing.

And if the prices overseas rise, diminish the exchange-rate ?—Yes ; I would not necessarily make that complementary.

You envisage a fluctuating foreign exchange-rate ?—Yes.

What would be the effect of that on the imports ?—We know the effect of the exchange on the importers at the present time. I think they overestimated the damage that they would suffer ; I think the effect was largely psychological, partly because the exchange-rate was raised too late and partly because it was not understood as a permanent policy. It would make a big difference, I think, if it was recognized as a permanent policy of New Zealand. For instance, when the Bank of England raises its interest-rate—its discount rate—the community does not get into a panic ; it is recognized as a normal method of regulating credit in England. If we adopted the exchange-rate as our normal mechanism, I do not think we would get very panicky at a small move, and I would not envisage a rise of 25 per cent. in one week.

Are you familiar with the experiments that have been carried out by Egypt and Sweden ?—Not with Egypt, but I have some knowledge of what they are doing in Sweden.

You know that, whilst stabilizing their income or price level, they simultaneously provided means for protecting the importer against a fluctuating foreign exchange-rate ?—I was not aware of that ; they have a forward exchange-rate ?

No ; they have a Foreign Exchange Equalization Fund. That fund takes up the oscillations in the foreign exchange-rate to enable the importers to enter into their former contracts. Would not something of the same sort be desirable in your scheme ?—It might, but actually in New Zealand we have already that mechanism. I think we have had surpluses of as much as £13,000,000 in the London balances, and apparent deficiencies of £10,000,000, and yet the exchange has been maintained at par. I think that was in 1925 and 1927. It is obvious that the banks held fair reserves in London which they used for the purpose, and I take it that the capital of the central bank and the whole of its assets will be in the place where wanted, in London, and will be available for the purpose.

You know that in 1931, when Great Britain abandoned the gold base for the second time, they did set up a Foreign Exchange Equalization Fund to enable producers to deal with New York, which was still on the gold basis, and they set up a fund of £150,000,000 to take up that oscillation. Would not something of the same sort be necessary here in a smaller way ?—I would put it that the capital of the central bank be used for that purpose.

Another point is, in arranging these payments through the higher exchange-rate to the exporters, is that to be regarded as a loan or as a straight-out payment ?—It would be a straight-out payment. It would be in exactly the same position as it is to-day.

But to-day, with the Banks' Indemnity Act operating, is it not in the nature of a loan ?—I would not say it was a loan. I am hopeful that the banks indemnity exchange will not result in a loss.

Of course, you are all the way through anticipating what is called an improvement, a rise in price-level ?—Yes.

Do you really think there is any justification for that ?—I do.

What justification is there, apart from the possibilities of war ?—I would say the fact that there are half a million more employed in Britain than there were a year ago, numbers variously estimated at between two millions and six millions more employed in America, and interest-rates are down to pre-war levels. After all, a suit of clothes wears out in time ; you have to get a new one, and I should imagine several million suits of clothes are pretty shiny by now. I think the figures indicate that recovery is approaching. I think also the abandonment of the gold standard has paved the way for recovery in America and in Britain, and also the normal effect that costs have had to give way and are being reduced so that profits are beginning to emerge, and that, after all, is the secret of the whole thing. Where you can produce with profit, you are on the way to recovery.

You do not think the trouble is in any way connected with the extraordinary indebtedness in which every nation finds itself ?—Do you mean internal or external ?

Either ?—I would say that the external indebtedness has had an indirect effect, particularly on tariffs and on exchanges. In regard to private indebtedness, its weight has become noticeable owing to the fall in the price-level. We were not conscious of it when we had a high price-level.

What has caused the fall in the price-level ?—I could not explain that in a few words, and am afraid it would take too long.

The reason I asked that is quite germane, because you have envisaged the possibility of a rise in price-level. I should like to believe there is some foundation for it. Personally I cannot find it. It seems to me that if there is any justification for a prospective rise in the price-level, it must be due to a reversal of the conditions which caused the fall ?—I would put it this way, that the high rate of interest was the main item. Interest, I think, is comparatively customary, and the whole world got accustomed to high rates of interest during the war. Then we had distressed borrowers after the war who were willing to pay anything, and there is no question that a high rate of interest causes stagnation.

It is generally held that if you put a greater volume of money into circulation you tend to cause an increase in the general price-level, a state of inflation. If you decrease the money in circulation, you cause the contrary effect. But, surely, if that is the case, whether interest is high or low has no bearing, because it does not vary the volume of money in circulation ; it is merely transferred ?—It varies the volume immensely.

Does it ?—Yes. I would borrow all the money available at ½ per cent., but none at 6 per cent.

But if you borrowed it at all, the interest that you would pay would be distributed to some one else. Whether the money is spent by some one else or by you is immaterial so far as the nation is concerned, is it not ?—Yes, but that is not the point, which is : That unless borrowed the money may not get into circulation at all.

It seems to me that some further thought is required on that particular aspect of the subject. Another point: You draw attention to the fact that in the past the State has had a majority of directors on the Bank of New Zealand, but they have not operated in the interests of the State ?—Not in the interests of the community, or in the interests of the State. They have operated purely as a means of producing big dividends to the State.

And do you think that the new Reserve Bank will alter that in any way ?—Do I think the directors of the Reserve Bank will adopt the policy of serving the community ?

Yes ?—I think they will. I think the limitation of dividends will have that effect.

Mr. Clinkard.] Before I start to question you, Mr. Haddow, I want to compliment you on your paper; it is something worth while. As I see it, the principle underlying your proposals are first that New Zealand's prosperity depends on (*a*) the credits received from the exports plus the amount produced for internal consumption—that is the basis, is it not ?—Yes.

(*b*) That if, owing to external price-levels, our exports decline in value, the exchange should be raised so that the credits in circulation should not be reduced in their total volume; is that right ?—I would not say that they should not be reduced in their total volume, but, rather, that they should not be reduced to the full extent of the fall in export values.

But that they should be raised with the intention of bringing about an equalizing in the total credits available for circulation ?—I would not say the total; I would say the exchange-rate should not be raised to such an extent that the total credits would be the same, but to the extent that the unavoidable—I find it very difficult to explain in a few words.

Hon. Mr. Downie Stewart.] To ease the position ?—Exactly.

Mr. Clinkard.] If prices rise above the normal, exchange should be reduced to such an extent as would maintain equality ?—As would maintain a reasonable profit in the form of industry.

Your object is not so much to give a profit to the farming community as it is to maintain a balance of the credits of the nation generally ?—To maintain the nation's money income; to keep income as near to normal as possible.

For instance, you are aware of the fact that our total exports during our better years went up to £50,000,000 and even £56,000,000 ? I take it you would not base your calculations so much on the individual prices as you would on the returns from the total exports, would you not ?—Yes, I would base it more on the net profit that the farmer was making. I would not raise the exchange to such a figure that would give him an excessive profit, because, if that were done, it would merely be capitalized and result in a land boom.

Do you not think we are liable to get into some such difficulty ? Would it not be better to view it in this way: We will say that in view of the low price of butter and the high price of wool, the returns should net something like, say, £45,000,000. On that assumption, even though one commodity might be down and another up, if the amount fell below £45,000,000 or rose above £45,000,000 (£45,000,000 is only a figure), that should control the position of whether your exchange went up or down ?—Exactly. I think you made it clear that the central bank should not deal with individual prices; it is to deal with the averages of prices.

That is exactly my point. There is one weak point in your contention and it is this: That when we had the exchange, all commodities were at very low levels. All sheep commodities have risen to paying prices while cow commodities are down below the paying price. The difficulty is that if you were trying to adjust the position by exchange, you would assist the one which was not requiring assistance just as much as, or more than, you would the one which needed it most ?—The monetary system cannot attend to every individual price and a non-monetary policy would have to be adopted.

Your object is not to reimburse the individual for his loss, but to keep up the even volume of credits coming into the pool ?—You cannot do more than average it.

Quite so. Would you agree that we cannot stabilize exchange and at the same time stabilize our prices internally ?—Do you mean, to maintain a fixed exchange with sterling ?

Yes ?—It cannot be done.

One or the other must fluctuate ?—Yes.

If you fix a price, you must allow for a fluctuating exchange ?—Small variations can be absorbed. With a large fluctuation like the present, either one or the other or both has to move.

When Britain went off the gold standard, would you regard that as a decided relief to debtors who had to pay in sterling ?—Yes.

It practically reduced our payments by over 30 per cent. ?—Yes.

And if America reduces or deflates her dollar as she is talking of doing, to something like 50, how will that affect Britain's war debts to America ?—It will lighten them correspondingly.

Divide them by about 4½ ?—Yes.

So that the operations that are taking place at the present time, though they are not achieving the, may I say, desirable object of wiping out war debts, are at least very materially decreasing their burden ?—Yes.

And the same applies to other debts, does it not ?—Yes. The weight of a debt depends on the price-level.

Will not that world-wide tendency to reduce indebtedness in that way have a very beneficial effect on commerce and spending-power of the people generally the world over ?—I think it certainly paves the way for recovery and I think it has had that effect in Britain already. British export trade has picked up.

I agree with you that a great improvement appears to be taking place in the position in Britain, in markets and in other ways. I think you have stated to Captain Rushworth that your view is that there is a great improvement. You have also seen the same improvement in connection with our local production. As I said before, not only are wool, lamb, and mutton materially improved to what they

were, but it is your opinion that that is an indication of the trend of events, that we have turned the circle and are on the up-grade of the graph, as it were ?—I think we have just about finished bumping along the bottom.

Captain Rushworth asked you the question what has caused the fall in price-levels. You would not put that to one cause, would you ?—No.

You would probably take the same view as the Macmillan Commission, that it was from a great variety of causes ?—Quite so.

With their foundations more or less in the effect of the war ?—Yes.

That was the foundation cause of these other causes and they proceeded from it. Would we say that for the time being the world's affairs were subject to mal-adjustment ?—Most certainly.

And the consequence is it takes time to bring those into working-gear again ?—It does.

Do you think that they have been approaching nearer to a working-condition ?—Yes. Very gradually.

You do not think that the minds of the world have all been trying to make things bad in order to scoop through a depression ?—No. I think it has been more due to ignorance than to design.

And would you go further and say that in many cases some of the difficulties were unavoidable for the time being ?—Some were. But I think the story could be written up in the words "Too late." Nearly every remedy has been applied too late.

And could we not say further than that, that as the world had provided no parallel in the past that the human mind was incapable for the time being of grasping the tremendous changes which had taken place ?—That is about the position.

Captain Rushworth attached a good deal of importance to the increase in circulation. Of course, we know that the increased currency available invariably puts up prices. That is so is it not ?—Provided the velocity remains the same.

That is so. But if you take it to a considerable extent, if you put in a large amount of increased currency, you invariably put up prices ?—Yes.

But there are other causes for putting up prices besides the increase in currency, are there not ? Increased demand, for instance, greater velocity of turnover of currencies, and so on ?—Yes.

So that we cannot say that because there is no increase of currency there can be no increase in price ?—Certainly not.

You would not consider that it was necessary to have a certain amount of currency tagged on to every commodity in order to dispose of that commodity ?—No.

Would you agree with me that in many instances money is not actually used for exchange, but rather to measure the commodities one against the other ?—Yes. That is so. It is money of account.

That is the correct term. I see that you have expressed an opinion which I have done for many years, that the directors of the Bank of New Zealand appointed by the Government should not be shareholders. That is your view expressed, I think, is it not ?—Yes. It seems to me to be the simplest way to ensure that the State appointees serve the community rather that their own interests.

The Chairman: I do not know whether you quite said that.

Mr. Clinkard.] I am taking the document ?—They would be more likely to serve the community rather than their own interests.

The Chairman.] Is that point clear that Mr. Clinkard is asking, that they should not be shareholders ?—Yes.

Mr. Clinkard: I wanted to emphasize that, because it coincides with an opinion I have expressed.

Hon. Mr. Downie Stewart.] I have very little to ask. On that last point about the directors of the Bank of New Zealand, I have forgotten the passage in your paper. I only want to ask you whether you are aware that some of the directors of the Bank of New Zealand have held that same view, and have refused to hold shares ?—No, I was not aware of that.

I do not know what the present position is, but some years ago the Chairman told me that he refused to hold any shares or apply for any shares because he took your view that by not holding dividend interests he could serve the public best. I do not know whether it is universally observed, but it is only fair to mention that ?—Yes.

It is a little while since I read your paper, but I understand that your main view is that the popular idea that you can control internal price-levels purely by exchange manipulation by itself is not sufficient. You must take account of other factors as well ?—Yes. I co-ordinate other policies with it, of course.

Would you agree that if you paid regard purely to maintaining an internal price-level without any regard to the exchange you might reach a point where your own money would become valueless externally. I think there is a limit to what you can do ?—Yes. Of course there is a limit to the rise and fall in prices as a rule.

My main object was to direct your attention to one or two passages that bear on your paper. Have you read the last chapter of Cole's new book, in which he discusses this question at great length ?—No, I do not think so.

I want to know whether you agree with one or two statements he makes here. He says, after a certain discussion, "This seems to show that the stabilization of the general level of internal prices, plausible as it seems as an ideal, is not, in fact, an object which can be pursued by a country either on or off the gold standard without very considerable dangers." Would you agree with that ?—Yes. But I have not advocated stabilization of internal prices.

But you admit there are evils ?—Yes. I am simply using the exchange as a buffer.

Yes. I understood that. But the ultimate object of that must be to try and equalize internal conditions to a great extent, and redistribute the national income. Cole seems to hold the view that you ought to adopt a third policy, and he is apprehensive of certain consequences from concentrating too much on the exchange. He thinks it must be rendered by either higher wages or increased taxation,

I presume to compensate for the regular rise in prices ?—Actually in New Zealand, or course, we have found a falling price-level. The price-level is down about 15 per cent. It is not as though our exchange depreciation has brought our price-level up. Of course, it is above the English price-level, but nobody would say that our currency has depreciated to the point of vanishing.

Have you seen a recent article on the Swedish experiment by Professor Ohlin of Sweden ?—No. I have not. It takes some time before these things reach me.

It is only out of interest to you that I was going to direct your attention to it. It is not necessarily hostile to your view. He has an article on the "Inadequacy of Price Stabilization," and it seems to me that in a time of depression it is very hard to carry out any policy with the objective of price stabilization successfully. He says, "To sum up, then, it may be stated that during this period, characterized by increasing and stagnating depression abroad, Swedish monetary and financial policy did not succeed in preventing a certain reduction in wholesale- and retail-price levels, still less in bringing about some rise in prices." That is simply picked out at random. However, there is not much point in this except in directing your attention to it ?—I should say that the proportion of overseas trade in Sweden is lower than it is in New Zealand, and I think it would have some bearing.

There would be more chance of success there than here ?—No. I think a price-stabilization policy would have a better chance of success in Sweden and an exchange-control policy would have a better chance of success here.

Dr. Sutch.] There are not many questions that I have to ask. It is more of a general nature, and, since the Swedish business has been brought up, I thought I might ask you something on that. In essentials it is much more analagous to the New Zealand policy that was generally realized on the surface. It is only a difference of emphasis. As you have just remarked, the proportion of overseas trade is different in Sweden from here, and hence their emphasis on the credit instruments they are using is different. Have you studied the Swedish situation at all ?—Not very much. I think the last I saw on it was the *Midland Bank Review* about eight or nine months ago.

The depreciation of the Swedish exchange has been just as deliberate in Sweden as it has been in New Zealand. They have depreciated 35 per cent. off gold in Sweden, but they have tried to keep an internal price-level by easy credit. They have tried to keep their wholesale price-level steady or to stop it from falling. I was wondering whether, if we had had a central bank in New Zealand before the depression, would we have had the controversy we have had over this exchange question ?—I do not think you would. I think we spent a year arguing about it and the evil psychological result was accentuated. In Australia they did not have the trouble.

That was similar in Sweden. In Sweden they consulted their economists and asked what the policy should be, and after discussion arrived at it, but they had a central institution and had a fund and purposely depreciated foreign exchanges in order to keep this wholesale internal price-level. If New Zealand had had a central institution, perhaps New Zealand might be hailed throughout the world also as Sweden apparently is ?—Quite probably.

You think so. Mr. Rushworth remarked that there was an Exchange Equalization Fund. I am inclined to think that he has not quite the exact terminology. It was a fund (if it was a fund) to depreciate the exchange in order to keep the wholesale price-level stable. Now in New Zealand our price-level has remained stable. Have you any idea of what has happened to the cost of living ?

Captain Rushworth : That is a queer sort of question. It is putting words into my mouth.

Dr. Sutch : I am sorry Mr. Rushworth. Would you correct me.

Captain Rushworth : The question that I asked the witness was related to the Exchange Equalization Fund that Sweden has set up, much in the same way that Great Britain set up the Exchange Equalization Fund. I was drawing the distinction between the operations both in Britain and in Sweden to that in New Zealand, where the exchange had been lifted arbitrarily and no Exchange Equalization Fund had been established.

Dr. Sutch : The point I am trying to make is that they are very similar, and the English Equalization Fund is different from the Swedish one. The English Equalization Fund is to iron out the rises and falls due to speculation rather than the general tendencies in the price-level. The Swedish one is not due to that, but it is done deliberately, and is used to depreciate the foreign exchange in order to keep their internal price-level stable. There is an essential difference. That is all I am trying to get at. I am not trying to put words into your mouth.

Captain Rushworth : Well, I suggest that you leave my name out. Otherwise some misunderstanding may arise.

Dr. Sutch.] My last question is this: What has happened to the cost-of-living index since the exchange-rate was increased to 125 ?—I do not know what has happened to the cost of living in general. To tell you the truth you gentlemen sat a bit too soon. If you had sat in about six months' time I might have been able to go into the statistics more fully, but I do not think the cost-of-living index has moved up at all, 1 or 2 per cent. down probably.

Yes. At the end of 1933 the cost of living in New Zealand—that is, the index—was 5 per cent. below what it was in 1932, so that, despite the increase in the exchange-rate our cost of living remained comparatively stable, in fact, it fell somewhat. Would you have expected that to have been the case ?—Yes.

You estimate the diminution of the real national income during the present slump to between 10 per cent. and 15 per cent. That is owing to these unavoidable causes. How do you arrive at this figure ?—It is very little more than a guess, perhaps, but I actually assume the pre-slump national income at about £150,000,000, and assume the average exports at about £50,000,000 sterling. They are all sterling figures at the moment. And our export price has fallen to somewhere near £35,000,000 sterling, perhaps £30,000,000 at the bottom of the slump. And that is a drop of about £20,000,000 sterling out of £150,000,000, practically unavoidable, because at that stage the price-level of manufactured goods had hardly begun to fall or they had not fallen out here.

What proportion of our production in New Zealand is exported ?—I do not suppose more than a third.

You mean a third, 40 per cent., or something like that. Do you think that if price-levels of our exported products fell 20 per cent. we would get a much greater fall in the value of national production in New Zealand ?—Undoubtedly.

It is undoubted, you think. You think our whole economy depends on the value of our total production, part of which we export ?—Yes. It tends to be concentrated in that way. It is the fall in the value of exports which is the originating cause, and then by aggravation it spreads to the other classes of production.

That is very clear. You say, "The rise of economic nationalism makes it likely that the Bank of England will tend more and more to adopt a purely domestic monetary policy." I realize that that is only hypothetical, but you go on to say, "It would be merely a coincidence if the monetary and price-level policy best suited to a creditor manufacturing country, such as Britain, was always that best suited to a debtor, primary-producing country, such as New Zealand." Do you mean that what we have in New Zealand is a reflection of monetary policy in England ?—It will be when we have a fixed exchange.

But if the price-level of butter and wool and meat fell independently of the monetary policy in Great Britain would we not have a different reflection in New Zealand ?—I do not quite follow the question. I do not quite appreciate what you mean.

The point I am trying to make is this: That if the internal price-level of Great Britain is one of deflation need we necessarily in New Zealand have also a policy of deflation ?—If we have a fixed exchange, of course, in effect we would have to.

Is it not possible that under a deflationary monetary policy the price of our exported products might rise ?—It is not likely.

You are assuming, then, that the monetary policy is the sole determinant of the value of our products ?—I would not say it is the sole determinant. It is one of the most important.

If we assume that the British regulation of milk-products went into force and that the price of butter, for instance, rose in England, here you have something happening quite independent of monetary policy that would affect the value of our sterling held overseas and we in New Zealand might have a boom while in England they might be assuming some quite independent monetary policy ?—That would be possible.

Would you say that we should have a different name for our New Zealand pound ?—I think it would help to avoid confusion of thought if we did.

In essence our New Zealand pound is different from the English pound ?—I think so.

The question has been asked, what of the effect on importers of the fluctuation in the exchange-rate ? If you assume parity of the exchange-rate, do not the importers suffer in the long run from our alternate booms and slumps ?—Yes. There is no question of that.

So that if we had a fluctuating exchange-rate it does not necessarily mean that our importers are going to suffer any more than they have with a parity of exchange ?—No. On strictly economic grounds they would suffer less.

So that under this scheme the importers are going to be better off over a long period ?—Yes.

That is what I wanted to get at. You say, "The failure to reflect increased efficiency in lower prices undoubtedly led in America to the Stock Exchange boom." Would you say, then, that there was really inflation in America, although they had a stable level of prices ?—Yes.

So that we can have inflation despite a rise in prices ?—Most certainly.

So that we are not aiming at any stability of price-level, if other conditions bring it about that we should have falling prices. Would you agree ?—Certainly. I do not think inflation should be related entirely to a price-level. I think it is rather just a way of speaking.

It is a very difficult term to define. Perhaps it would be better if you defined what you mean by inflation ?—I would say, roughly, that inflation is a condition where profits are above normal or where interest is below its natural rate, so that there is a tendency for the community to be borrowing more than it is saving.

Yes. I should go into that, but I want to give more attention to this scheme. You say, "The observed facts indicate that a change of 15 per cent. in the exchange-rate results in a change of less than 4 per cent. in the general price-level" ?—That is, the wholesale-price level.

Not the cost of living ?—No.

So you take those figures as indicative of something on which we could base future policy ?—I do not think the figures have been in existence long enough. Actually those figures came from just over the past year, the result of the last 15 per cent. increase in exchange, and, of course, in one year there has been a rise of 4 per cent. in the wholesale-price level. Whether it is entirely due to the exchange is a different matter, because I think there has been a slight tendency for wholesale prices to rise overseas.

And there may have been a tendency for them to fall ?—Yes, there may have been.

So that we cannot generalize just from the facts of last year ?—No. But the idea is to show that an increase in the rate of exchange does not result in an equal increase by anything like the amount in the price-level. And, moreover, you have got to consider that the policy I advocate would be raising the exchange-rate at a time when the general price-level overseas, particularly of imported commodities, would tend to fall.

You say it is necessary to give the central bank a monopoly of foreign exchanges ?—I do not say it is necessary, I say it may be.

What was your case for giving the central bank a monopoly ?—It may be necessary to.

We have the legislation now to enable us to do that ?—Yes.

Then why do you think it desirable to quote a forward exchange-rate ?—To enable importers to give definite quotes without having to take into consideration variations in the exchange-rate.

Would you say that the exchange-rate is to remain at its present level for six months ?—No, I do not say that. I mean that when an importer is asked to quote a price for so many tons of material in six months' time he can not rely on the exchange-rate being exactly the same in six months' time, but he can go to the central bank and say " I want to buy exchange in London in six months' time to a certain amount," say, £10,000, and the bank would quote him a charge for the forward rate.

Your Reserve Bank would take the risk ?—Yes, and probably charge more.

What I thought you meant was that you were going to say that the exchange-rate was going to change in so-many months' time. That explanation has cleared the matter up considerably. I am a bit worried about your ideas where you say in slump times you would carry on public works and in boom times you would recede them. You say, " There is nothing except strength of character required to make the public and private constructional programmes complementary." While I agree with you that that is one of the essentials, there is one school of thought that if you take a certain amount of money out of circulation in boom times you are not affecting the national wealth of the country at all. This question was discussed in America a good deal during the last few years as to whether in slump times you could inject currency into a system, but would you increase wealth ? Do you think it is possible to inject currency and increase wealth ?—It is possible to do it. It just is a question as to whether the community will use the extra currency or hoard it. If they used it you would make wealth.

One other thing is necessary, that the production continues to have a sufficient return to cover costs ?—Yes.

So that as well as strength of character there is that to be considered ?—That is so.

You say that public expenditure on capital works should take up the slack in slump times. You would operate on Treasury bills ?—Yes.

Are Treasury bills usually used for long-term financing ?—No.

You would depart from practice there ?—Yes. I would assume they would be for a period only. They would not be floating around for ever ; they would be funded ultimately.

So that if the Reserve Bank is going to finance on Treasury bills and fund them, then the Reserve Bank is going to have long-term debts in respect of Treasury bills ?—They would be sold to the people. Loans would be raised to redeem them.

So that means that during a slump you will finance on Treasury bills and when you hit prosperity again you will fund your debt ?—Yes.

You say " The use of variations in the rate of interest as a factor regulating the economic conditions in New Zealand is almost unknown." Do you think that we could alter the rate of interest, but vary the amount of credit that is exchangeable in New Zealand ?—To some extent, but I feel that New Zealand has not a suitable economic structure, is not responsive to the rate of interest to anything like the extent to which the British economic structure is.

You said that if all the money in the country was offered at ½ per cent you would borrow it ? Yes, I would.

That indicates that the rate of interest has some effect on the amount of money borrowed ?—Yes, but there is considerable difficulty in lending it.

Could you not have a situation where you could offer money at ½ per cent. and it would still not be borrowed ?—If the community had not the confidence to borrow.

Confidence, and if at the end of the production period costs have not been covered ?—Yes.

So the rate of interest need not be a strong factor in credit, particularly in New Zealand ?—I do not think it is. I feel that the possibilities of it are not very great.

It could be used more than it has been ?—There is no question of that. It should be used more rapidly.

You say you would reduce fixed deposits and savings-bank rates. That would require the co-operation of many institutions, surely ?—Yes. I suggest that the central bank should be in close co-operation with the trading banks and I think the savings-banks could be induced to change their policy and their interest-rates at the request of the central bank.

You also say, " ready and cheap financing of truly economic expenditure by State and municipalities." What do you mean by " truly economic expenditure " ?—I mean expenditure, of course, which will cover the outlay of capital, sinking fund, and interest.

That means that you would not go on with the South Island railway ?—I do not know anything about that railway, but the Auckland feeling is that it will never pay. In that case I would certainly not go on with it.

So you would make that the ability to pay, to cover costs ?—Yes, during its existing life. You should not take too narrow a view if the thing did not pay within the first year or two. If your capital has been lent for thirty years and over the thirty years you are sure it will cover the cost and pay interest, then I should say go on with it.

Could you say what was the best exchange-rate at any moment for New Zealand ?—Probably at the moment New Zealand is suffering from the effects of changes in policy. If you have a plan, however good or bad it is, it is better to keep to it rather than to change.

So the best policy in New Zealand would be to say : This exchange-rate is to be the exchange-rate for six months or a year, just to give the commercial community some knowledge of what is going to happen in the future ?—Yes, I would certainly, in the first instance anyhow, make it clear that it is permanent because of the general belief and hope of many interested parties that it is going to fall at the end of this month or next month, and, as a result, we might say the exchange-rate has never been a true one, has never been a natural one.

It could still be 125 and be what you term a natural rate ?—Of course, it could. What I mean is that the community is not accepting 125 as the exchange-rate for the purposes of all transactions. They feel that some transactions are better postponed, because it may pay them to postpone them.

The reason for that is these interested parties you mention ?—Yes.

Now, in regard to this banking indemnity; the banks have been paid nothing yet, have they ? They can only be paid something if they lose on the exchange-rate. If the exchange-rate falls to 120 and the banks lose on it the Government undertakes to make up the difference, so that we have not paid in New Zealand anything to anybody except a rate of interest for keeping the exchange-rate up ?—I do not know the position in regard to that, but I have assumed that to be the position.

I thought you knew, because, in answer to a previous question, you said that it may be possible that the banks' indemnity may not be paid ?—I meant there may be no loss. I do not know the actual position between the Government and the banks, but I do not think you need be worried about huge losses in the matter.

So it is quite possible that when the Reserve Bank takes over, the Government need not lose one penny to the banks ?—No.

That is quite possible ?—Quite possible.

And you envisage normal net incomes for the farmer. Do you not regard that as a rather dangerous phrase ?—I would not give the farmer the job of deciding what was his normal net income.

It is a difficult matter to decide; that is a difficult question ?—There is no question about that, but you can, I think, probably from practical observation and by statistics, get an idea as to whether a farmer is earning normal or abnormal or subnormal profits. It shows in his face too.

I have tried at various times to find out the cost of production of a pound of butterfat, and it has varied from 6d. to 2s., so what are you going to say is the normal net income of the farmer ? That is our problem. In talking about the profits that have been given to shareholders of banks, do you think that credit extended in New Zealand has been limited because of high overdraft rates ?—I suppose borrowing has been deterred somewhat by it.

You think it has ?—Yes.

It all links up with the question of the rate of interest deterring borrowers ?—It must, unless you are so distressed that you would borrow anyway.

We have examples of the overdraft-rates of banks being 7 per cent., and that of the stock and station agents 8½ per cent. or more, and at the same time advances have increased. It would seem that the rate of interest has had little effect on the amount borrowed ?—That is a slightly different type of borrowing—borrowing to carry stock—the farmer's working capital. He has to accept the customary position; it is customary and he never questions it; but borrowing for the purpose of capital construction is generally preceded by a careful investigation as to the rate of interest it can earn and may be deterred by high rates, and the overdraft rate tends to set the standard rate of interest.

But for capital construction you would not borrow on overdraft ?—You might temporarily.

Yes, just temporarily you might. Has the rate of interest charged by the banks in New Zealand on overdraft held up the development of this country ?—No.

You do not think it has ?—Not materially.

Mr. Munro.] I want to ask two or three questions. You mention "Maintenance of interest rates at a low level." I want to be clear as to what you mean. I know what you mean generally, but would you suggest that those rates of interest should be lowered by Act of Parliament ?—No.

Just by indirect suasion ?—Yes. The central bank will fix a low rate at which it will lend to other banks.

You also mention "Encouragement, where possible, of private capital expenditure, especially by facilitating finance at low interest-rates." Would that be done through the central bank ?—No. I do not think so. The central bank should not deal with individuals; it should only deal with the other banks.

That is a point I wanted to be clear about. Now, "Gradual tightening of terms of financing State and municipal expenditure by central bank." I presume you mean the central bank as already constituted ?—Yes.

Your idea in that clause would be for the purpose of maintaining low interest-rates. The tightening of terms would relate to the perseverance in policy of maintaining low interest-rates until refinancing of existing land mortgages is complete, when funding of floating debt can be accomplished ?—The central bank would not finance State and municipal expenditure on quite such easy terms, and as normal conditions were approached there would not be the need; they should rely on public subscriptions.

You also recommend "Perseverance in policy of maintaining low interest-rates until refinancing of existing land mortgages is complete, when funding of floating debt can be accomplished. I take it that the answers in regard to the reduction of interest generally answer that ?—I think it probable that the rate of interest on mortgages could be cut down to 5 per cent. If the present rate of interest on the Stock Exchange is 3½ per cent., if there is money available for investment, the refinancing of the existing land mortgages can be successfully accomplished at 5 per cent.

Going back to the question of lowering the rates of interest, no matter by what method it is accomplished, if we brought interest-rates down very low in New Zealand would not money or capital try to find investment in Australia ?—It might, but I think a more likely effect would be excessive borrowing here.

Supposing we could bring the average rate of interest down to, say, 3 per cent. in New Zealand and it averaged 4 per cent. or 5 per cent. in Australia. That would mean a transfer of the investments to Australia ?—Yes, but, on the other hand, by borrowing at 3 per cent. and investing in capital enterprises here you would probably show a rate of profit which might approach 20 per cent., and there would be a tendency to transfer funds from gilt-edged securities to speculative securities or shares.

Mr. Schramm.] You said that you consider we are just bumping along the bottom in regard to the depression ?—We have finished bumping.

Do you think that is a fair statement in view of the fact that we still have 75,000 unemployed ?—I think so.

Can you see any prospect in the near future for those 75,000 unemployed ?—Yes, but not for all of them.

What do you see ?—I can see a gradual reabsorption into industry.

What industries do you visualize ?—I think you will find even the importers will be taking on a few more hands soon.

You think so ?—Yes, and transport will absorb some; building will absorb some.

You understand the position is as bad now as ever it was in that connection ?—Yes; the population is a little larger, of course.

Not much ?—No.

Is that not a fair test that we are still at the bottom at the present time ?—It is only a question of the angle from which you view it. You do not expect in this country that the first sign of recovery will be a picking-up of the labour market; it will be one of the last things.

What would be the first sign ?—The first is an increase in the farmers' income. We have it in wool and meat.

Are the dairy-farmers not in a worse position now than ever they were ?—I do not know that they are any worse; they are as bad as they were.

Would that not be another sign that we have not bumped along the bottom yet ?—You can pick out items, but I am dealing with the general average, and I think you will find that the general average national income is a little bigger now than a year ago.

Do you not think the two most important things are the number of unemployed and the fact that the farmers' purchasing-power is getting less than before; they are as bad to-day as ever ?—Yes. You could not say that all the community are equally as badly off as before, neither could you say there was no progress made. You cannot expect everything to jump up at once.

I do not expect that; but the point is that they are worse now ?—I do not think so; I do not think they are any worse.

In connection with the Bank of New Zealand, you have followed these things for years ?—Yes.

I suppose you believe in the Bank of New Zealand being wholly and solely controlled and handled by the State ?—No. I do not think it matters much—not now that we have a Reserve Bank.

Do you think the policy they have adopted has been wrong—the policy of the division of profits ?—Yes, I think it has not been in the best public interests.

You quoted the New Zealand Insurance Co. as a good example of insurance ?—The Government Insurance Office.

In regard to the inland exchange in New Zealand, you think that is very unfair ?—I do not know about being unfair as being a nuisance. After all, banking should be as convenient as possible. I do not know what profit the banks make out of the exchange.

It is not in force in England ?—No, but they have other methods of extracting money from the unfortunate customers in England to take its place.

Do you not think the charge for keeping accounts should cover all that ?—If you like, but it does not matter a great deal how they charge provided it causes as little inconvenience as possible to the community and I think that the inland exchange causes more inconvenience than any possible taxation you could evolve.

The banks, of course, seem to have power to double the rate for keeping accounts ?—They are in the position of having a monopoly. They increased the charge by 100 per cent.

Have you had any chance of working that out to see what it means to the people of New Zealand ?—No, I do not even know how many accounts they have.

You mentioned the rate of exchange. You are sorry that did not come sooner ?—I think in the present depression if it was raised at all it should have been raised earlier.

You think that would have been a good move ?—Yes.

And you would keep it on now you have it on ?—Yes.

Mr. Lye.] I do not want to ask many questions, but I would like to pay this compliment to Mr. Haddow in saying that I consider that his paper is a very interesting one and will be useful to the Committee in its deliberations. On the question of currency, banking, and exchange, I want to ask this question: Dr. Sutch raised the point of the definition of inflation, can we take it to be an abnormal increase in purchasing-power, that when there is that increase it is accompanied by a rise in prices, or, in other words, depreciation of currency, and when deflation takes place the exact opposite obtains ?—That is a rough definition of it.

That is what is generally understood ?—Yes.

Would you say that supply of money and credit in New Zealand to-day is largely dependent upon the supply of sterling ?—I think so.

But that the relation between the supply of money to sterling is and has been largely dependent upon the policy of the banks in New Zealand by the giving or restricting of credit ?—Perhaps I should be quite clear what you mean by sterling. Do you mean the sterling balances ?

Yes ?—That has been the governing factor.

And that the amount of currency and credit has been determined really by the banks' policies in operation from time to time ?—Yes.

You say that in presenting a policy to be followed by a monetary authority—from now on it will be the central bank—the problem requires constant study, continued exercise of foresight and judgment; courage, but not obstinacy. In your paper you lay it down that it is necessary to reduce and maintain

interest-rates as low as possible. I may mention that I am in full accord with that and that is part of the recommendations contained in the Macmillan Report, of which you have no doubt heard and perhaps read ?—Oh, yes.

Now, will you admit, in connection with interest-rates, that in view of the many other institutions that grant credit in New Zealand it is largely a matter of agreement between the banks operating in New Zealand and the other lending institutions in New Zealand, such as stock and station agents, Public Trust Office, dairy companies, and insurance companies, as to what the rate of interest shall be, and that the failure of the banks to reduce the lending rate has been largely the inability of these institutions to reach a common agreement as to what the lending rate should be from time to time and what their borrowing rate shall be ?—I think they have all charged what interest they could get, which has been fairly high.

This is the particular point I want to clear up. You say the State has not used its share-holding and voice on the directorate of the Bank of New Zealand in a suitable manner. You then go on to say what the State Fire Insurance Office has done ; it has not been the policy to amass profits, but to hand on the benefits and profits to those who do business with them. You contrast the insurance companies with the banks, but I put it to you that whilst it is possible for an institution like the insurance companies or the State Fire Insurance Department to set a standard of premium rates which are so low and which necessarily keep down the rate of profits, when you have six particular banks doing business in New Zealand and a large number of private lending institutions other than the banks, it is a very difficult problem ?—Of course, with the central bank, it has practically full power to create any rate of interest it likes. It will take time, but it can be done.

Exactly, but what is the effect going to be ? They have to attract deposits. Some of these private lending institutions are willing to pay for money on fixed deposit at a higher rate of interest then what is laid down as the rate by the State lending institutions which also desire to attract deposits ?—If they pay too high a rate of interest, they will not be able to lend it out.

If the State lending institutions reduce the interest-rate, will their areas of lending be limited by virtue of the fact that, because their borrowing-rates must be correspondingly low, and therefore their flow of deposits from the outside institutions ? They will have the tendency to get the money on deposits rather than the banks whose rates for deposits is low ; is that not a fact ?—Yes.

In fairness to this statement you have made where you blame the banks for not having done a great deal in the direction of reducing interest-rates, you admit that there is a difficulty that the present banks, quite separate and apart from the Reserve Bank, have been up against a problem that, whilst there should have been every desire for co-ordination between the lending institutions, that has not been accomplished for one reason or another, and therefore there has not been a lower rate of interest ?—The fact still remains that the bank has been able to increase or reduce overdraft rates from time to time by $\frac{1}{2}$ per cent., from 6 to $6\frac{1}{2}$ per cent. and to 7 per cent. and then back again, but my objection is that those moves have been made too late to be of much use.

I put it to you that those movements have been made largely as the result of necessity and the result of experience ; is that not a fact ?—No ; I think they have been made as a last resource, not as a conscious factor in monetary control, but purely as a means of protecting the banks' resources.

I want to get that point clear : That if the State lending institutions, insurance companies, stock and station agents, the Public Trustee, wish to attract deposits, the savings of the people, they necessarily have to offer an attractive rate of interest. If the banks, the six banks that are operating in New Zealand to-day, agree amongst themselves without taking into consideration what the policy of the other lending institutions may be, to reduce the rate of interest for advances, they must, to make this secure, correspondingly reduce the rate of interest offered to attract deposits. The net result would be, if there is no corresponding drop in the rate of interest on deposits to the outside institutions, the banks would not get the money, but the outside institutions would ?—It would not last for long, because the outside institutions would find they were having difficulty in getting money lent out at a fairly high rate of interest ; fairly high because they would have to charge more than the banks if they were paying more for deposits. I think we have to look at it this way ; the banks are the major factors in the situation.

There are many thousands of people that are studying questions of banking, currency, and exchange in New Zealand to-day. In reading books on banking, currency, and exchange, do you consider it to be necessary that many of the writers, such as G. D. H. Cole, are reviewing the relationship of Great Britain with the rest of the world, whereas in your paper it is making recommendations and reviewing the position of New Zealand with Great Britain ?—There is a difference, of course.

There is that difference ?—Yes. Local conditions must be considered.

I quite agree. Many people to-day are reading literature and they are not taking into consideration the economic condition of New Zealand in relation to Great Britain, but they are taking what they read in a book, forgetting that the author of the book may be dealing entirely with a different set of conditions, the relationship of Great Britain and the world, whereas your paper is dealing with New Zealand's condition in relation to conditions in Great Britain ?—It is a domestic monetary policy.

And from that point of view, I think it is very interesting, and a great deal of it I can entirely agree with. There are, of course, places where a little explanation could be given, but I do not think it is necessary to ask any further questions.

Mr. Langstone.] Do you think that the present banking system, in the main, the policy pursued, has been quite a decent policy ?—I do not think there has been any conscious monetary policy pursued by the banking system in this country. I do not think they even pretended to. They have looked upon themselves as purely intermediaries between borrowers and lenders. It is quite a different problem.

They have not definitely taken action; the result of that action has been a rise or fall in prices?—No; I think they have merely faithfully reflected the changes in the sterling balance.

I notice you say that they have been followers and not leaders. What is the mechanism that compels a bank to increase or reduce its overdraft rates? There must be some reason for it, known to themselves?—There is a difference between the position of a central bank and a trading bank.

But you have had a central bank in England, and it has altered its bank rate?—Why does it alter its rate of interest? I think the Bank of England interest-rates have been altered as an act of conscious monetary policy, as a means of controlling the monetary situation.

It has been conscious? You said it had not?—I meant the banks here. The Bank of England's duty is to control the monetary position. The trading banks are only intermediaries.

What is the conscious thing, the basis that compels them to either increase or reduce their bank rate in England—the Bank of England?—In the past it has been entirely connected with the reserve of the Bank of England, to protect the gold reserve of the bank.

Why have gold reserves been affected? What has happened that has caused the gold reserves to be affected?—Such matters as international debts, the inflation of the war, the tariff policy, changes of the volume and nature of imports and exports; all affect the balance of payments between countries; and the balance of payments in the long-run has to be met out of the reserve of the central bank.

They laid it down that they were to keep £150,000,000 of gold, and at that it was at par. If it went below £150,000,000, they rose the bank rate; if it went above £150,000,000 they reduced the bank rate to encourage people to take it; was that not the position?—Yes; protecting their reserves and maintaining them at the desired level.

And the other banks operating in accordance with the rules set down by the Bank of England? When the money is cheap, people use more, therefore there is a greater amount paid out in wages, therefore a greater run on their cash reserves, which are mainly used for the payment of wages. They find that when their cash reserves fall below some standard, to which they have agreed, they call in overdrafts to remedy the position. That means people have got to sell and lose money, and to buy goods prices must fall. Then it is the monetary factor that comes into the question of prices?—Certainly. Prices are expressed in money.

Therefore, the main factor is not a non-monetary factor, but a monetary factor?—Yes.

I suppose that no one could state that prices fall just because of their own volition; something causes them to fall?—Quite so.

And that when prices fall, it means that one section of the community is adversely affected while another section of the same community is beneficially affected?—Yes.

It means, in other words, that the relationship, the value of money to things, because either more is available or less is available; do you not think, then, that the bankers want their particular substance or commodity to be more valuable in relation to other things?—The bankers have tended more towards inflation than deflation, because they make profits by inflation. They only get capital accretion by deflation.

Do you not think that they get bigger control? They may not make as big a profit in ordinary distribution, but they would have greater control over the assets and securities of the people in times of deflation. Do they not?—Yes, more properties fall into their hands.

And they have greater control?—Yes.

It is a very big factor. If you are going to do something you want to have control of it and you can determine what can be done?—Yes; the difficulty is that it is always the worst securities that fall into the hands of the mortgagees.

Yes, but of course there comes a time when even the good ones—the value of an asset or security is determined by what it will earn. The physical properties have not altered?—The last institutions to fall into the hands of the banks will be the strongest.

The banks themselves?—Yes, probably.

You talk about "flight of capital." What is meant by the "flight of capital"? How does capital fly?—It is exported.

That means goods; that means trade?—Securities are sent away.

How?—Bank of New Zealand shares and Government bonds are sold on the Sydney Stock Exchange.

There must be some reverse form of exchange this way?—Not right at the moment; it may be delayed some years.

If you could wire money across, you could wire wool and wire butter. Money is based upon some physical thing. I wanted to know about the flight of capital. It has always puzzled me. The question of the exchange-rate—the maintenance of the existing exchange-rate on London until price-levels have risen somewhat—what would you say they should rise to?—It is one of those things that have to be studied on the spot. You cannot tie yourself to a plan; you have to weigh it in relation to conditions as they obtain at the time. You cannot make a monetary system that will act automatically.

The exchange-rate does not alter the amount of money or credit available?—Yes, it can.

How? When our rate of exchange went up from 110 to 125, from where did the money come to pay for it?—It did not come.

So there was not more?—I think the effect was to increase our money in circulation, simply through the increasing of the gross return to the farmer.

But how did that come about? The credits in London to-day are bigger than ever they were as a result of the exchange-rate stopping the importer from importing. He is not going to import on a 25 per cent. exchange-rate, therefore we have an accretion of funds in London?—He will start importing as soon as people start buying, and I think that is now the tendency. Naturally they delay imports as long as they can, but I think you will find that stocks of importing houses are as low as they have ever

been, and I think they were surprised at the volume of Christmas trade and they are having to buy now. I think you will find that that swollen London balance has reached its highest point.

If the importer has to pay that 25 per cent., it comes out of the importers pocket to the exporter ?—I think you will find it is passed on.

It reflects itself in higher prices ?—Yes.

It means that the general public have got to repay the importer who pays the exporter ? It does not create an increased volume of money ; prices rise a little bit more than what you stated, but if you have a rise in prices with the increase of money, that is tantamount to inflation, is it not ?—It might be ; it depends on the velocity, and the former price-level.

The velocity is the average. If we take it over a period of years, it is the average rate ?—I do not think that has much bearing on the point.

The dairy-farmer gets paid once a month ; the wage-earner gets paid once a fortnight ; the farmer may have possibly two payments in the year, but if you take it all, there is some average of the velocity ?—I think that is taking velocity in far too literal a sense.

I think Mr. Keynes says there are six different factors grouped in the word " velocity," and speed is only one of them.

If you paid the farmer every morning, you would not need a quarter of the money. On our experience, there is the average. With regard to the question of the demand. You said there would be a good many suits of clothes ; what stops them from getting suits of clothes ?—The fact that they have not got the income to buy them.

As you rightly state here, we turned a 15 per cent. reduction in national income to over a 40 per cent. in national income ?—Yes ; we have permitted it to happen.

It has been the action of the people ?—It has happened.

That could have been avoided ?—It could, I think, with perfect foresight and judgment.

I do not suppose there is any country in the world where what they call the world price-level is the same as the internal price-level. They are two different things, are they not ?—The world price-level is for those goods which enter into international trade and are not greatly affected by such things as tariffs or freights. They are freely interchangeable.

The freight has to be paid on them. Take butter : I noticed in the paper where butter in London is 65s. per hundredweight. That is the world price-level. But in Berlin and Belgium it is 184s., and in other parts 238s. ?—London is your only world market for butter ; therefore it is the only world price-level.

If we sell goods on the London market at the world price-level and we buy goods in the London market on the world price-level, the relationship of prices in London cancel out to a very large extent, although there may have been a much heavier fall in raw materials than in manufactured articles ?—Viscount D'Abernon says that if raw materials had been cheap, then the manufactured article would have been booming. In the manufacturing districts of England you would have seen a tremendous increase in employment, whereas the opposite was the case ; they had greater unemployment and more idle factories during that period of disequilibrium between the manufactured articles and raw materials ?—We know undoubtedly that wool and rubber and cotton fell a lot more than manufactured goods.

That is right ; it did not reflect itself in an increased activity of those manufacturing industries ?—No.

You consider that 5 per cent. on Treasury bills was rather an exorbitant rate to pay ?—In the present sircumstances, I think it was a great mistake.

Suppose that the Government issue £1,000,000 Treasury bills. They are issued for a month or three months ; we will assume that they have had to renew them for a period of a year. Therefore they have discounted £1,000,000 worth of Treasury bills at 5 per cent. ; that means that the Government have had the spending-power of £950,000 ; where does that £950,000 come from ?—I think, judging by figures at the present time, it came from deposits.

When they lent that to the Government did they reduce their deposits by that amount ?—Probably not.

Well, then, it could not have come from deposits ; would it not then reflect itself in deposits ? If you were a contractor and received £150,000, it would increase deposits ?—Yes.

So that it is fairly difficult to say what amount of deposits in the banks to-day originates in the form of money ?—Quite so.

It might be even 90 per cent. of what we call deposits to-day. We are deeply concerned with the cost of money. If the cost of money—the way it originates in the bank—is just a very negligible quantity, there is no justification to charge 5 per cent. for it ?—No.

And a rate of interest, high or low, does not make the actual security, the physical properties, any better or any worse ? It might limit for the time being the amount of money in circulation, might make it more or less ?—Yes.

When we are talking of the competing concerns such as were mentioned—the State Insurance and Public Trust Office and building societies—there is a difference between the credit which they are able to lend and the credit the bank is able to lend ?—Certainly ; but it is a question of what it does lend as well as what it is able to lend.

If there was a bigger demand for the higher price of money, supposing that that does take place, people wanting money and willing to pay for it, still the banks would have the privilege over and above what these other institutions have ?—They have the power to create, limited, of course, by the need to reserve their cash reserves, and parity of exchange.

Reverting to the exchange, do you not think this is what has happened : that where there is a bonus given, every person (whether farmer or otherwise) wants to sell where he can get the highest price.

Although Australia's rate of exchange was not an artificial rate of exchange, owing to their balance in London, but they gave the Paterson bounty plan there—about 2d. a pound on butter—and the impetus is to export to that market ?—To which market ?

If the exchange is on the London market they would send the goods there, and the export bounty is on that market. Then the impetus is for the farmers to send to that market to get those bounties. is that not so ?—You mean to say that the bounty on exported butter in Australia tended to stimulate butter-production in Australia ?

Yes, for export to that market ?—Yes.

Well, if New Zealand followed suit and Denmark followed suit and we are all producing the one commodity and sending it to that one market, what is going to be the result of that ?—The result would be that the price would fall.

And then no benefit accrues from the exchange-rate ?—I think the price would have fallen less in New Zealand currency.

I am not talking about New Zealand currency. We will say that the exchange-rate on 1s. was 3d., but if the fall in butter has been more than 3d. per pound, then the exchange-rate is cancelled out, so far as those particular farmers are concerned, because the fall in the price-level has taken away any benefit of the exchange ?—Why not put it the other way round ? The benefit of the exchange was there. It has absorbed 3d. out of 4d. in the fall of the price.

You think that that is what happened ?—Yes.

Well, why is England trying to fix a quota ? I see by this morning's paper they are going to wait till 1935. But why is England fixing a quota ? Why have Belgium, Berlin, and Paris fixed their internal price-levels ? Why have they done that ?—I am afraid I could not tell you.

Well, it seems to me the reason why they have done that was to stop the imports coming in to their country and interfering with their own price-levels ?—Quite likely.

I notice that under your scheme you think that we are at rock bottom. Going through the headings of your paper, it seems to be a "ditto repeato." What we have gone through already you anticipate under this policy ?—I anticipate that there will continue to be throughout the world cyclical movements or variations. You will not have perfectly stable trading conditions throughout the world for ever.

I would like to ask this : It is competent, in fact experience has proved that it is competent, to fix an exchange-rate. Every country has that right. Now, that is fixing an internal price-level up to that standard of the exchange, is it not ?—Not exactly. There is a considerable difference, I think, between the fixing of the exchange and fixing the price-level.

It is a factor in fixing the price-level, then, to the extent that the exchange-rate operates ?—Yes.

It is only one step further, then, to fix the price-level ?—It may be a wrong step to take.

It may be ?—You could go to the edge of a precipice, but the next step might be ruin.

But it is far better to put a fence up at the top of the precipice than to have an ambulance down below, is it not ?—Yes.

And you think that under this policy, ultimately, if it goes long enough, it will be self-rectifying ?—No. I do not think any policy can work by itself automatically. The whole difficulty is you can lay down a policy to meet given conditions, but the difficulty is to define what the conditions are. It is all very well to point to a policy that is suitable for incipient recovery. You might not agree that there was incipient recovery. Now, there the difficulty comes. That is where the foresight and the judgment is required to judge existing conditions and therefore to apply the correct policy.

And largely the difficulties that we are in to-day are because of our lamentable ignorance, we will put it that way, by and large, of these economic factors of the trade relationship between one person and another, the relationship between England and the rest of the world ?—That is so. We do not know everything entirely, and at best our information is late. Statistics only tell us what has happened. It may be too late to apply the remedy.

Mr. J. N. Massey.] I do not want to repeat any of the questions that have been put to you by previous members, but on the question of interest I understand what you mean in your paper. I would like to compliment you on your paper. Regarding interest, Mr. Langstone put it to you that the reason why production increased enormously in Australia was by reason of the fact that they had the Paterson scheme. When that Paterson scheme was in operation I think you will agree the Australian exchange-rate obtained at 125 per cent., where ours for a time was 110 per cent. Therefore, the odds would be in favour of the Australian producer and, incidentally, the people of Australia as a whole ?—Yes.

In addition to that, the Australian dairy-farmer had the advantage of the Paterson scheme. Is that correct ?—Yes.

Amounting to about, at the time, I think 3d. per pound ?—I doubt whether it was that much at that time.

Approximately. It was really internal, not external, but they had the added advantage of the additional exchange ?—Yes.

I think you will agree that, as a direct result of that, the production of, say, milk-products in Australia increased enormously ?—Yes.

They had a distinct advantage over the New Zealand dairy-farmer in that respect ?—And over every other type of farmer in Australia.

I quite agree. I have said, as far as wool is concerned, they got the advantage there. They had the added advantage right through. You have agreed that the world's conditions have a tremendous bearing on the price-level in Great Britain ?—Yes.

The British authorities to-day, in fixing tariffs, are simply trying to preserve their market for our people as far as possible ?—I think for their own people on the face of it. So far as the farming community is concerned, I think their first consideration is the British farmer, British agriculture. The next consideration is doubtless the Dominion farmer, and finally Denmark and the Argentine.

Hence the reason for adopting the quota system ?—Yes.

What is your opinion of the latest move in Great Britain, and how will it affect New Zealand, where the British taxpayer is actually subsidizing the British milk-producer ?—I have not thought it out yet.

You have already admitted that with a high exchange in Australia, together with the Paterson scheme, milk-products increased enormously because the dairy-farmer could make a profit out of producing them ?—Yes.

When you talk of trade conditions in this direction and in other parts of the world, and you find the Imperial Government endeavouring to protect first and foremost the British farmer and drawing upon the British taxpayer to bring the price of whole milk in Great Britain up to a payable price, it simply means, in effect, that the production of milk-products in Great Britain must increase enormously ?—Yes, an increase will follow.

And you know the system in connection with quotas ?—Yes.

You know also that we have a trade agreement with Great Britain at the present time and you know also that the trade agreement will expire very shortly ?—Yes.

Well, seeing that the production of milk-products increased in the north of Australia, assisted by high exchange together with a subsidy, it is reasonable to assume that the production of whole milk and milk-products will increase enormously in Great Britain in the very near future ?—Yes. I do not know that the scope is quite so great there.

Why ?—Well, I do not know, I say.

May I put it to you this way: That in New Zealand, according to the Official Year-Book, we milked less than two million cows. In Great Britain I understand they milked over three million ?—Yes.

Well, if it can be made a profitable business in Great Britain, therefore, they will increase the number of cows that they will milk, and, consequently, when our trade agreement with Great Britain expires, we will be up against a more difficult problem then we are up against to-day, unless other imports relax ?—Yes.

So that, if you have any idea of what is going on in other countries, do you expect that the price-level for milk-products is going to improve ?—I have not been studying particular prices recently, and I would not like to forecast the position. Still, it does seem to me that there is a tendency in agriculture, when prices fall, not to restrict production, but to increase it, whereas in manufacturing, if prices fall, and work becomes unprofitable, the manufacturer shuts down or restricts production. But the point comes when the farmer is simply driven out of it, and I think it is possible that quite a number of European countries will find that other occupations will pay them better than exporting butter to the British market. In fact, even so far back as 1930, the League of Nations suggested that the European dairy-farmer was in a bad way and his production was falling off, and I think the position has got worse since then. So I think you will find that some of our main competitors will be forced, by sheer losses, to reduce their exports of butter and their production of butter, and, on the contrary, we can expect considerably increased consumption of butter on the Continent of Europe.

But how can we expect any decided advantage, seeing that the principal countries in Europe have placed a total embargo against the importation of milk-products ?—That is quite so, but I think the fact remains that in a number of countries their total butter-production is lower than it has been, but their total exports of butter are higher, showing that they are eating less butter themselves and sending more of it abroad, and that position will not continue beyond the period of the slump. They will consume a greater proportion of their own production and they will export a smaller proportion, so I think the tendency will be for the oversupply in Great Britain not to be quite so permanent as it is to-day, or as it seems to-day.

But you expect that under existing circumstances the increase in milk-products in Great Britain under this subsidized scheme will increase enormously during the next year or two ?—I think it will increase, but I am not sure that there is room for an enormous increase. I do not know what areas are available suitable for dairy-farming. But there undoubtedly will be a tendency to increase the production of milk-products in the old country.

Mr. Murdoch.] You mention you are going to resort to public works as a means of revival. Is it not a fact that the public works have been diminished in the last year or two ?—The public-works expenditure is below the average for the previous ten years.

But I understood you to say that you were going to utilize public works which would return some income for the expenditure, or otherwise works that would be payable works, and you instanced that you would not touch the South Island Main Trunk Railway line. What railway-lines can you point to in New Zealand to-day that are showing any profit ?—I could not point to any. As a matter of fact, I am not a student of railways.

Well, what other public works could you instance ?—I think I indicated this point: that you must not take the condition at the bottom of the slump. You must take the return on a public work over its existing life and there are a great number of public works that actually have no direct return. Take health services. You cannot say that they pay so-much per cent. and they pay their interest and sinking fund, but they may be good investments, particularly, for instance, the installation of drainage, which might be a saving to the community in medical expenses and to the State purse in reducing deaths of perhaps men with children who would be a charge on the State.

We can take it that what you mean is you would invest your moneys in works which would give a return to the community, but not necessarily a monetary return ?—No. I would simply choose those that would give the best return, and I think it would be a bit dangerous to dodge the accountancy issue, but I could point to works in New Zealand at the present time which would be very good objects for spending public works money on. For instance, I think the Society of Civil Engineers has gone into the question of roading. I think they say that our roads are depreciating at the rate of £5,000,000

a year, and that it would pay handsomely interest and sinking fund and more, to spend £3,000,000 or £4,000,000 a year or more on tar-sealing roads and save the depreciation.

Dr. Sutch.] Is that report available ?—I could get it for you, I think. I think you will have one of the witnesses who was a member of that Committee before you.

Would you say that in the past we have been too lavish with our money for public works ?—I think the trouble has been that we have spent it when times were good and returns fairly bright. Naturally in times of prosperity any work will show a bigger return than it will in times of adversity, and we were rather inclined to be too optimistic and assumed that the fancy profit of the good times would last throughout the life of the service or the work that we were making.

You would not condemn the policy, though, in the main ?—The public-works policy ?

Yes ?—No. I think there is quite a lot to be done, but I would certainly say that it should be increased in slump times and decreased in times of prosperity.

You were talking about cheap money. We know of the cheap money overseas at the present time in Great Britain and what it is doing to trade. In New Zealand a good deal of the money borrowed by mortgagors is from the State Advances. Now, can you tell us how the State Advances can reduce its rate of interest to the mortgagees ?—It cannot.

It cannot do it ?—No. Not on its existing credit.

It has been suggested that the State Advances could reduce those interests and that the Government would take over the corresponding liability which would improve on account of the money being borrowed overseas. Have you got anything to offer on that ?—I would like to give it some consideration. Do I gather that the idea is that the——

State would shoulder the liability. That is what it means ?—I do not think it is desirable.

The Chairman.] It is rather interesting to have your contribution as a city man upholding, of course, the position of the farmer at the present time, and of course you go on to state that the income of the farmer is determined on the conditions outside of New Zealand. Do you think that everything possible has been done in regard to the exploitation of new markets ? Has it occurred to you at all that we have been lacking very much ?—I think we could have done considerably more. It is a question whether it is a matter for the State or whether it is a matter for private enterprise.

But you do think that the exploitation of new markets would be advantageous to New Zealand ?—Most certainly.

In referring to the fixation of prices, to whom do you refer. Do you refer to the importers at Home or do you refer to the Dairy Control Board ? You are dealing with farmers' prices and costs ?—I simply mean " fixed " as a result of the market price.

The market price ?—Yes. Price-fixation was a bad word, I might say, and I should say because prices are " determined " by overseas conditions, not " fixed."

You know that the Dairy Control Board did fix prices some three years ago ?—They tried to.

And you know what a disastrous thing it was for New Zealand. Do you think that it would be advisable, if it was taken up again, because there is an agitation at the present time to do certain things ?—Well, that is slightly off my beat, I think.

You probably would rather not answer that ?—Yes.

And you attribute to the prime cause, the fall in the national income, the position of unemployment in New Zealand to-day ?—I think the unemployment is a direct result of that. In fact, it is one phase of it.

In your statement you went on to say that the Reserve Bank should take the community into its confidence. In what way would you suggest that they should do that ?—I think it would be advisable for them to attempt to issue periodical bulletins and whenever they had to either raise or reduce the exchange-rate or the rate of interest I think it would do more good than harm if they were to attempt to justify it.

You think that it would establish more confidence in the people as being a bank controlled by the State ?—Yes. I think that a lot of these things, if they were understood, we could bear. If something is imposed on you, and you do not appreciate the reason for it at all, you think it is done as an arbitrary means of perhaps "getting one on to you." You feel very annoyed, but if it has been explained to you as a necessary step for the national good you grin and bear it.

You think that regular bulletins should be issued ?—I think so.

Dealing with the Bank of New Zealand, I think that question has been referred to you. You have referred to what the State Fire has done in New Zealand ?—Yes. Of course, that is wholly a State institution.

Yes. That has been carried on for the benefit of the people, who insure, by way of giving reductions in premiums from time to time and not accumulating vast reserves ?—That is so.

You think, then, that the directorate of the Bank of New Zealand, instead of looking for larger profits out of the concern, that that money should be made available to the people in the way of reduced charges and interest ?—The reduced cost of banking ; cheaper banking facilities.

And then your argument would be that by doing that they would be a lead to the other banks, and they would have to follow ?—Yes, they would as a matter of competition. They would have to follow.

The question was raised about a director being a shareholder. I do not think you quite said that in your statement ?—I did.

Is that what you meant to convey ?—I think I put it this way : that it is obvious that the State's appointees on the directorate should not hold shares in their own right. Then they would be free to consider the question purely from the community's point of view, and they would not be in the dual position of having to consider their own dividend as well as the good of the community.

Seeing that we have had the control, as it were, of the bank, in the representation on behalf of the Government, do you think that the directors in the past have studied the shareholders or the people as a whole? Is that reasonable to ask you?—Yes. Quite reasonable. I do not know that I am qualified to answer, but I would say that the comparatively high profits of banking suggest that they study the shareholder more than the community.

AUCKLAND, WEDNESDAY, 14TH MARCH, 1934.

Evidence submitted by MR. H. VALDER, of Hamilton.

I am the Chairman of the Employee Partnership Institute (N.Z.), Ltd. In regard to those matters which come within the order of reference of this Committee I wish to make the following observations: The real wealth of the community is at least potentially sufficient to meet the legitimate needs of every individual consumer. The difficulty is simply one of distribution, and this is a matter of social organization. Whenever the machinery of exchange definitely prevents the producer and consumer from meeting, that machinery should be adjusted. At present there are two methods, and two only—other than by way of gift—by which the money reaches the consumer—viz., wages and interest (including rent). Quite clearly either new channels for the distribution of money must be found or the present ones enlarged. It will be seen, as I proceed, that my Institute is very strongly of opinion that, both on grounds of justice and social expediency, the interest "channel" must be restricted and not enlarged. The wages "channel" is therefore indicated as the first line of approach to the problem. The fundamental weakness of our present system is, very obviously, its purely "property" basis. This is quite clearly illustrated in industry. The Companies Acts of all countries, until the New Zealand legislation of 1924, have as their basis "property rights." They know nothing of human rights. This is so much part of our customary thinking that we see in it nothing extraordinary. Yet industry itself is nothing but an organization by which the material necessaries and comforts are provided for human beings. It is the human beings which are important, and property is subsidiary to their life and existence. There is no possible equation between human values and property values, yet it is essential that we should place them in order of importance. My Institute insists on the assumption that in industry human values come before property values. The first step, then, in dealing with the monetary question, must be a reorientation of values. Any new system to be satisfactory must, if I am correct, place human values first. "Interest" is a charge based on property and not on human value. I am not here advocating an immediate abolition of interest. That would involve many social readjustments. I believe that progress may be made through our present system by restriction upon the self-propagating quality with which we have endowed money.

1. The line of approach of my Institute is primarily through industry. It makes the following generalizations in regard to its special problem:—

(*a*) There is no harmony among those engaged, but in many aspects absolute conflict.
(*b*) Industry is conceived in terms of property and not in terms of human life, and must be placed on a human and ethical basis. Service must come before property.
(*c*) The difference between the property and the human view accounts for an array of false though customary social and economic values.
(*d*) Reforms should, to give maximum social benefits, be evolutionary in nature.
(*e*) The frame-work of any plan must be elastic, allowing for internal expansion and for development following trial and experiment.

2. The specific requirements of a practical plan conforming to these ideas are as follows:—

(*a*) Working from present system in regard to service and property it must begin with making wages and salaries a partial payment for service and not as at present the sole payment.
(*b*) It must limit the dividend for capital invested in industry, and restrict payment of interest by calculating it on a more scientific basis.
(*c*) It must pay a limited predetermined rate for capital and the balance of surplus profit to service. (At the same time it must extend control to those giving service, by virtue of that service).
(*d*) In providing a framework it must provide that present machinery may be utilized and *individual* initiative both encouraged and directed.
(*e*) In accepting, justice it must apply it in (*a*), (*b*), and (*c*), and thus infuse true partnership into industry.

3. The practical scheme which has been adopted by the Institute as its working basis has the following characteristics:—

(*a*) Payment of capital at predetermined rate. (Gilt-edged security rate plus risk rate or insurance premium.)
(*b*) Payment for service by an advance payment (current wage-rates), with subsequent distribution to service of all surplus profits by reserve accounts or dividends.
(*c*) Control distributed equitably among capital contributors and service contributors in proportion to their actual value to the enterprise, as that value is progressively ascertained.
(*d*) Machiney for applying the principles involved has been devised and is embodied in the Companies Empowering Act of New Zealand—*i.e.*, by issue of "labour shares," which provides a simple and elastic method of distribution of control and profits in any company or business.

(*e*) In applying the principles, justice is attained by paying property or capital its true market price, on existing usage, by giving service its just reward—*i.e.*, what it actually earns, by extending control from those who lend property to those who use it, by, in fact, putting the human in its true relation to the material.

(*f*) The plan is evolutionary. It takes present machinery, readapts it, revivifies it. It does not alter the form of capitalism in industry, but it provides it with a new start, a new orientation, a new spirit.

4. The following propositions, it will be seen, are fundamental to the proposals of the Institute :—

(*a*) That capital invested in industry should be paid for at a predetermined rate. The insurance of industrial capital would be a factor in definitely limiting the interest payment.

(*b*) That those who contribute service to industry should receive its surplus rewards and share the control.

There is no difference in principle between restricting the rate of interest of industrial capital and the rate of interest on other forms of investment as, for instance, bank shares. In the banking business, which is so vital to the community and so monopolistic in character, the sole duty of directors is to shareholders. I believe it to be in the interests of the banks, if they do not want direct State competition, to limit the payment to shareholders. There would then be no vital conflict of interest between the shareholders and the community, and the present organizations would remain with a better chance of satisfying legitimate criticism and fulfilling community needs without State management.

5. Possibly, at this stage, the Committee will concede the following propositions, already referred to :—

(*a*) Industry is simply the organization for the production and distribution of the necessities and the amenities of life for the community.

(*b*) The justification of any part of the organization is service to the community either in production or distribution.

(*c*) No service can be considered a real or an economic service if it is rooted in injustice or is based upon false values—*i.e.*, which places the material before the human.

6. It will be noted that, among the immediate effects of a system by which capital gets the unlimited rewards of industry are the following :—

(*a*) The production of those margins which form a very convenient basis for gambling and, in fact, are so used.

(*b*) Though the margins so used are merely property, the gambling reacts profoundly upon human life, very often, without economic reason, destroying the means of livelihood of human beings.

(*c*) The tendency for money (the medium of exchange) to accumulate in a few hands and so produce a block in one of the two possible means of distribution (*i.e.*, wages).

(*d*) Those phenomena known as bankruptcy, liquidation, and stock-exchange crashes, by means of which the system breaks down at intervals at its weakest spots and so saves the whole structure.

It will be noted—

(*e*) That a predetermined rate of interest, specially if capital were insured, would largely eliminate the gambling factor.

(*f*) That the distribution of the rewards of industry (interest and wages) upon a just and scientific basis would result in a wider and more even distribution which would react quickly and surely in the transference of real wealth.

(*g*) One of the effects of the present system is an inevitable emphasis upon money as money, apart from its proper social uses. Money becomes an end in itself, and psychologically a false orientation arises which can be corrected only by a readjustment of the property and human values.

It appears in connection with the money question that I advocate the enlargement of the channels by which the medium of exchange reaches the consumer. But, first, I wish to restrict one of the present channels. The Institute's plan of distribution of industrial profits would, I am convinced, greatly enlarge and broaden the second channel—viz., wages, without a revolution in our methods. I think that, for a very long period, it will be expedient to base social reward directly upon service—*i.e.*, human service—to the community.

Witness: Mr. H. VALDER, representing Employee Partnership Institute (N.Z.), Ltd., Hamilton.

The Chairman: The proposals that you have to put before us are hardly in keeping with our order of reference, and I do not know that they affect the position very much. I think I can say for the Committee, however, that they are all interested in your proposals, and I am sure every member of the Committee will see it is a very admirable scheme. However, there may be some things to which you would like to refer and which may be of use to the Committee in its deliberations. I merely mentioned that to you because, as your scheme reads at present, I do not know that it is altogether a scheme which concerns the present order of reference from the Government. If you would care to amplify your statement, which has already been circulated to members of the Committee, we would be glad to hear you.

Mr. Valder: In regard to the question of whether it comes under the order of reference, I myself had very grave doubts as to whether it did, but, when I noticed that the interest question was one of

the subjects which you were inviting evidence on, I came to the conclusion that it did. I should just like to preface my remarks by saying that the industrial plan which I have evolved has been solely the result of my experience; that I have not started out on any theory and tried to work up to that theory. On the contrary, the theory has been built out of practical methods which are in evidence in industry to-day. I do not claim to make use of any novel methods whatever. All the methods advocated in the plan are in use in some form in industry to-day. My only claim is the application of those methods. Referring to the question of interest, my plan hinges very largely on the limitation of payment of interest, and that is where I think it does come within your order of reference. In regard to the question of interest, I think if we analyse what interest really is we may take a slightly different view of the place which it occupies in industry. My belief is that interest is composed of two separate and distinct factors which practically have no relation whatever to each other. Those two factors are the risk which industry and which capital undergoes and what I might call the utility value of capital. That, I think, is where we go wrong in assessing the value of capital by interest as a whole. In this scheme which I have laid before you you will notice that the payment for interest on capital is stressed very strongly as being one of the factors which has brought about the present economic disaster in which we are all involved. I think if a more scientific method of assessing interest were evolved it would probably show us a way out. My suggestion is, as far as this plan is concerned, that there should be a scientific method of assessing the rate of interest which should be paid for capital, In the first place, by ascertaining the risk which that capital undergoes; and, in the second place, the utility value of capital should be fixed by a standard which would be quite outside the control of industry. In regard to the risk, I hold that in the near future—and it will not be very long—capital will be insured against risk of loss. Now, that may seem a rather far-fetched idea to-day, but I have here a notice from one of the biggest companies in Great Britain—The Armstrong Whitworth Company—whose capital is £21,000,000 showing that they have adopted a method of insuring payment of interest on that capital and they have actually taken out a policy with one of the large insurance companies of Great Britain and under that policy the insurance company undertakes to pay to the shareholders a minimum rate of payment: that is one instance.

The Chairman.] A minimum rate of interest?—Yes. That is one instance of insurance of capital and I hold that if insurance became largely general the rate of interest would automatically recede and the rate of interest, of course, has a very great bearing on our economic system.

In regard to that instance, can you give us any idea what rate the insurance companies pay? You say there is a guaranteed amount. What is the percentage?—This is an extract from the notice in question to the shareholders of the company: "Arrangements have been made for the Sun Insurance Office, Ltd., to issue a policy whereby if the proceeds of the new company in any year during the first five years do not amount to £900,000, then a contribution not exceeding £200,000 will be made for that year." That works out at 4¼ per cent. on the capital.

That is what I wanted to know?—That is one instance. Another instance of insurance of capital is the insurance of trustee investments. The A.M.P. Society informed me that it is quite a common practice for companies to insure trustee investments so that the trustee is relieved of the liability of there not being anything for the beneficiaries. They not only insure that the investments will produce a certain amount of interest, but they insure that the capital will be paid on the due date of redemption. I give that as an instance of how it is possible to insure capital. On that principle hinges very largely the industrial plan which I have evolved. Quite recently a further instance of insurance of capital came under my notice, and that was the Glass-Steagall Act of the United States of America. There it is now compulsory for the capital of banks to be insured. There is no option about it; they have to insure their capital. I presume that was largely brought about by the enormous number of bank failures there in recent years. These are three definite instances of how it is possible to insure capital.

Dr. Sutch.] In connection with the Glass-Steagall Act, it is not the total capital the banks have to insure?—No; it is the capital subscribed by the shareholders. That is one of the first things set out in this plan that in order to get back to a normal economic state it is necessary, in the first place, to reduce the payment for capital and to ensure that all capital must be paid for at a limited pre-determined standard. In the paper which I have given to you, you will see that I claim that under the existing system—in fact under any system—there are only two methods by which the wealth of the community can be distributed, one of those being through the channel of interest or dividends and the other through the channel of wages or salaries—the payment for human service. Under the existing system human service is now paid a pre-determined rate and capital is paid for by results. That is placing the material factor, capital, on a higher status than the human contribution, service. This, I think, is the beginning of our trouble, and it is largely what has brought about the present economic crisis. I hold, and hold very strongly, that if a plan is not ethical it is not economical; and I hold, further, that there is no line of division between ethics and economics; that one hinges entirely on the other. Now, the mere fact that the present industrial system is not ethical is to my mind one of the causes of the present trouble, and until we get on to a more ethical basis, then we are not going to get on to a better economic basis. With a view to getting on to a better basis, I suggest that we have to reverse the position of the two factors in industry—capital and service. At the present time the ownership of capital is almost the sole means of control of industry—that is, those who contribute capital have the sole control of industry; those who contribute service have no control at all, and they have no legal standing in the organization of industry. I came up against that fact when I evolved the scheme under review and tried to put it into operation. I found that the Companies Act took no cognizance of the contributor of service. The Companies Act, prior to the alteration which I was instrumental in getting in 1924, dealt only with property rights; it was not concerned in the slightest degree with human rights. Now, I hold that a system of that sort is utterly unethical, and that the machinery we have to evolve must put industry on to a more ethical basis.

Now, having suggested that there must be limitation for the payment for capital, it follows that there must be some other means than those at present used to distribute the profits of industry. After searching around in an endeavour to find some means of distributing profits, I hit upon the method of shares. The share system is one of the most elastic methods of industrial organization that can be imagined. The share system came into operation when the first Companies Acts were instituted about the middle of last century, in the "sixties" I think it was, and I have no doubt whatever that the originators of the Companies Acts had not the slightest idea of the wide implications which have since arisen from the introduction of the Companies Acts. The share system has proved to be a most admirable means of distributing the profits of industry, to those who contribute the capital. My view is that if that is such an admirable means when applied to capital why should not the same means be used to distribute profits to the contributors of service. Here we have a system which has been tried out under innumerable methods of organization and it has proved equal to every demand that has been made upon it. The share system is so elastic that it can be applied to any incident of capital distribution that you can imagine. If the share system applies to the distribution of the profits of industry to capital with such facility, why should not that same method be tried for distributing the profits to the contributors of service—in other words, to "labour." I always hesitate to use the word "labour," because directly one uses it there seems to be an idea that it applies only to the man in his shirt sleeves. That is quite a wrong conception of labour; labour includes every human activity, whether it is physical or mental. If it is right that there should be a limitation of payment for the use of capital, then some means must be devised to distribute the profits of industry to the contributors of service. I have tested every step of this method in my own experience, and I have found that it applies just as readily to the distribution of profits to the contributors of service as it does to the contributors of capital. One of the great difficulties we are up against is that we have these two factors in industry—capital and labour—and there is no equation between the service of labour and the service of capital, one being purely a material thing and the other human effort. There is no equation between life and property, and yet we are trying under the present system to make one; but nothing we can do will equate those two factors. Consequently, it is necessary to devise a payment for each. Under the present system of dividends to capital, the assumption is that the dividends not only pay for the use of money, but they also are looked upon as paying for the use of service; and it is that method which is very largely the cause of a great deal of industrial trouble. There is a hard-and-fast line drawn between the payment for the use of capital and the payment for service, and if that line is in any way broken the conflict begins at once. We all know that under the present system there is no real harmony between the two parties—those who contribute capital and those who contribute service—and it is only some such endeavour to put service in its proper status that is going to bring about harmoney in industry.

Hon. Mr. Downie Stewart.] When you put the two in possession, capital and human labour, does not capital result only a little more indirectly in human labour?—Capital is only a material thing.

Its origination was human labour?—It is the product of human labour.

Captain Rushworth.] Capital of money, or real capital?—Any capital.

Is there any distinction between the two?—Money is the token of capital. I do not look upon it as being any real wealth itself. To give you some idea of the influence of interest on the economic system you may be interested to know that an actuary pointed out to me that 1d. invested at 5 per cent. compound interest in the year 1 to-day would be worth £36 followed by no less than thirty-five noughts in pounds sterling. If that process is going on all the time as it is, of course you cannot conceive what that amount is. The following figures are convincing arguments against the accumulations resulting from compound interest. The old Jews knew something of the matter when they had the writing-off of debts at the end of every fifty years. Then the writer tries to give a comparison of what the sum is in blocks of gold. It is almost staggering—the figures that he gives—but the point I want to make is this: that if interest is going on accumulating at that rate, is it any wonder that nations are not able to pay the debts they owe, let alone the interest on them? And is not this one of the reasons which has brought about the world-wide economic disaster?

Captain Rushworth.] Are not the recipients of the interest taxed?—Probably they are.

To meet the nation's debts?—Yes; but my point is this: Industry in the first place has to pay this sum. Whatever happens to it after, I do not know, but I do say the influence of interest on industry is so enormous that it cannot bear the burden, hence the breakdown which has occured and which is causing all this economic problem.

Mr. Schramm.] We are still paying the interest on the Battle of Waterloo?—According to this, I should think we would be paying for something that Adam did! Another point which I think probably will come into vogue is the compulsory amortization of loans. As the writer of this letter points out, if that were in evidence, in use, we should not be troubled with these loans which, as has been pointed out, are hundreds of years old and we have not paid for them yet. In that connection I have a description here of civilization—a definition which I think is very apt and to the point: "Civilization is that state of affairs where the present generation pays the past generation's debts by issuing bonds for the next generation to pay." I think that is a very apt description. Is it not true?

Mr. Schramm.] Yes, undoubtedly?—If that is one of the foundations of our industrial system, is it not one reason we are in the mess we are in to-day?

Captain Rushworth.] But it might be a foundation of our monetary system, not our industrial system?—I think the industrial system is so closely linked up with the monetary system that you can scarcely separate the two.

Mr. Schramm.] You would not call the Battle of Waterloo an industrial affair?—I think all war is industrial, and a very extensive industry, too, sometimes.

In the final analysis you are correct?—I am not going to weary you with wading through the matter which has already been placed before you in writing, but I would ask you to view it in a

close a manner as possible. The method which the Employee Partnership Institute advocates is payment of capital by predetermined rates—everything hinges on that, on getting capital at a predetermined rate. Unless that is done, you cannot distribute fairly the balance by means of the shares which under the Companies Act are termed "labour shares." The suggestion is that capital, having received its full payment (1) for risk, (2) for utility value, capital is not entitled to any more. Under the present system it is taking for its risk premium the whole of the surplus profits, to cover the risk it undergoes. I maintain that the risk which the service of labour undergoes is very much greater than the risk which capital undergoes, and that, instead of capital being paid by results, labour should be paid by results. Then comes the question of how to divide up the profits amongst the service of labour. We cannot ignore present-day standards altogether, no scheme of this sort will come about suddenly—it is only going to come by gradual evolution; and the first step in the direction of distributing wealth should be a means of distributing it to those who make it, in proportion to the quality of the service which is given. The only means by which we can assess the quality of service is to take present-day standards. I have no doubt most of us have read that book by Bellamy "Looking Backward," in which he states that the highest paid labour should be for the dirtiest work, and that the man sitting down in his office should be the lowest paid. Certainly what is required is a means of distributing the profits of industry amongst the contributors of service; and it can be evolved through the share system to which I have referred. I have tested that out in actual practice, and there have been practically no more difficulties arising than arise from the distribution of the payment for capital in proportion to the amount contributed. No doubt there will always be a certain amount of jealousy between the man getting the smaller pay and the man getting the high pay, but, taking present civilized standards, there is no great difficulty in making the distribution on those lines. So far, I have referred only to the profits of industry, but I hold that if an individual is entitled to a share of the profits, then he should also have some say as to how those profits are made, and that, of course, brings in the question of control of the contributors of service. My view is that the contributors of service—the men who are actually doing the work—should have just as much say, if not more, than those who contribute capital. Who knows most about the inner working of a business—the man who is actually engaged in it day in and day out or the shareholders who might live 1,000 miles away and who are very largely concerned only with the dividends which they may obtain from their investments? I hold that there is an enormous potential power of production in the knowledge of those who contribute service, and so far we have scarcely begun to exploit the channel. Shortly, the scheme which I advocate is nothing more than a system of payments by results, with a share of the control to the contributors of service. I believe I am right in saying that payment by results is the greatest incentive for any worker—not only the monetary results, but the results of the incentive of being a partner in the business—and the method suggested would make partners of every man in the concern, real partners. To-day we hear something of the partnership between capital and labour. I have never been able to ascertain what the conditions of that partnership are—what the basis of the partnership is, and until we get down to something definite as to the conditions between the two partners, I do not think we are going to get very much further than we are to-day. It is with that aim in view that this scheme has been put forward by the Employee Partnership Institute. I should just like to say here that it has created a great deal of interest not alone in this country, but in every English-speaking country. Comments have been made from America, Great Britain, Australia, Canada, and dozens of other countries. I continually get inquiries as to the particulars of this plan. I might say that only last mail I received a letter from Mr. Wickham Steed, the well-known publicist, and he informs me he gave the Halley-Stewart Lectures in 1933, and took as his central theme "Employee Partnership." The Brookings Institute, one of the foremost economic institutions in the United States, has issued a pamphlet on it. The Principal of one of the Oxford Colleges, Professor MacGregor, who was chairman of the British Association, wrote me last mail saying that he had become entirely converted to the principles advocated by this Institute, and he was issuing a series of articles embracing them, and at the same time he said that a friend of his who was a member of the South African Parliament was introducing a Bill on absolutely similar lines to the Companies Empowering Act of New Zealand. Incidentally, that Act has now been embodied in the 1934 Companies Act, so that it shows that the work of this Institute is spreading, and I think it is no small credit to New Zealand that she has given a lead of this nature in industrial organization. I anticipate that it will not be many years before the Parliament of Great Britain will also have on its statute-book a similar measure. Nothing, I think, will hold back the forces which are now driving us to give greater recognition for human service and a lesser recognition to the material thing, capital, and that eventually the principles set out in the paper which I have given you will become universal throughout the world. I do not think I am making an extravagant claim, from the correspondence which I am continually receiving in regard to the working of this Act. I hope I have not put too much before you, when I supplied you with the printed detail in the booklets and leaflets which have been issued by the Institute. I think one of the most concise statements that has been made in regard to this plan was made by Lord Haldane. He covered everything I anticipated in half a sheet of note-paper. The whole of the principles to which I have been referring are included in this letter in which he says,—

> One source of class consciousness in labour is the exclusive domination of the owners of capital, who take all the profit after paying the minimum of cost—this would be abrogated if the principle were that of payment for services rendered—the owners of capital would be paid at the market rate for the service of their capital—a payment proportioned to the risk run. This would leave the profits remaining to be shared between the management and the workers again in proportion to the value of their individual services. The remuneration of management might have to be high, but it would be well worth while for the business as a whole to provide this. As to wages, the trade-union standard would determine the minimum, the surplus would be divided among all services, except the owners of capital, who would have received their full reward.
>
> I have been careful to put the proposal not as a rigid statutory scheme, but as an ideal, to be worked out by business organizers who seek tranquility—it thus prejudices nothing, involves no final programme. My belief is that it would be possible to negotiate a basis of distribution in each undertaking by common consent.

I think that is one of the most concise and straightforward statements in regard to the principles I have laboured for for a good many years, and I think also it is a tribute to the reasonableness of the scheme I am advocating. There are, of course, a great many different details to discuss in a question of this nature, and that is why I have found it necessary to issue a number of pamphlets dealing with the different items of industrial organization as they arise, but I would say this: That up to the present there has not been one single incident that I have not been able to meet after considering the bearing that this method has in industry. I think, perhaps, a great deal more information could be obtained by the Committee if they would ask questions on the various issues raised. I have always found it easier to give information through the medium of questions than by giving an address of this nature. The field is so wide that it seems almost impossible to cover the many issues which are raised in a discussion of this nature. I shall be very glad to answer any questions which the Committee may put.

Mr. Lye.] I have listened with considerable interest to your address, and I happen to know that your plan of share partnership is in operation in various places in New Zealand, particularly in Hamilton. What I am interested about is this: The question of predetermining the rate of interest that should be paid for the use of capital. I want to put it to you this way: It is a very easy matter to enunciate a principle, but do you not think that in having enunciated that principle of predetermining the rate of interest, owing to the competition for the use of capital and by virtue of the fact that there are so many conflicting interests who are practically concerned in borrowing and lending, it would be a very difficult matter to get co-ordination. Have you any idea of how it would be possible, having enunciated the desirability of getting that fixed rate of interest, to proceed to establish that predetermined rate?—Eventually I think it will be established by compulsion.

By Act of Parliament?—Yes.

I presume that that would be about the only way in which you could enforce the condition of affairs at which you desire to arrive?—Unless the owners of capital have sufficient common-sense to see where the present system is driving them to; they then might agree to introduce a more reasonable method of payment of interest.

Have you got sufficient faith in human nature to know that, when their interests are involved, they are not going to take advantage of every fresh set of circumstances?—I have that faith, and I believe that it is not beyond the wit of man to devise a means which is a fair means, and not one that will drive the whole community to destruction, which is the point we are drifting to now.

You would agree that, having a knowledge of human nature, it would be necessary to make a compulsion by Act of Parliament?—Evidently President Roosevelt is finding it so.

I have some knowledge and a good deal of admiration for your scheme, but there is another question I want to submit to you, and it is this: To-day some people say that the human factor is the wealth of the capitalistic system. Under your plan and proposal, you want to alter that, that man shall use capital and direct and control it for man's use and benefit, and that man shall not be, as it is claimed under the present system, that capital is using labour—human labour—and taking too great a tax, collecting too great a tax, as you say, for the use of that capital; in other words, that capital may be called to-day the master of the man, whereas the man should be the master of the capital?—Might I just say here that I am not alone in my views in regard to the position of the relationship of capital and labour.

Exactly?—I have a statement here by the author of the Young plan for the settlement of war debts, in which he says,—

> I hope the day may come when these great business organizations will truly belong to the men who are giving their lives and their efforts to them, I care not in what capacity. They will then use capital truly as a tool, and they will all be interested in working it to the highest economic advantage. Then an idle machine will mean to every man in the plant who sees it an unproductive charge against himself. Then we shall have vision in labour, provided the leadership is competent and the division fair. Then we shall dispose once for all of the charge that in industry organizations are autocratic, not democratic. Then we shall have all the opportunities for a cultural wage which the business can provide. Then, in a word, men will be free in co-operative undertaking and subject only to the same limitations and changes as men in individual businesses. Then we shall have no hired men.

Really, what you are aiming at with your plan is a fairer distribution of the profits from the use of capital and labour, as a reward to human effort. That is really the basis of your plan, and I am going to finish by reading this little extract that I have noted here, which I think sizes it up very nicely. If your plan were put into operation, we would rapidly approach a condition, as Lord Milner prophesied many years ago, when it would not be a case of capital hiring management and labour, but of management and labour hiring capital at the lowest possible price and dividing up the benefits between them. That sets it out in a nutshell, does it not?—Yes; but that is rather a generalization.

And securing to the human element in the process of making profits a fairer distribution of the profits, the general earnings of both?

Hon. Mr. Downie Stewart.] I was interested in the question of control. I think I have discussed it with you before. On what terms do the workers get shares, according to length of service, or when do they acquire the right to have shares in the company?—That would be entirely for each business to decide for itself. I suggest that no business man would go out into the street and bring a man into his business and say, "You are a partner." I think it would be necessary to have a period of probation; and when the owner of the business was satisfied that the man whom he had brought in was suitable for partnership he would then be given it according to the quality of his service.

Assuming he was in service for twelve months or two years or whatever time you like, and had acquired a right of shares, then a depression comes and you cannot afford to employ him, what happens to his shares? Can he sell them?—No. You will understand that the shares have no nominal or capital value.

But they receive dividends on them ?—Exactly. If there is any reserve which has been put aside during the period in which that man was working, he would then be entitled to his equity in the reserve proportionately to the number of labour shares in the company.

Assuming the man had been in for five years and they were all dropping out one by one, would you have to make a recalculation of the reserve interest every month, if some new worker dropped out ?—No. There are two methods by which you can pay out the reserve. One by paying the cash value of the reserve due to that individual according to his contribution of service. The other would be to pay him in capital shares of the company.

But would it not be better to say that a man must wait for a half-yearly period or some time ? Otherwise you would continually be making payments ?—Yes, provision could be made for him to be paid at the nearest balance-sheet period.

Assuming the workers have a majority control, as you indicate you would like them to have more control than the employer, do you not anticipate any difficulty owing to a different point of view as to what is a wise policy looking to the future. I have this in mind, that you may see a storm coming and you may want to build up your reserves and be in a safe position. The man to whom every pound is of moment wants to meet a dividend and he is in control. Might he not seriously jeopardize the company by forcing a distribution when you thought that it was not wise to make a distribution ?—That has been pointed out as a danger. My own view is that there is no danger in it. In the first place, you spoke of the employer. In a company there is no employer. Every man contributing service to that company is an employee and as such he is entitled to labour shares. Now, the leaders of that company, the directors, managers, heads of departments, would all receive their relative proportion of labour shares. It would be rather far-fetched to imagine a company where what is called the staff owned possibly 50 per cent. of the labour shares, and in addition to that the capital shareholders would have their voting-power. It does not look very much as if there would be much chance of what you call the labour element getting control, but even if they did, are they going to act any differently to those who have contributed capital ? Take the present capital shareholders. What influence do they bring to bear on the policy of the company ? I should say very little. They look to the leaders. Now, the rank and file of the workers would also look to the leaders. They are not going to upset anything that is carried on in a legitimate manner. They are going to try and contribute to the knowledge of the concern as a whole and benefit by so doing.

Their control would go no further than the control of the shareholders would it ?—Exactly, and then again it is within the power of each individual business to make its own regulations. We must remember that the power to-day is in the hands of the employer class and it is only some move from them that can introduce this measure. Now they very naturally I suppose would make some safeguard whereby the control would not pass out of the hands of the present directors, perhaps, for the time being. In the course of time, as it was found out that benefits were being received from this method of control, then that control would be enlarged. I do not look upon this plan as being a measure which can be suddenly introduced into any business in its entirety or that it would be good policy to suddenly switch over from one form of control to another.

But it was your remark that you would prefer to see the majority control. Assuming the present directors had to make an instant decision on a contract, say, abroad, and they made a wrong decision and lost heavily ?—Then the labour shareholders would have to put up with that in the same way as the capital shareholders do to-day.

Then the limit of their interest really is the dividend. They do not have any share in the management of the company. They do not manage the policy of the company ?—No, I think that is what we have to educate them to do, and this is a means of doing it.

But you say that safeguards will be provided to prevent that happening ?—To some extent that would be the case. A business has to propound a policy which presumably will bring profit. They may make a mistake. This is not going to be a panacea for all the industrial ills that you can imagine. It is a step towards bringing in a better industrial order.

When you say that compound interest accumulates at a fabulous rate, are there many businesses that pay compound interest ? I mean, they pay their current interest year by year and distribute it, but there is no compounding of interest going on, is there ?—Not as far as individual companies are concerned, perhaps, except where they are working on overdraft, but it must have an influence on industry as a whole.

But even there is does not accumulate, because they have got to keep up their interest payments ?—Yes. But they have got to pay the interest in some form.

Not under compound interest ?—If they had not had to pay that interest out they would have received interest on it, so to that extent they are paying compound interest.

I have never heard it put that way before. Say a man was starting an industry in which capital of £10,000 was involved, what percentage of his operating costs would repay interest ? And then, if you allow for all the other factors he has got to pay out, would interest form a big percentage of his payments if he borrowed the £10,000 ?—Is the whole of this capital borrowed money ?

Yes. If you consider wages and material and all the other things he has got to pay, interest is a very minor factor, is it not ?—Yes. It would not be a large factor, I suppose. Nothing like as large, for instance, as the payment for labour. Or even a payment for materials, depending, of course, on the class of business. But I think all those things will be left to the regulation of each individual business.

You say that the interest charge must be limited or predetermined to a certain standard. What happens to a very highly speculative business ? A man wants to start a fishing industry and nobody knows what it is or what its prospects are except his own judgment is backed by somebody. You might have to pay a high interest and yet be a wise venture to start ?—Yes. You might have to pay a high insurance premium for it. I imagine that an increase of the rates would be ascertained on an

actuarial basis in the same way, for instance, as the rates of insurance on motor-cars. When insurance on motor-cars was initiated the insurance companies guessed what a fair premium would be. They had no data to guide them. Now that is the case in regard to industrial risk premiums to-day. There is no data. That would be accumulated in course of time.

And suppose a man has what he thinks is a splendid mining venture and his friends are willing to pay a high rate of interest on the capital to put into that mining venture, would you prohibit that altogether ?—No. If he likes to pay the risk rate, which of course is a fluctuating rate, according to the industry in which it is invested, there would be no limit to the premium for insuring that risk.

But would everybody be able to borrow at the same rate of interest ?—No. They would have to pay different premiums and rates according to the risk.

Would that not be a very difficult thing to fix by law ?—I do not think it would be difficult. If a man wanted to invest his own capital, of course, nothing could prevent him.

I thought you were going to prevent him by law. Supposing he wanted to borrow and was prepared to pay the interest would you say it was a usurious rate and prohibit it ?—No. I hold that the interest rate will be fixed by two factors. One should be the premium for insurance against loss, and the other should be the utility value of money which should be assessed by some gilt-edged security such as the interest on Treasury notes. I cannot imagine anything lower than the interest-rate on Treasury notes.

You mentioned Armstrong, Whitworths. Do you know what they paid for the guarantee of their interest ?—No. I have not been able to find out.

It was not a very serious guarantee. As I understood your figures, they expected to earn £900,000 a year and all that the insurance company guaranteed them was to insure them that they would earn £200,000. That was not a very great risk, was it ?—No. But it is a step in the direction of illustrating that it is possible to insure industrial capital.

At the present time interest-rates are falling all over the world. There is quite an apprehension that in times coming there will be practically no interest at all ?—It may be a good thing for the community as a whole, if there were no such thing as interest.

There is quite a school of thought on that. The matter is working in your direction by natural processes ?—Quite so.

You say that our troubles are brought about by securing rewards with no fixation of profit on capital. Assuming your scheme was carried out in its entirety in New Zealand, it would not touch the central problem, would it, that our main interest is our exports and they are on a very depressed market in London just now. It would not be any great help to the farmer, would it ?—I have never approached this problem from the point of view of New Zealand only. I think it is broader than that.

You are approaching it, surely, from the point of view of New Zealand industries ?—No. There might not be any immediate relief.

Mr. Langstone.] What you are trying to do is to proceed by way of giving demonstrations as to the efficacy of this scheme of yours, and that by allowing the workers in the industry to be represented on the directorate, that the knowledge which they would bring to bear on the capital directors would be nothing but beneficial in the main ?—That is so.

Now, you have got a balance-sheet here showing where the profit has been £11,992. That is divided up so that for the interest at 5 per cent. on the £80,000 capital they get £4,000, and the labour shares are 3,112. That is given to those workers in the industry, I presume, almost on the basis of the amount of salary or service they receive ?—That is taken as the basis for distributing the labour shares.

That just creates new share capital, what you call labour shares ?—It does not create capital. The shares having no capital value would have no connection with capital.

But what you are going to do is—these shares accumulate. You are not going to pay the amount of money over to them. You are giving them share value, scrip value ?—They would be entitled to a dividend if a profit were earned less any reserve which the company might think it wise to make. I do not think it would alter the policy of putting aside reserves by bringing in labour shares.

But what I mean to say is, there are 3,112 shares that, under ordinary circumstances, would have gone to private shareholders under your scheme ?—When you say private shareholders, do you mean capital shareholders ?

Yes.—No, they would not. They would not have any labour shares at all unless they contributed service.

I say, assuming that the business is run not under your scheme. To-day that 3,112 that has been set aside for labour shares would have been distributed to the other ordinary shareholders ?—That is so.

Now, you are paying interest. Then, these labour shares would be interest earning ?—No, they would not. Why should they be interest earning when no capital has been paid for them ?

If they accumulate, we will say, if you transfer three thousand of them in the form of labour shares, ultimately your labour shares will become bigger than your others ?—But that is not the idea, to continue the issue of labour shares to the workers without limit. You would issue the number of shares a man was entitled to and unless there was some alteration in the quality of his service, that would be the number of shares he would be always entitled to.

But you would issue each year, would you not ? After you had limited the amount of dividend to the ordinary capital and made all your provisions, all of the surplus would be distributed by way of labour shares each year ?—No. Not by labour shares. There might be a dividend on the labour shares.

You would pay a dividend on them ?—Yes. The main object of a share is to provide for a means of dividend and a share in the control of the business.

What would you limit the labour shares to ? What amount ?—There would be no limit. They would be paid by results the same as capital shareholders are to-day.

In the event of one worker leaving an industry he would be able to sell his shares to some other worker coming into the industry ?—No.

How can he monetize them then ?—He cannot.

What is the good of them, then ?—Except that if he leaves the business he is entitled to his share of the equity on the reserves.

You will monetize the reserve up to that amount ?—You would pay him out or give him the equivalent in capital shares of the company which he could sell on the market.

But in the event of there being no capital shares to dispose of, if the people who held them did not want to distribute them and you had your capital fully subscribed, you would increase your share capital ?—Yes, for that purpose.

You would have to alter your articles of association ?—You would have to alter the articles to make provision for that. That has been done in several companies.

So that these shares would never come on the market at all ?—No.

Now, what representation would the workers have on the board of directors ?—That would be entirely for each individual company to decide for itself. At present the power is in the hands of the capital contributor. He is presumably not satisfied with the present position of affairs, and he says, "I am going to take my mate in as a partner," and he defines the terms of partnership.

And alters his articles of association accordingly ?—All he has to do is to put in the provision for the Companies Act for issuing labour shares. It is quite a simple matter, and could be done at an ordinary meeting of shareholders.

You think it would give an impetus to those working in the industry ? Seeing that they were getting something in addition to their wages, that they would give greater co-operation in the industry ?—There is no doubt whatever of that.

Greater results. Of course, the difficulty is to get those who own and control industry to-day to take the initial step ?—That is the great obstacle that I am up against. In the past the owners of capital have had the whole of the surplus profit after payment of all expenses, and that, I hold, is where we have gone wrong.

Would you suggest that a law be passed where they have got to adopt this same legislation framed to bring it in ?—It would not be the first country that has adopted a law of compulsion. Italy, for instance, and the United States.

When a war breaks out they do it ?—Yes. If it can be done in times of war why cannot it be done in times of peace ?

But do you not think that in just leaving it voluntary for each company to act as they are guided by their ideal, it would be a fairly long-drawn-out process ?—Yes. I think it would. I think it is only by slow evolution, unless, as I say, the present economic position makes the owners of capital realize that there is a danger of losing the whole of their capital. That process is going on to-day. Now, they want to adopt some means which will preserve their capital, and I hold that the proper means would be to say to the men who are using the capital, "You pay me so much out of the profit and you can have the rest." I cannot imagine a more efficacious way of preserving capital than by evolving a system of that nature, whereby the contributor of capital would receive his wage for capital and the givers of the service would get the rest.

Let us take two cases. You know a lot about sawmilling. You have got hundreds of men working in an industry which to-day is having a very difficult period, and we take an organization like a bank or an insurance company. I do not know that you could give labour shares to-day in the sawmilling industry because there would be no profit ?—But profit is only incidental to a larger incentive.

But a sawmilling company to-day could not, out of its profits, donate labour shares, because there are no profits ?—That would not prevent them issuing labour shares.

They would give them as a matter of scrip ?—You give them profits when they are there.

They would have to wait until the profits materialized ?—Just the same as the capital shareholder does. He has to wait.

Take a concern like an insurance company, where they are doing pretty well. The workers in that particular industry, not because they are any more efficient or any more useful to society, they would get the benefit ?—Yes.

Do you not think that there would still be a line of cleavage ? That those who are in the profitable industry to-day would still do everything that they could to maintain their advantage over the other fellow ?—Yes, I think that would always be the outcome of individualism.

But I mean to say, individualism would be transferred into a company individualism, where the conflict of interests, instead of being individual in its incidence is grouped, and you would still have the same conflict ?—I do not suggest that this is going to level out all the wealth amongst the community. I do not think it will, but I do suggest that it anticipates a better order than there is to-day, and we have to make some move to get away from the present troubles.

The claim that you are putting forward applies mainly to fairly big industrial organizations, where there is a fair number of men and a fair amount of capital operating in a congested area. For instance, a clothing factory, a firm which would be an individual thing, or casual labour, it could not very well operate under this ?—No the plan can be applied to any concern irrespective of size. Regulations can be adopted for casual employment. For instance, if casual labour resulted in some profit that could go towards unemployment relief.

You suggest that the rate of dividend should be on the ordinary capital of the company. Would you like to state any specific rate ?—I think every company should decide that for itself, subject to any law which may be made by the State.

It would not be like the Reserve Bank, where it is definitely limited to 5 per cent. ?—I think it should be limited to a certain percentage.

That may be applied to all industries ?—Yes, but not at the one rate, because the risk in each company would be different, consequently the premium for payment of that risk would vary accordingly.

Then if this scheme became more universal and the value of money as against the value of human effort—I mean money went down and the value of human effort rose, money would become cheap, therefore the return for the capital would also fall with it?—It would fluctuate accordingly.

Mr. Clinkard.] Your proposal is really one for large industrial concerns, in the first instance any way?—It applies to small industries as well as large.

Well, you could hardly apply it to industries that are using their employees very casually, could you—that is, to be of any effective use?—For payment of casual labour?

Yes?—Not the payment of the permanent employee? Is your question in that direction?

What I have in mind is, as Mr. Langstone said, the timber companies. Their employees are very casual, as you know?—I do not think that statement is correct.

Because it is so. There are a few permanents, but the bulk of the employees are casual and, more than that, for years past they have earned no profits to divide?—I do not agree that the bulk of the employees are casual but it is correct to say that no profits have been earned.

In that case, then this principle would not be of much use to any one?—It would be a step towards educating them in the use of capital, and that is what we want.

I went through your book on Sunday and I was very interested in it. I think the idea a good one, but it is very largely a question for, I think, evolution. The more companies you get to take it up the better. Where I am puzzled is to see where you are going to improve the position very much in connection with your interest proposals. You say that interest is to be divided into two portions—that is to say, that if you have to pay interest for use, plus premiums on insurance, does that not bring you back to the same position as you are in now?—No. I hold that the premium for risk to-day is the whole of the surplus profits, whatever those profits may be.

It may be that there is no premium paid at all because there may be no profits to pay the premium out of. You have to anticipate possibilities of losses as well as possibilities of profits?—That would be part of the charge against capital.

But only against capital in the case of capital receiving the premium?—No, it would be part of the risk which capital investment undergoes.

Quite so. Well, at the present time capital takes that risk and it is included in their interest. Your suggestion is to divide that risk between the use of capital and the premium on the risk?—No. I think you have not taken me quite as I intended. I said that the scientific means of assessing interest would be divided into two factors, one of which is a risk of loss and the other a payment for the utility value. I suggest that is an analysis of interest.

I should say that the principal factors are owing to the risk of loss or the hope of gain?—May be that is so.

I am all the way with you in your object, but I myself cannot see how you are going to gain much in the question of interest. Put it this way: Supposing you wish to start a new industry; well, you know exactly what it is going to cost you for cash—that is fixed—but you want to know what it is going to cost you in premiums for the risk. If, as you suggest, you go to an insurance company they may charge you any old premium or they may refuse to take your risk at all. Where are you going to get, then?—I do not think any risk is uninsurable at a price.

At a price?—Exactly; and if the premium is too high it would be for the insurers to say that is too big a risk.

But, as the Hon. Mr. Stewart pointed out, there are many instances in which you could have a proposition to put up as an industrial venture and there might be five or six of us who have a little capital and who are prepared to lend it to you at a fairly substantial rate of interest because we have confidence in your judgment, but if you went to an insurance company you would not get that same consideration. I am afraid you would not?—You would suggest that it would be uninsurable?

I do not suggest it would be uninsurable, but the difficulty would be to get them to insure it at even the rates we would be charging you for the capital, which would be a fairly high rate of interest?—My reply to that is that the risk might be high, but it would be for those who were supplying the capital to decide whether it was too high to put it into the investment.

At the present time we have exactly the same thing, only you have two services and one set of individuals—that is, they find the capital, including the use and including the risk. Under your proposal one party supplies the capital and the other party insures the risk. You have two sets of individuals to look for something in the shape of profit, whereas in the first case you had only one individual?—I do not agree that that makes any difference.

Well, that is as it appears to me, though I am not at all antagonistic towards your scheme?—I do not object to your suggestions in the least.

Again, you are not proposing to apply this to society generally; it is only to company management, I take it?—What will apply to companies will apply to individual businesses.

Oh, yes, I see. I had some notes taken here on a mistaken supposition. In regard to compound interest, you have shown that you consider that capital is worthy of use and worthy of a fee in the shape of interest for its use from year to year; for this year any way?—That is to-day's custom.

Leaving out to-day's custom?—Unfortunately, you cannot do that.

But taking it on an ethical basis, would you reckon that capital was worthy of an interest or use rate?—I have never been able to make up my mind what interest on capital should really be, but I have gone as far as this, as believing that payment for capital should not be less than the rate of payment for the risk of loss. I cannot conceive any objection to advancing an argument that capital should at least be paid for the risk of loss which it incurs. If I lend £100 I want to make sure of getting it back; the only way to make sure is to insure it.

You would not suggest that if I had £100 worth of accumulations that I should lend it to you simply on the understanding that I should get a return of that capital?—Why not?

Well, in that case you would say that the savings were not worth anything in the shape of use ?—You are getting down to fundamental principles.

I am not trying to do that. What I am asking you is whether you recognize that if I have £100 to lend you I am entitled to something for its use, which at present we call interest ?—That is the custom to-day, and you cannot get away from it.

That is not the point. I want to know whether you consider that that is all right ?—My reply is that the payment should be limited by the risk which that capital undergoes.

I see. In that case I can quite understand your objection to the annual repetition of interest. I was going to ask you, if you hold that it is reasonable that the banks should be paid interest for this year, why not next year and the year after, and, if for three years, why not for ever until such times as the loan is repaid. If I borrow money from a man I reckon that it is a fair thing that I pay him for the use of the money until I return it ?—It depends upon what you assess as the payment for the use of the money. If it is only sufficient to cover the cost of the premium against loss I go as far as that with you.

Mr. Schramm.] This scheme of yours is just a bridge in the meantime to get over the trouble ?—I think it is something rather more than that. It offers scope for the men who give their services to industry.

And would the workers in the industry have any say, under your scheme, in the control and management of the business ?—They would have a franchise which would give them a measure of control not on a par with a political franchise, because in this case it would be a variable one according to the quality of the service that they render, but it would be definitely an industrial franchise.

They would have a say in the management ?—Yes, to the extent of their voting-control.

So that if this scheme is in force for any length of time the workers in industry would be well educated up to the management of industry, and would be able to take control of industry, if necessary ?—That is the idea.

Would there be any preference shares under your scheme ?—It would not interfere with the present arrangement of capital shares ; they might be preference, deferred, or ordinary.

You would have the present company law in force as it is ?—Yes.

Plus these provisions that you bring forward ?—Yes.

You think it would benefit the workers to have the labour share rather than the dividend ?—I think the labour shareholder would look on dividends pretty much in the same light as a capital shareholder to-day. He would realize that in some instances it would be to the benefit of the shareholders as well as the company to retain the profits in the company to earn further profits. I do not think the labour shareholder would want to draw his dividend any more than the capital shareholder would want to to-day.

He would only be able to monetize the share in case he leaves the business, is that so ?—No.

Why not ?—Because the labour shares have no capital value ; but if a certain amount of the profits have been placed to reserves during the time he holds those shares he would then be entitled to his equity in the Reserve Account, which could be paid out by the company either in cash or by the issue of capital shares.

If there were no reserves he would get nothing ?—That is so.

In your scheme you have not touched on the present banking system. Would you like to say something on that ?—I would rather keep clear of it.

Captain Rushworth : I have no questions to ask, Mr. Chairman. I have had the advantage of discussing this scheme with Mr. Valder on previous occasions and I hope to have further opportunities.

Dr. Sutch.] There are one or two questions of a general nature. In your typewritten statement you say that the real wealth of the community is at least potentially sufficient to meet the legitimate needs of every individual consumer. Do you think that is so under our present system ?—I judge that it is so from the accounts one hears of the surplus volume of commodities which are to-day being produced, and there is no doubt whatever that the potential power of production is apparently more than we are able to distribute.

That may be so. Potentially we could be a great steel-producing country, but the physical costs of getting that steel-production are such that if we went ahead as a steel-producing country we would materially lower our standard of living in doing so, and that is why I asked the question, because you say " to meet the legitimate needs of every individual." If my supposition is correct you would have to define " legitimate needs " ?—That would be so.

So that you do not necessarily mean that we can produce everything we want in New Zealand ?—I am not confined to New Zealand.

The whole world ?—Yes.

I took it to mean New Zealand ?—I am not confining it to New Zealand.

You also pass some remarks about private property. Do you not believe in the private property system ?—Yes, I do.

Do you think it an admirable system ?—I think it is a system we cannot do without.

So that when Karl Marx says, along with you, that wages do not get enough of the product of industry, your scheme is one that would perhaps put into operation some system whereby Karl Marx's theories would be nullified ?—Yes, I would not go all the way with him.

You would not ?—No.

What objection have you to the Marxian theory ?—I think he carries individualism too far. I think that what we have to evolve is a system which is a balance between collectivism and individualism, and when you go too far in either direction you are aiming for touble.

Can we take an example ? Suppose we had an industry with thousands of employees and perhaps thousands of shareholders and the profits were divided up at the end of the year and you had, say,

one or two pounds only to pay out to each employee, do you think that would be sufficient stimulus to the employee to have regard to that company rather than his own interests ?—Yes, I do, provided he was assured that it would be distributed according to the earnings of the company.

So even if it was as low as 10s. a year you think it would operate as a factor to ameliorate the conditions of labour at the present time ?—I think that the average individual would feel that he was a partner to the production of that 10s. a year, and if he realized that he would be content.

You do not think the wage-earner would rather see an increase of a couple of shillings a week in his wages ?—Under present conditions he might, but we have to educate him to a different idea.

It seems to me that your scheme has the legal basis ready, and all you need to do is to educate the community to the ideals that you have and the thing can come into operation ?—Yes. I have often said that whilst I have devised the machinery I cannot put the spirit into it to make it work.

It is just a matter of education ?—Yes. That has to come from the owners of capital themselves.

Do you think that Karl Marx's appeal to the worker is more or less the appeal of your system ?—No, I do not. I think the psychology of this system is ahead of anything he has produced.

You were talking of interest, and I wondered if you had collected any statistics on the problem. Have you any idea whether the amount of interest paid in 1933 was greater than that paid in 1929 ?—No. I have not seen any statistics on that point, and I do not think they can be obtained.

It would be very difficult to obtain them, but if you could get them they would substantiate your idea that interest payments are increasing disproportionately ?—I do not think such figures would bear the light of day.

Otherwise, it would be difficult to verify any ideas on the subject of interest ?—I realize that, but at the same time I do not think it possible to collect statistics of that kind and rely on them.

And, talking of interest, you say that you would divide it into risk and utility value. That is the utility, I take it, to the borrower ?—Yes.

You would not say that a factor in the rate of interest was the deprivation value of it to the lender ?—Yes. I have always had that doubt whether it is ethical to make a charge for the use of capital other than for the risk factor.

So that the utility value is not necessarily the only factor operating ? Apart from risk, it may be the deprivation value ?—It is the same thing.

It is not necessarily the same thing. If I have £100 it might mean a lot more to me if I lend it to you. I might say I will lend it to you at 6 per cent., but you might say it is only worth 4 per cent. to you ?—You are looking upon capital as a means of deriving income. Is that the purpose of capital in the first place ?

I am not suggesting it is the purpose of capital, but at the moment we have to have a rate of interest to attract capital sometimes ?—Yes, under present conditions you have.

And some people who save for the proverbial rainy day will save less if you have a greater rate of interest, whereas others will have to save more if the rate of interest falls ?—That surely is an argument against interest ?

I am just wondering how you are going to so change the system that these people are not affected. They are a factor in any scheme, and you have to include them. I am not saying it is ethical to do that ?—I started out by saying that any scheme that was not economical was not ethical.

So that if your scheme does not provide for the seventy thousand unemployed, would you say it was not ethical ?—I say that this scheme is more likely to distribute the wealth which is being produced than the scheme of the present system.

It is a little more forward than the present system. You do not think the payment of dividends is a spur to investment ?—Yes, I think it is.

Well, if you had a definite rate predetermined it would mean either that some speculators were not going to invest or that some industries were not going to be undertaken, probably it would mean both ?—Yes. I do not think you can get away from that.

So that we may not have an enlargment in our industries with this predetermined rate of interest. Some industries are built up, first of all, because they offer a speculative rate of interest to the investor. They may turn out well or badly ; in New Zealand more often than not they turn out badly ; but the ones that turn out well we would have to lose under your system, because it was only the incentive of a high rate of interest that produced the investment ?—I do not follow that, because I think that if there were scientific means of arriving at the value of interest that would show a return in an increase.

Can we assume some hypothetical scheme ? Angora rabbits were once put before the public as a good investment ; 10 per cent. was offered. Some people invested at 10 per cent. There were other conditions operating outside New Zealand and it so happened that that proposition did not turn out a good investment ; but the point I am making is that we would never have had that scheme started but for the attraction of a possible high rate of return ?—Would that not have been a good thing for the community ?

In this particular instance it would, but if that had turned out a success the reverse would have been true. I am only suggesting that that type of investment will be cut out ?—I think there must always be an opening for the investment of capital.

You would allow a high rate of interest ?—It would depend on the risk which it is undergoing.

You say this risk can be calculated before hand. Could you calculate the risk in the example I quoted ?—Yes.

You think an insurance company can do that ?—Insurances have always started on a basis of guessing what the risk is likely to be, and generally they guess on the right side.

They make their charges such that they can cover all contingencies, so that we may have a rate of interest perhaps higher than now ?—As long as it makes capital more liquid would that not be an advantage ?

It may be. If the State ran all production do you think that we would need to pay interest?—I am not a believer in the State running all production. I think you would do away with individual incentive which, to my mind, would be fatal to the success of a great many businesses.

There are some systems, at least one, being tried where they educate the public in a different way from the way we have, and they seem to manage to bring their production up by other methods?—There is such a thing as patriotism, of course.

Your scheme provides for that, for that matter. Your scheme cuts out a little of the individual enterprise, does it not?—I think it increases it by spreading it wider.

Earlier you told me that your scheme aimed at some balance between collectivism and individualism?—Yes.

I take it that you are cutting down some of the individual part?—Cutting down on the existing individualism side.

You also mention Treasury bills as being a good guide. They would not be a good guide in New Zealand for the rate of interest?—Plus exchange.

The Treasury bills in New Zealand were 5 per cent.?—That is too high, if I might say so. If they are only about 10s. in England they should not be £5 here.

In England they have varied in the last year from as low as 4s. 6d. in the pound up to 18s. 6d. There is a great variation. If you have to have a predetermined rate of interest you cannot base it on something that is going to vary at that rate?—Why not?

You do not know ahead how it is going to vary and how would you vary all your bonds and contracts, such as Treasury bills?—According to the average annual rate.

You think you can predetermine it?—I think so.

I would suggest that the British Government does not know to-day whether it is going to pay 4s. 8d. per cent. this year or £1 5s.?—No one knows, but it could be calculated on the average rate for the last four or five years.

Would you make it some proportion of this rate so payable?—As long as you had some standard which was beyond the control of those employing the capital, I do not think it would matter.

We will assume we have set standards such as Treasury bills: what proportion would your rate bear to them?—Between the rates paid for Treasury bills and the utility rate which I mentioned.

Yes. Would it be exactly that rate?—That actual rate would be a fair statement.

It might be down to 4s. 8d. per cent.?—It is getting to finishing-point, and it is questionable whether that is not the true point.

At the moment in industry we have reserve funds which equalize return of capital; that also is done; how would your scheme differ from that?—How would it apply to it?

Or differ from it; would there be any necessity for you to change the constitution of that business?—No, I think you would carry on just the same. All you would do when you initiated that plan would be to capitalize those reserve funds and start with that capital.

You would bring them into your scheme?—Yes, undoubtedly.

You say that nowadays human service is paid a predetermined rate; do you think it is?—I do.

You think that it is predetermined?—It used to be under the arbitration system, but service nowadays takes what it can get. It is generally predetermined.

Perhaps from week to week, but not for a long period?—No; but it is predetermined, and that is my point.

How predetermined?—By the arrangement between those who give service and those who buy it.

Say I am engaged from week to week: it is only predetermined for that short period?—That does not et away from the principle of predetermination.

Your rate of interest is going to be predetermined for some long period ahead?—Subject to the average mentioned.

You do not want to predetermine an average rate of wages?—Generally, I think wages would be predetermined for the period of employment. We do not alter the rate weekly.

Are you going to make the return to service a matter of competition, or are you going to say that the return to service shall be fixed also, through the Arbitration Court or some other means?—I do not propose to fix return for service, because wages and salaries would only be an advance payment against the interest of the individuals in the business.

So that £1 a week would fit in with your scheme; you would not fix a rate of wages which would cover the cost of living?—That would be the only means of keeping a man's family.

You would have a predetermined rate of wages?—Yes; that would be an advance payment against his equity as a partner.

The Chairman.] I was interested when you were speaking at the beginning; you referred to Armstrong Whitworth's, with their huge capital and also the amount of interest. There was to be a share income of a stated amount, I think £900,000, and by insuring the profits, £200,000 would be added by the insurance company?—They would not be added.

They would be paid or guaranteed?—If the return was only £700,000.

They would make it up. That, of course, was just an extract out of that circular you read, but what would be the position if the profits were minus, say, £400,000?—They would still have to pay the £200,000.

They would pay only £200,000?—They would pay it for anything less than earning-power. If they made £900,000 there would be no payment at all.

They could not give 4¼ per cent. if they were down in their profits?—Oh, no.

I was just wondering how it was made up, or whether conditions were employed?—There are some conditions in regard to return of any amount paid over a certain average profit in future years.

If we follow that on further, if a dividend in connection with your scheme to the holders of capital shares is to be fixed and the balance to be divided among the employees—we speak of the labour shares—it is clear that the employees would reap all the benefit with the special reward for the operation of the year; is that not so?—I do not follow you. I would not say the employees would reap all the benefit because a portion of the benefit would be paid to capital in the shape of dividends.

Over and above that?—Yes.

Does your scheme make any provision for the converse side of the picture? In years when business is not good—suppose you had a loss—what do you do then?—The answer to that, I think, is that labour at the present time takes its share of the loss in any business. Directly the business begins to make a loss it looks around for a means of reducing its expenditure and the first method is to discharge some of its employees. I want to suggest that seventy-five thousand people who are unemployed in New Zealand are losing money over it all their life, money which they have no opportunity to replace, and that is a greater loss than the loss of capital. I do not think it is right to say capital is bearing all the losses.

I am not opposing your scheme; I am only asking for information. It is customary in all business to build up reserves to be ready for losses; what do you propose to do about them?—Still continue the same policy.

Of building up reserves to meet losses?—Yes.

So that the actual profits over and above the dividends payable on the capital invested would not all be paid out?—It would be a very wrong policy to pay it out. I said that labour shares were entitled to any of the surplus profits, it was not necessary that they be paid out.

After making provision for a reserve?—If you will notice the example given in the leaflet, you will see a Reserve Fund is established out of the profits.

In some countries, America, for instance, we know that labour-unions have strenuously opposed profit-sharing, the reason being that it has interfered with superannuation funds and it is also a means of speeding up and getting more out of the worker than he would ordinarily give?—Yes. I am inclined to agree with that view that profit-sharing as profit-sharing alone is not a good expedient for industry. If profit-sharing carries control with it, that alters the whole aspect.

When does an employee become eligible to get shares in a company?—That matter was raised already. The answer was that a period of probation is necessary.

Suppose a man was unsatisfactory, after he had been there three or six months; what about his shares; he loses them?—The shares automatically disappear, but he has an interest in any equity earned during the period which he held those shares.

I want to put a personal question to you: I take it that you have been interested, or are interested, in some profit-sharing business, are you?—I do not like the term "profit-sharing." I think it is very much larger than that. It is partnership. I am concerned in that.

You are interested?—Yes.

Let me put this question to you: Suppose, for argument's sake, that you had a capital of £10,000 of liquid assets, and you were beyond the age that you should still continue to work, and you had nothing else but that money. What would you do with it? Would you put it into the partnership concerns or would you take 5 per cent. for it in Government bonds to make sure that you would not be left high and dry later on?—That would entirely depend on the attractiveness of the investment, as to whether it was likely to earn more in the industrial investment than in the Government investment.

But would you not still consider what your position might be, and that of your wife, with money invested in industrial concerns which might go into liquidation and you lose the lot?—That is the risk you take, but there would be no risk if the capital was insured against loss.

The average man would take the gilt-edged investment to make sure?—I think we are all doing that under the present system.

Captain Rushworth.] Would you be sure the Government would not reduce the interest on those bonds?—That would be the trouble.

The Chairman.] But you would still be in a better position than if you had lost the lot; you would still have something to live on?—I hold the view that fundamentally the purpose of capital is the saving to provide for the time when you want it, and that you should anticipate the use of that capital, and not anticipate lending it out to some one else to earn money for you.

I did not feel that I should put that question to you?—There is no reason why you should not.

Are you interested in the Waikato partnership concern?—Yes.

Would you like to tell us something about the working of it, for about ten minutes?—I am afraid that I have not the detail here, but the rough outline is that, taking the *Waikato Times* proposition, that has a capital of about £60,000. They instituted this scheme and it is only a partial employment of the principles to this extent, that before the employee partner receives any payment, 7 per cent. has to be paid on the capital shares. After 7 per cent. the profit is divided equally between the employee partners and the capital shareholders up to 9 per cent.; after 9 per cent. the whole of the surplus goes to the employee shareholders, and on winding-up of the company that would be roughly the position; if it went into liquidation, the capital shareholders would be paid half their capital and then there would be a division between the capital shareholders and the labour shareholders of the balance. I think the basis is three-fifths to the labour shareholders and two-fifths to the capital shareholders.

Dr. Sutch.] Have you ever reached this 9 per cent. on capital?—Yes, in good times they did reach 9 per cent.

And has it made a difference to more harmonious working?—The managing director will tell you that there is quite a different outlook; the men feel that they have an interest in trying to earn profits, because they know they would be benefited. They are getting it either in the shape of dividends or interest in the reserves at some future date.

Do wages in that particular firm compare favourably with other institutions?—I understand, very favourably. They are working under the award, and they pay a higher rate than the award rates.

Mr. Lye.] About two years ago one of the chief reporters left after a number of years; was that scheme in operation then?—Yes.

I understand that his interest in the reserves was paid out in accordance with the number of labour shares he held?—I am not connected with the active management, but that should be the case.

I understand that that was the case, and that it worked out quite harmoniously, and to the satisfaction of the *Waikato Times* and to the reporter. That is a practical demonstration of your plan being in operation.

The Chairman: I think I would say, on behalf of the Committee, that you deserve to be congratulated upon your scheme, which is an excellent one, and you appear personally to have given a great deal of time and thought to it. I have already pointed out that it does not come within the scope of this inquiry, but, nevertheless, if there are any points in it which the Committee can use, they will, of course, take advantage of them. We wish you success in your efforts to bring about, as you have been attempting to do, a better understanding between capital and labour.

AUCKLAND, MONDAY, 19TH MARCH, 1934.

Statement submitted by Mr. W. A. GRAY, Auckland.

Planning and Control of Public Expenditure.—Whatever monetary system is adopted by this country, so long as New Zealand exports primary produce to meet her obligations for overseas indebtedness and for imports of manufactures, any appreciable variation in the prices of our exports will cause undesirable disturbances to our economy. Any action, therefore, capable of reducing the effect of variations in the export-price level should assist towards efficient working of our monetary system, and one of the actions best calculated to counterbalance such disturbances should be the planning of public expenditure, particularly that devoted to constructional works. Increase or acceleration of public expenditure in times of slump, coupled with decrease or retardation in times of boom, should tend towards stability of employment and hence towards stability of purchasing-power, taxable capacity, and national revenue and income. It is suggested that variations in the rate of public expenditure should not take the form of hastening or slowing-down works in hand so much as starting or postponing new works, and it should assist towards this end if a Board of Works were set up to consider and recommend to Cabinet the amount and kind of expenditure that should be embarked on year by year by the various Departments of State. Local-body expenditure contributes an important share of public expenditure and that is already subject to the control of the Local Body Loans Board as regards loan-money. The powers of this Board are naturally more effective in curtailing than in encouraging local-body expenditure, and it is unfortunate that the Board was not set up some years earlier than it was. I have been unable to form a reliable estimate of the amounts actually expended on construction of public works year by year since 1920, but I believe it is correct to say that costs of construction rose comparatively rapidly every year until about 1927, although wholesale prices have been falling with minor interruptions since 1920. Since 1928 costs of construction have fallen even more rapidly than they rose. The rise in costs of construction up to 1927 was due partly, of course, to the rise in wages lagging behind but following the rise in cost of living during and after the war; but it seems reasonable to expect that postponement of some of the public works carried out from 1920 to 1927 would have led to a reduction in their cost and to a reduction of total public indebtedness. It also seems reasonable to expect that some of the works then undertaken would never have been carried out if they had once been postponed; for, although works of doubtful value may be and are undertaken to relieve unemployment, more careful scrutiny of expenditure may be expected when neither boom conditions nor widespread unemployment are present. At the present juncture, while admitting that examples of unjustified public expenditure are not difficult to find, it is submitted that there is work of economic value to be done on roads and bridges, schools, and other public buildings sufficient to justify an expenditure of, say, £5,000,000 annually for many years; it is also submitted that this amount could reasonably be increased for one or two years in the expectation that the building trade would recover some of its activity, after which the amount should be reduced. Such a recovery in the building trade could reasonably be expected, for the direct employment provided would lead indirectly to further re-employment by the expenditure of wages, and should encourage a gradual return of confidence, especially if there is reasonable certainty that public expenditure will be curtailed as private enterprise regains its ability to expand.

Finance for such expenditure, it is submitted, could be arranged temporarily by the sale of debentures coupled with the issue of Treasury bills, while Professor Bowley's proposal should work satisfactorily for the future establishment of a permanent method of financing public works; his proposal being that a fixed amount should be raised annually to be devoted entirely to debt redemption when unemployment is absent, entirely to augmenting public expenditure at the height of a crisis of unemployment, and otherwise to be divided between the two purposes according to whether employment were increasing or decreasing.

Finally, it is submitted that while the evil moral effects of prolonged unemployment is incapable of assessment in monetary terms, it is so undesirable that the only valid objection to a policy aimed at relieving it, is the fear that temporary relief may be followed by a more severe reaction. With a Board of Works set up to co-operate with the Local Body Loans Board it should be possible to expand public expenditure to an extent that would provide a return to regular employment for appreciable

numbers with a reasonable certainty that such public expenditure will not be allowed to continue after the slump has passed, so as to heighten the bext boom and deepen the next slump. While in the event of the present slump continuing to deepen it is submitted that the risks of the policy of avoiding public expenditure are greater than those involved in expanding it.

Witness: Mr. W. A. Gray.

Mr. Gray: Mr. Chairman and gentlemen, perhaps I should preface my remarks by giving you my qualifications to speak on this subject of public expenditure. I am a civil engineer by profession; in 1910 I graduated at the Auckland University with honours in mathematics, and, since then, with the exception of the war years, I have been engaged in the practice of my profession, mostly in municipal works, roads, water, and drainage; but I have made some study of the economics of road transport. Three years ago I published a small pamphlet on roads and railways, a copy of which I will leave with you. I could let you have other copies if you desire. In the same year the New Zealand Society of Civil Engineers set up a Committee to consider and report on the economics of rural roads. I have been a member of that Committee for the last three years, and we are still continuing our work. I propose later on to make some detailed references to the reports which appear in Vols. 18 and 19 of the Proceedings of the New Zealand Society of Civil Engineers, which books would be in the Parliamentary Library. The question that I wish to discuss is the using of the control of public expenditure as a factor in evening out the disturbances caused by booms and slumps in the trade cycle. The question crops up here, as I think in every other proposal which has been before you, of the distinction between the long-run problem and the immediate problem. In the long-run problem, I believe that, on general lines, a reduction of public expenditure while prices are rising, while trade is good and employment is plentiful, will help with other factors, such as possibly a rise in the rate of interest or possibly a fall in the exchange-level, in preventing or mitigating the excess of a boom, and that as a corollary or as a converse, an increase of public expenditure when prices are falling, when trade is losing confidence, and when unemployment is beginning or increasing, should help, with, say, the variation in the rate of interest in the direction of lowering it and the variation in the levelling of exchange in the direction of raising, to prevent—if not entirely—at any rate the worst excesses of unemployment, loss of profit, loss of revenue, difficulty in balancing budgets. It seems to me that it may be useful to consider the experience of the years since the war in the light of what we know now not with the intention necessarily of criticizing what was done then when the later knowledge was not available, but in the hope of learning something that may be useful when the next trade cycle comes. Assuming that in the course of time prices will rise, employment will return, conditions will arise possibly in the not distant future when the possibilities of a boom occurring in the country will have to be considered, and the magnitude of the boom is a fairly certain guide to the magnitude of the slump which will follow it. Looking at it that way, it seems to me that, concentrating on the question of public expenditure and referring to the fact that costs of construction rose almost continually and fairly steadily after the war up till about the year 1927 and fell from 1928 onwards; bearing that in mind, and also remembering that the Local-body Loans Board was only set up in 1927, it seems to me probable that if the Loans Board had been set up, say, five years before, and if a Board of Works taking a more general survey such as is proposed in my typewritten notes had been in action then, a reduction of public expenditure by the Central Government and by local bodies would have reduced the boom conditions that did exist in the building trades in the years approaching 1927, and that if the money had not been expended then, a lot of it could have, with advantage, been spent later, both by the Central Government and by local governments, with beneficial results in the direction of evening employment and reducing costs to both the national and local governments. The building permits, which are a very clear guide to unemployment or to a large extent of the volume of unemployment, continued at a fairly high level for two or three years after the change in the costs of 1927; building permits did not fall off appreciably until 1931. They averaged about £9,500,000 per annum in the principal towns, private buildings, from 1924–1929. In 1929 the figure had fallen slightly to 8·9, in 1930 it fell to 6, and in 1931 to 2·5. I have not seen the figures recently. These are the figures from the report of the Economic Committee. The 1932 figures were, I think, actually lower, but last year there was a slight rise.

Mr. Clinkard.] The same thing was even more pronounced in America, was it not?—Yes, and in Australia. In Sydney they dropped, I think, to under 10 per cent.

Mr. Langstone.] Can you give us the expenditure of local bodies and public works for the same period?—The figures for public expenditure I find very difficult to get in full. The most recent Public Works Statement does not give all the activities. It gives a guide to the position. I attempted to get the figures for 1930–31, and it made a total of £8,400,000, and I think that figure was exceeded somewhat in the previous two or three years. It is difficult to get the exact figures. The figures of the increase in indebtedness are given in the Year-Book, but they are not a complete guide to the amount actually spent in construction, and with local bodies the figures I have here only refer to the years after the Loans Board was set up, and the falling-off in local-body expenditure did not occur immediately. For three years after the Local-body Loans Board was set up the loans sanctioned averaged £3,500,000 a year. That does not mean, of course, that the money was spent. It is impossible to get the actual amount spent year by year from the statistics available, but they give a very good guide to the rate. In most cases the loans sanctioned were spent in the next two or three years or twelve months. Portions of it might be spent over ten years, but the bulk in the following two or three years. In the fourth year after the setting-up of the Loans Board, the amount fell to £1,750,000, and in the fifth year to £750,000.

The Chairman.] What year would that be?—1931–32. I think that in local-body expenditure there is a very clear case for advocating and attempting to encourage it at the present time—I do not think you can force it—and you can with the present machinery actually prevent them spending in

boom time. Ten years ago conditions were such that local-body expenditure, I think, should have been curtailed, not stopped.

Dr. Sutch.] That would have meant less overseas borrowing?—Most local-body expenditure was done out of local loans; only a few of the bigger municipalities raised money overseas; most of the smaller ones raised their money locally.

Do you think that took money away from expenditure in other directions?—I think it unquestionably helped to force up the cost of building, but while prices were rising and costs were rising I do not think it did; I think everything was moving together. I think it would have been advisable to curtail the amount in order to discourage the competition and tendencies which occurred in certain features, like subdivision of suburban lands.

Mr. Clinkard.] Is that not the reason why the banking institutions usually increase charges at those times—to discourage expenditure?—Yes, and I think the raising of the rate of interest at a time like that is the right move to make.

Dr. Sutch.] It has not had much effect in New Zealand?—It was not accompanied by other features. It seems to me that in taking one feature—if you ignore interest and exchange and everything else—it makes some slight improvement by controlling expenditure, but if you work this with the other features—the three features that we have been discussing—the public expenditure, and the rate of the interest and exchange, in opposite directions according as prices are rising and trade is feeling optimistic, and according as prices are falling costs are falling and trade is losing confidence more improvement would be seen. That covers the ground generally on the point of the more general problem of making or setting out a long-term policy for mitigating the effect of booms and slumps caused by variations in the prices of our exports. The immediate question, of course, is, Should anything be done now? I propose a little later to give what I believe to be a list of works mostly connected with roads which are thoroughly justified from a strict economic or accountancy standpoint; but, before doing that, I want to refer to one or two objections that are almost certain to be made. One is the point of view that in the past public expenditure has been carried out on foolish projects and that the solution of the slump must be left to private enterprise. I think one of the objections that will be made to any proposal to spend public money is that in the past money has been wasted on some projects, at any rate, and that the country is in no mood for wasting further public expenditure. I think that objection will be put up.

Mr. Langstone.] Would you call the war waste?—Certainly.

That is a most profitable venture?—I would not advocate any war. The answer I propose to that objection that money has been misspent in the past and that if public spending starts again it will only lead to another boom, is the proposal to set up a Board of Works for the purpose of aiming generally at an increase of expenditure only in slump-time, coupled with a decrease of expenditure in boom-time. I think the setting-up of a Board of Works should eliminate much of the objection that would be felt by private enterprise, and would eliminate much of the hindrance that it might cause to a return to confidence. At the present time private enterprise is still feeling the lack of confidence.

Dr. Sutch.] But could private enterprise carry out the works you have in mind?—No; what I am getting at is this: that industry and commerce now, private enterprise, are suffering partly from effects such as the lack of income caused by the fall in overseas prices and also partly from lack of confidence. That spending of public money would increase the lack of confidence—that some private enterprise would be deterred or would be frightened, and its return to confidence would be delayed by a wild proposal to start spending money in any and every direction; but with the setting-up of the Board of Works with a definite policy to see that public expenditure is curtailed later when private enterprise is getting on its feet this would be avoided.

Are there any types of works that it would pay us to undertake now rather than leave them to later?—That is the point I am coming to later. Some of the works I refer to are urgent, apart altogether from any other question.

Mr. Lye.] We have a Public Works Department, but no Board. Is the history of the operations of Boards eminently successful?—I think the Highways Board has done good work, and the Public Works Department, I do not think, is quite in the position to control. It would be the most important factor dealt with by the Board of Works, but the Post and Telegraph Department, the Railway Department, and other Departments of State, too, spend money; local bodies spend money; at the present time the Local-body Loans Board is working, the Main Highways Board is working, and I think they are both doing excellent work. I think they have actually helped us considerably.

Why another Board?—To co-ordinate the activities of the Loans Board, the Highways Board, the Public Works Department, and the Railway Department.

Whilst I know that a good deal of criticism has been hurled at the Public Works Department inasmuch as the estimated cost of various undertakings has been considerably lower than the cost when completed, but there was a reason for that inasmuch as many of our public-works jobs have been undertaken at a time of rising prices, but why not make use of the Public Works Department Engineers?—On the Board of Works I take it for granted that the Chief Engineer of the Public Works Department would be a member; but my point is that there is spending carried out not only by the Public Works Department, but by other Departments and by local bodies, and that by co-ordinating all these activities there is a possibility of varying the sum total of public expenditure in the country. The second objection which I think will be raised is the difficulty of financing, and, as an answer, I thought it might be advisable to bring along an authority who would carry some weight, and with your permission, Mr. Chairman, I will read a few lines from a report by Professor Pigou, who, with others, recently considered the question of unemployment. He refers to the practical obstacles which limit the range of the remedy he has been discussing—that is, the variation of total public expenditure.

There is, however, a particular application of it which is much more important practically than any other. This concerns the policy of central and local government authorities in ordering things which they normally require more largely in times of boom than in times of depression. Many writers hold that, by transferring

a part of their demand from good times to bad, such bodies could make a very important contribution towards the stabilization of industry. It is pointed out that there is a very large amount of expenditure on military equipment, schools, roads, street-paving, tramways, electric-lighting plant, and innumerable other things, which is not urgent to a particular moment, but might easily be spread evenly as between good times and bad, instead of being concentrated chiefly upon good times. There can be no doubt that, if this were done, the amplitude of the trade cycle would be in some degree lessened. There are, however, certain practical obstacles which limit the range of this remedy. Of these, the one with which chief play is made in popular discussions is financial. It is pointed out that in bad times the proceeds of taxes, and, in a less degree, of local rates, are apt to fall off, and that, consequently, national and local authorities cannot afford to undertake improvements or erect new buildings so freely as they can in good times. If they do undertake these things, it is said, they can only do it at the cost of raising more money from the public, and so causing private expenditure to contract as much as public expenditure is expanded. This argument, however, is defective in two ways. First, it ignores the fact that in bad times governing bodies, central and local, are compelled, in one way or another, to spend large sums in supporting people whom the bad times have thrown out of work. It may reasonably be presumed that an increase in the demand for labour, brought about by Government and municipal orders, would lessen the number of those persons, and that, consequently, a portion at least of the funds required would be provided by the reduction of this other form of Government expenditure. Secondly, it ignores the fact that, in so far as new funds were wanted, they could be obtained by creating new bank credits, or, rather, by preventing the net volume of these credits from being cut down so far as they would otherwise have been. In view of these considerations, the purely financial difficulty in the way of this stabilizing policy does not seem to have great weight.

The third objection—and the one which I intend to deal with, with your permission, in some detail—is the question of absence of useful works. In some of this discussion, or some of this matter which I intend to put before you, I am quoting the Committee set up by the society of which I am a member. In one or two places I will be giving my own opinion on matters which have not been dealt with here, or where I think the matter can be carried a bit further. I consider that the source of work which probably outweighs, or is equal in weight to all others at the present time, is expenditure on roads.

Mr. Lye.] You think that is the principal, do you ?—Yes. If I may quote one or two round figures. Three years ago the expenditure on roads was approximately £5,000,000 in construction and maintenance, £2,000,000 in interest on loan indebtedness ; but the total cost of road transport for the year was £30,000,000. Now it may be said that that indicates that we are spending for too much on roads or, rather, road transport ; but I do not think it is necessary for me to argue the very obvious fact that the motor-vehicle has made its way in the face of existing facilities, and while there may be some difference of opinion as to its advantages, the advantages of the motor-vehicle must be such as to give general justification. Now, if we consider those figures, it seems to me that it is a suggestion which naturally arises that it is conceivable that an increase in the expenditure on roads from, say, £5,000,000 on construction and maintenance to £6,000,000, might reduce the total cost of road transport below £30,000,000, that the saving in running-costs might outweigh the increase in road costs.

Mr. Clinkard.] No doubt it would, to an extent, in any case ?—The figures are difficult to get at.

Mr. Langstone.] But would that not detrimentally interfere with traffic on railways and destroy the asset in that way ?—No. I think that while the motor-vehicle would probably kill the rail if cut-throat competition were allowed, that there is no need for that competition to be given free rein, that the reasonable development of motor transport can be carried out so as to co-ordinate the road and rail transport.

Have you looked into the matter of the costs of road transport versus railway transport, and the volume of the upkeep of those two Departments ?—I think so. I have considered most of those points. The point I am getting at at the moment, however, is this : that there are cases in New Zealand where, with the existing traffic on a road, spending capital sums on the improvement of the roads would reduce the cost of transport. The question of who is to pay the interest on that capital expenditure is an important one, but it may be considered after the other question has been settled. But while the expenditure on roads with the object of reducing total transport costs provides the most important factor in my proposals, there are others which appear to me to be a good deal more urgent. It is fairly common knowledge that a gravel or metal road that is not maintained will soon reach a condition in which it may go to pieces if expenditure is not carried out on it, and there are lengths of road in the Dominion at the present time on which failure to expend money now will lead to the necessity of spending, say, three times as much later on. It is a difficult matter to actually estimate, but I have taken the case—not an extreme case, but a border-line case—and have worked out estimates which can, of course, only be regarded as estimates ; but I think they are a fair indication of conditions which may commonly be found. "Consider a mile of gravel road carrying a hundred vehicles a day, costing £150 per annum for interest and sinking fund on loan and efficient maintenance, and assume that maintenance has fallen short to the extent of £25 in 1931, £25 in 1932, £50 in 1933, and that the same shortage is likely to occur this year." Perhaps before I go further I should refer to the figures in the Public Works Statement for last year to justify those assumptions. There is a table of expenditure in the Public Works Statement (page 121) which is referred to in this way, "The outstanding feature disclosed above is that the expenditure during 1932–33 on the highways system, 10,800 miles in length, is less than the expenditure in 1925–26 on a system 6,200 miles in length, in spite of the fact that the average intensity of traffic is, at the present time, nearly double the intensity seven years ago." That simply is putting in words what appears in the table above in the Public Works Statement, as to the falling-off in expenditure on the existing roads. These figures can be regarded, if not as average figures, certainly as typical of quite a lot of cases. At the end of this year, ignoring interest, the saving would be £150, but the cost of repairing the road to bring it back to an efficient condition would probably be considerably greater than £150. While the maintenance has been neglected, running-costs will have risen, and, taking 6d. per mile as the average (eighty vehicles at 4d., and twenty vehicles at 1s. 3d.) costs with the road properly maintained, the running-costs would probably be 7d. in 1932, 8d. in 1933, and 9d. 1934, and the losses (*i.e.*, the increases above 6d. per mile) would be in the neighbourhood of £150 in 1932, £300 in 1933, and £450 in 1934—*i.e.*, a total

of £900 for the mile. Of these running-costs approximately 1s. 6d. represent taxation; therefore the net loss would be reduced to about £750. Neglect of maintenance, therefore, provides the local body with the problem of making good out of rates in one year all, and probably more than all, the savings made in previous years, while the losses in running outweigh the savings heavily. Now those estimates of running-costs can only be round figures, but estimates have been made in this country and in other countries of running-costs, and it is accepted that the difference between a rough road and a smooth road (of course, you cannot define a rough road and a smooth road), but there are actual cases where in one district the running-expenses will be 9d. a mile and in another district they will be 6d. a mile. These figures I have given are only of value as a general idea, and if the figures of savings and losses were at all close there would be justification in using them. But when you see a probable loss in running-costs of £900 against a temporary gain of £150 in maintenance, but no real saving at all, an error of 10 per cent. or 20 per cent. or even 30 per cent. in the estimates does not vitiate the argument that it is very bad business to allow a road to get out of condition. There is the problem which faces a local body also of trying to make good out of rates in one year all that it has saved in the previous years. It seems to me conceivable that a county which lives on wool might think it justifiable to spend nothing on maintenance while the price of wool is low, knowing that it can be made up, if a little uneconomically, when the price of wool is high, and because of the divorce between roads and the users of roads (the roads are maintained by the County Council as a municipality and used by the farmer as an individual), because of that divorce—there always has been a very strong tendency to regard road costs without any consideration of running-costs—whereas from the national point of view the obvious way to regard the thing is to regard it as a combination of road costs and running-costs, knowing that running-costs are very much heavier. I have a table here which gives some indication of the figures of running-costs as against road costs. I have worked out for different types of road what may be regarded as typical expenditure. It is very difficult to say whether it is average. "Typical" is a better word than "average," because costs vary so much even in the same county.

Traffic: Vehicles per Day.	Type of Road.	Costs per Mile per Annum.		
		"All in" Road Costs, Interest, Sinking Fund, and Maintenance.	"All in" Running-costs.	Transport Costs—*i.e.*, Road and Running Costs.
		£	£	£
10	Earth	50	105 (7d. per mile)	155
100	Gravel ..	150	900 (6d. per mile)	1,050
1,000	Bitumen ..	500	7,500 (5d. per mile)	8,000
10,000	Concrete ..	1,500	75,000 (5d. per mile)	76,500

N.B.—Road costs per vehicle decrease as number of vehicles increase. Running-costs are more important than road costs. Reduction in running-costs obtained by improvement in road-surface may be considerably greater than increase in road costs.

At the lower end of the scale the road costs form a very big proportion, because with an earth road—a little-used road—the effects of weather have got to be met quite apart from any traffic, and whereas at the bottom of this table the road and running costs are in the ratio of 2 to 1, at the other end of the table they are in the ratio of 50 to 1. I think it might be well at this stage to quote the recommendations of this Committee on the Economic Development of Rural Roads, written three years ago and published two years ago.

The length of main highways now declared (and including subsidiary main highways) is 10,408 miles, and of this length, 1,066 miles, or 10 per cent., has been made dustless. Without having the necessary information such as would be disclosed by accurate tallies, it would appear that a sealing programme of up to 500 miles per year may be justified as and when road crusts and alignment have been brought to a proper condition, and it is probable that in order to overtake the present position approximately 3,000 miles might be included in an immediate programme covering a period of the next six years."

Now, that report was made over two years ago. The proposal there was to tackle 500 miles a year for six years. In the last two years the roads have gone from bad to worse. It might be an exaggeration to say that of some of the highways, but they certainly have not improved. They have gone back. My proposal would be to tackle 1,000 miles a year for, at any rate, three years. That would not be tackling any more than the length recommended by the Committee, but it would be making up for lost time to the extent of three years. Of course, if that finished the job, then we would have to consider what to do at the end of three years. . . . As a matter of fact, if the tallies which have been requested by this Committee were obtained, preferably with the help of the Unemployment Board, the economic position as regards every stretch of the main highway would be known and the programme mapped out with a very considerable degree of certainty. Now, this work has been proposed as economic work on the supposition that 5 per cent. would be paid for interest, but there are very strong reasons, apart from the road question, why the rate of interest should be distinctly lower. I merely mention that to show that this work is not simply work which should be regarded as relief work. It is not. It is work that should be done if the country were on an even keel and employment were normal. A lot of this work should be done as a normal economic work, work which would well pay the expenditure. In elaboration of that recommendation, the Committee prepared a graph (Proc. N.Z.S.C.E., Vol XVIII,

p. 128). It is too small to be seen at a distance, and it would take some time to examine, but it includes in a small space information showing the state or the position at which it becomes economical to carry out capital expenditure on roads. I have prepared a note to accompany that graph.

The graphs show average costs of maintaining gravel road for different intensities of traffic and varying costs of gravel. It also shows the interest, sinking fund, and maintenance costs of these roads after they have been sealed—(*a*) making no allowance for saving in running-costs, and (*b*) making a very conservative allowance for saving in these (less than half the estimated amount).

(*a*) Ignoring saving in running-costs, a reduction in road costs alone may be expected when traffic exceeds—

250 vehicles a day and gravel costs 15s. per cubic yard.
400 vehicles a day and gravel costs 10s. per cubic yard.
600 vehicles a day and gravel costs 7s. 6d. per cubic yard.

If gravel costs 5s. a cubic yard or less, no saving, at any stage, will result in road costs alone.

(*b*) Allowing for a saving in running-costs of £50 per mile per annum for every hundred vehicles (actual estimated saving being £127) a reduction in combined road and running costs may be expected when traffic exceeds—

150 vehicles a day and gravel costs 15s. per cubic yard.
200 vehicles a day and gravel costs 10s. per cubic yard.
300 vehicles a day and gravel costs 7s. 6d. per cubic yard.

There are very few rural highways in New Zealand with a traffic of six hundred vehicles a day. There are quite a lot with five hundred, and still more with three hundred and four hundred, but where gravel is 7s. 6d. a yard or less no saving in actual road costs will result. To look for saving you must count in running-costs. But where gravel costs 10s. and 12s. 6d. and 15s. you will reduce actual road costs by spending money after allowing ample sinking funds to pay off the loan in the estimated life of the payment.

Dr. Sutch.] In short, you mean it is better to keep a road up than to repair it?—No. Take this contract that is being carried out between Papakura and Mercer. There is a road, the first two miles six hundred or seven hundred vehicles a day; the next fourteen miles about three hundred and fifty to four hundred vehicles a day. That traffic intensity has been near that figure for a very long time, and what I am getting at is that ten years ago it would have cost less in road costs—ignoring the saving in running-costs—it would have cost less in road costs to the county or the Highways Board or the country. I mean the actual total cost, however it was divided, would have been less if it had been sealed—that the interest, sinking fund, and maintenance on the sealed road and the interest on the old loan combined would be less then the present cost of the road.

The Highways Board knows that, does it not?—Yes. The Highways Board there is not to blame. I think it is a long-standing argument. The county wanted the road concreted all the way. They wanted a big subsidy and they also wanted the road concreted, and the figures did not justify it. I think the Highways Board, on the general argument, was correct. The second group of figures have been made allowing for a saving in running-costs of £50 per mile per annum for over one hundred vehicles. That figure is extremely conservative. That is the committee's report, but in another part of the report the saving is worked out at £127, and it is reduced to £50 purely on conservative lines. Possibly there are factors which have been overlooked, but the figure of £50 is a most conservative figure, and, taking that into account, the reduction in combined road and running costs may be expected when traffic exceeds one hundred and fifty vehicles a day with gravel costing 10s. a yard and traffic exceeding three hundred vehicles a day with gravel costing 7s. 6d. There are very few places where gravel costs much less than 7s. 6d. a yard. It means that wherever the density of traffic exceeds three hundred the roads should be sealed as a matter of pure economic results, quite apart from helping unemployment, quite apart from every other factor. With interest at 5 per cent. the traffic costs would be reduced and efficiency would be gained. Now, of the amount involved in this work I can give some rough idea. Taking first the maintenance, I think a previous witness, Mr. Haddow, mentioned £5,000,000 as the estimate of the falling-off in the capital value of the roads. Now, that figure was obtained between three and four years ago by officers of the Transport Department, by measuring the thickness of roads throughout the country at selected points, and it was estimated that thousands of miles of roads which were thought to be 6 in. thick in metal were only 4 in. thick, and that even where the running-surface was good the roads had deteriorated and the worn parts had not been replaced to the extent of 2 in. thickness over the greater part of the highway system in New Zealand, and we have 30,000 miles of gravel roads in New Zealand.

Mr. Langstone.] What would that cost?—To replace that it would cost £5,000,000.

A year?—£5,000,000 to make that good; but if it were done once the annual amount to keep it in order would be more like £1,000,000. Those figures can be checked from the table in the last Public Works Statement for 1933, page 121. Another figure which may be quoted as giving a general idea of the magnitude of the work is this—I will read an extract from a report prepared by the Engineer to the Highways Board: "To bring up the primary highway system to a standard approximately the same as the present road between Wellington and Napier, via Palmerston North, and to provide two-way bridges thereon, will cost approximately £25,000,000 and will take twenty-five years to accomplish at the present rate of expenditure." That was at the rate of three years ago: it would take a hundred years at the rate they are going now. "Even then there will be very many places on the primary system where a speed of thirty miles per hour will be unsafe." That figure of £25,000,000 can be taken as a rough indication of the work which is economically justified. Although that Highways Engineer was not saying that the whole of the highways system should be brought to that standard, the greater part should be done immediately, and, if a programme were made out, by the time the urgent works were finished an increase in traffic may be expected—at present it is actually falling off on roads, but within five years I think an increase may be anticipated. Bearing that in mind, before the urgent work is done the remainder of the present primary system of 10,000 miles will require sealing if efficiency is aimed at in getting the most economical road transport, and also in five years' time a further proportion

of the mileage of New Zealand will have been included in the primary system. One of the other items which I had included in the construction proposals was bridges, and I think I shall refer quite shortly to them on somewhat different lines. I have not made any attempt to work out the economic justification of the bridges, but that can be done. At the present time, according to the latest figures in the Year-Book, there are bridges in New Zealand built of native timber, 163,000 ft. in total length. With an average width of 12½ ft., that works out at 2,000,000 square feet; that is roughly the area. Now, these native-timber bridges are practically all old, as for some thirty years past the policy of the country has been to use either hard wood, steel, or reinforced concrete. I believe it is no exaggeration to say that the whole of those native-timber bridges should be replaced and that a number of them are in a highly dangerous condition now. Some are actually falling down. Those bridges have done their work, but the replacement of them is an urgent work that should be carried out. It is work that cannot be put in hand immediately, because every bridge has to be designed separately and considered —designed by the County Engineer and checked by the Public Works Engineer or the Highways Engineer. There is work of that sort in hand now, but it should be multiplied: it could be multiplied to the extent of bringing it up to £500,000 a year, and that would provide a programme for five or six years. There are some bridges wanted to eliminate railway level crossings, and, although I have no statistics there, I know of a case where insurance companies paid on fatal accidents in one year an amount sufficient to build a bridge.

Dr. Sutch.] The fatal accidents were due to faulty bridges?—No, to level crossings.

Mr. Murdoch.] Do you suggest that the railways should carry that load, or would you spread it over the Railways and Roads Departments?—I think the Railways should contribute something, but motor traffic should certainly contribute something, too. I am not sure that insurance companies could not contribute also. Obviously, on account of their losses in the last ten years on account of fatal accidents, they are interested. It is not a big matter, but it seems to me that as far as it goes it is a fairly urgent work in some cases. There are also cases where bridge-construction would shorten the roads, and, taking into account bridge-construction and road-deviations to shorten roads, there are cases where economic expenditure is justified on a strict accountancy basis, allowing 5 per cent. If the money were obtained by Treasury Bills at 1 per cent., so much the better. This expenditure on roads that I have been discussing should be handled by the Committee on the basis of aiming at economical expenditure allowing 5 per cent. interest.

Mr. Langstone.] In regard to the matter of booms and slumps. You anticipate that we are always going to have booms and slumps?—While human nature remains as it is.

You are an engineer, would you stand for a variation in the length of your link from day to day or month to month?—Not if I could avoid it.

Is that not as much affected by human nature as the measuring of the value of things?—No, because in measuring length it is possible to compare the length of steel bars over a distance between two blocks in the ground, and unless you have an earthquake those two blocks will stay put; but in measuring the value of money, which I take it is what you are referring to——

Money is a measure. You can measure something. You use a chain or a link for your measure. My money is the same as your measure. You would not stand for a variable measure?—Not if I saw any way of avoiding it.

If the human mind can conceive some just system of weights and measures, making it non-variable and do the job, why can we not measure other things as well?—In the past man has not been able to prevent general prices from rising and falling at any time, and as far as I can see he is not likely to prevent that completely, but what I am doing is suggesting one of a number of things, each of which will tend to make the variation less. I do not know any system which can be relied on to eliminate that altogether. I am putting this forward as something to mitigate it until the time when the value of money can be kept constant. I do not know any money system that can. I think there are a number of factors that can be worked to limit the variations at the present time.

We have always looked upon work to a very large section of the community as the basis of income?—Yes.

But we recognize that in regard to a few people it is not a question of work because they get incomes from other sources. I mean that those people who are considered to be wealthy would not have work as the basis of their income?—In many cases, no.

You cannot get anything unless it is produced by human effort in some form?—That is so.

On the question of meeting obligations, we say that we cannot do this and cannot do that because we cannot pay for it. It means that there is a lack of income somewhere, not a lack of commodities, just a lack of income?—Yes.

How is that lack of income brought about?—I think it would take a long time to describe what I think to be the numerous causes and I am not sure it is worth while.

That is what we want to find out?—My plan is intended to show that one cause is public expenditure going on quickly when private enterprise is busy instead of going on slowly.

Under your plan, if the amount of expenditure for one year was to be £10,000,000, you would keep it at £10,000,000. Some years it would be all public works and local-body works and in other years it may be private enterprise and public works and then perhaps in good times it might be all private enterprise?—Yes. When private enterprise is putting up blocks of buildings, houses are being built and factories are being built, go slow on the roads and bridges; and when those offices and shops and houses are not being built, do a bit more work on roads and bridges.

That is what we are trying to do to-day. When we had prosperity, or what we alleged was prosperity, in public-works and local-body expenditure and private-building expenditure, there was possibly £20,000,000 a year being spent?—Yes, something like that.

To-day that public-works expenditure is reduced to about £3,500,000?—I believe so.

Buildings expenditure to about £2,000,000 and £4,300,000 on unemployment ?—Yes.

So we have £9,000,000 of expenditure in various forms to do the job that £20,000,000 was doing formerly, and that is very largely responsible for the unemployment trouble to-day ?—The falling-off in building-permit values from £9,000,000 or £10,000,000 to £2,000,000 accounts directly for a very large number of the unemployed.

When you are going to deal with buildings under your Board of Works, we will assume that they take into consideration the question of building homes for people or possibly the erection of a big block of buildings because some insurance company wants to invest money that way and it will be a better commercial proposition than building homes for the people, what would be the means of adjudicating over a position like that ?—I would prefer that the Board of Works did not touch private building at all. I would advocate that the Board of Works should co-ordinate public expenditure only for the purpose of speeding it up or increasing it at a time like the present, and decreasing it when private enterprise starts again. I would allow private expenditure to find its own level.

Do you think we should allow private expenditure to be foolish in the expenditure of their money if they choose to do so ?—Yes ; but I should say that the Board of Works would reduce the probability of folly on the part of private enterprise by going slow. There was a case in America ten years ago when Hoover was asked by Coolidge, who was then the President, if he would recommend spending public money freely, and the report is given in a book entitled "International Labour Office, Unemployment and Public Works," pages 58 and 59. Hoover reported to the President that private enterprise was going very strongly, and he did not recommend the Federal Government to take active steps to spend freely, because he reckoned that would precipitate a boom. The book also gives a description of how, at Hoover's advice, the Federal Government slackened up on public expenditure and it was considered that for a couple of years after that action was taken private enterprise was so busy that there would have been an unhealthy boom development in 1925. As it was, there were slight boom conditions in 1924 and conditions somewhat of a slump nature developed in 1925. The Federal Government then spent its money, got better value, and to a large extent maintained employment on an even keel.

In doing all this work, such as building bridges to save lives and so on, seeing that is of value to the community and is a national asset, you would favour the creation of the necessary money to build that asset ?—Yes. I think at the present time the central bank would be justified in providing funds at a low rate of interest by short-term loans.

There would be no interest at all ?—I think there should be later. I think later on when times improve those short-term loans at nominal rates should be replaced by a long-term loan.

Why do you want that ? The asset is going to be there and we have the material and the men and everything in New Zealand to do the job and we cannot do it because we lack money. Would it be a wrong policy for the central bank, which has the right to issue money as the banks do, to issue that money against that particular work and get the work done ?—I think it would.

Would it be dangerous ?—I think it might. It might be a bad precedent. I think it might lead later to inflation.

Is it not inflation that we want ?—We want some, but we want inflation of a type and to the extent that it can be controlled.

How much deflation have we had in New Zealand ?—A good deal more than we want.

About £70,000,000 since 1929 ?—I think that is right.

People should not be scared—even 1929 was not anything exceptional—to spend another £70,000,000 and create money to make that good. If they have extra assets to represent that as well, would that be good business for the State ?—It would not be good business to force incomes back to £150,000,000 because of the fall in income from overseas exports. I think that if we tried to get back to £150,000,000 we would be getting into inflationary conditions which would lead us into trouble later, and that seems to be the only valid argument against such action.

I suppose if that meant better conditions for the workers who are receiving a miserable pittance on relief works to-day, they would not worry about inflation ?—No. I reckon that we could go some way in that direction, but we should not attempt to replace the income that we had when our exports were fetching good prices, as though nothing had happened.

Of course, I quite agree with you that the best road is the only road we should go for. Here is a question that is possibly arising : We know exactly what railway transport has cost, it is watertight ; we can get exactly what the cost of construction, maintenance, wear-and-tear is. It takes about £9,000,000 a year, and we collected about £7,500,000, therefore there is a debit of about £1,500,000 in our railway. About 90 per cent. of our material is carried by railway transport. We have got about £61,000,000 invested in railways. We know the whole thing, but when it comes to roads we have possibly got £60,000,000 invested in roads ?—More than that.

We have got about £7,000,000 invested in garages and various other things for the upkeep of motor-cars. We have about £40,000,000 invested in motor-vehicles of various sorts in New Zealand. If we take the capital cost, about £120,000,000 invested in roads, motor-cars, and for the upkeep of road transport generally ?—Yes.

And they do about 10 per cent. of the transport compared with the railway ?—That is not quite a fair comparison.

No ; we cannot make a comparison for this reason : a railway runs for many years ; a motor-vehicle runs for a few years, five or six years ; depreciation is ever so much quicker ?—What I meant is that it is hard to compare the road mileage or ton-mileage of roads and railways without some comment, because most of the stuff that the railway carries could not be carried at all if it were not for the road at the other end, and, of course, most of the transport on the road now is motor transport ; the two have got to be co-ordinated.

In your bridges—I have noticed repeatedly where you have railway and road running side by side—road and railway bridges beside each other. One bridge could have done both jobs ?—That is not the form I would recommend for co-ordination.

When all that money is saved, that means it is not going to be spent in that form ; it must be spent in some other form. The man who has got a motor-car has less money to pay in running his car and has more money for other things ?—If you take £2 out of his pocket at the beginning of the year and spend it wisely, you will get £3 into his pocket by saving him running-expenses.

Where does the other £1 come from ?—If it cost him £150 to run his motor-car one year——

Then you mean he would need less repairs to his motor-car ?—Yes, his tires would last longer.

Some one would lose a job. If that is going to go all over New Zealand, you will not want so many motor mechanicians ?—They should be doing something else ; they could be making the roads.

In the metamorphosis, the change-over, how are you going to spend that other money ?—That £1 ?

Yes, or the various other things ?—He may spend it on employing labour direct. When all is said and done, the farmers do employ labour and people in town do employ labour direct.

Do you not think there is a very big need in New Zealand to-day for not infusing money into society in that form, but to go the other way about it and to give the people who have no income, an income so that they have the effective demand for goods ?—I think the best way to get money into circulation is to see that a man has a job which he can feel some pride in carrying out, and let him earn his pay, and this is the type of work that is required. There is a lot of relief work done on which men cannot help feel that they are wasting their time.

On a farm you get routine work ; if you are milking cows the job has to be done night and morning ; in a factory it is a routine job, but when you come to capital expenditure such as you are suggesting, once you have done it, other than maintenance you do not need to have expenditure again ?—This roadwork will not be done in a year. I just gave an idea. There is probably £25,000,000 of work to do ; say at £3,000,000 or £4,000,000 a year, that will last an appreciable number of years.

Mr. Clinkard.] I very largely agree with you, Mr. Gray. The deflation that came about in New Zealand, was that owing to our overseas trade ?—I think, unquestionably.

And you are not so much in favour of inflation as reflation ?—Yes. I think you have got to fight deflation with some inflationary factors.

I quite agree with you. At the same time, you recognize the danger of going from that into the inflationary policy ?—Yes. In my typewritten notes I said the only valid argument against spending freely at a time like this is that possibility which must be borne in mind.

No doubt you have had the same experience that I have had, that whenever the time comes to slow up, there is always a very strong protest against doing so. The public—particularly the unemployed—are always in favour of a development policy, but no matter what the other conditions were there would be an objection when the time comes to slow up ?—That unquestionably has got to be faced. It seems to me that we should recognize that the standard of education in this country is such that if you have a policy designed to last for a number of years, the thing is obvious that some good may result from slowing up in good times and speeding up in bad times.

I have favoured that for many years. In connection with your proposals for road development, I daresay you have considered improvement in grades and also road tunnelling to obviate grades ?—In one of these reports that matter is referred to and a rough rule was worked out that an expenditure of £1 is justified for every 1 chain reduction in length for two vehicles a day. That is a rough working-rule.

There is another activity that might be very well carried out, and that is tunnelling to divert water-channels in order to obviate bridges and their reconstruction ?—Yes, there are a lot of individual works of that sort which would require more detailed planning than the maintenance and sealing referred to.

I presume you would advocate in the first instance materially improving feeder roads which would help railways rather than injure them ?—Yes.

In fact, most of our roads that are competing with the railways are in fairly good condition. It is those which are leading away from them in many instances where work is required ?—I may say that these reports of this Committee have so far dealt with main highways ; they have not yet tackled the secondary system.

Quite so. Have you any acquaintance with the Parapara Road, from Wanganui towards the Chateau ?—No.

There is room for quite a lot of your energies on that road, and the question of tunnelling and so on to obviate acute angles and heavy grades ?—That is where traffic tolls are wanted.

My colleague, Mr. Lye, raised the question of the Public Works Department as against your proposed Board of Works, but I take it that your Board of Works would have as its objects a Board free from what you would call pressure to carry on certain works ?—As far as possible. The Main Highways Board has dealt with a special job ; I think it has dealt with it well in the main. The job of the Board of Works would be different ; it would probably be more exposed to pressure, because it would be dealing with the total amount of expenditure, but because there is so much expenditure outside the Public Works Department——

I think you would know that in any undertaking of that sort, whether it is under the Railway Board or the Government, engineers and their staffs build up a connection and are usually loath to reduce expenditure, that is so ?—Yes.

That is the usual operation, and consequently a non-influenced body when it came to a question of determining that they were going to reduce expenditure for the reasons given above would be better ?—But there is this about it : Every year there are certain new works coming on, and my proposal is not so much that regular works like maintenance (which goes on all the time) should be varied—that

there should be a routine expenditure expected—but that in the number of new works coming in most of the slack should be taken up. At a time like this that is not sufficient. The present times are exceptional, I think.

You would say your proposed Board would assist the Public Works Department in controlling the period of expenditure ?—Yes, I would suggest that the Head of the Public Works Department should be a member of the Board, and that the duties of the Board should be to advise not only the Public Works Department, but the Railway Department and the Post and Telegraph Department and any other Department that spends at all freely on constructional work, and to co-operate with the Local Bodies' Loans Board. It would be useless if the Local Bodies' Loans Board were encouraging local bodies to spend and the Board of Works discouraging them. They would work also with the Central Bank Board.

Mr. Munro.] I want to get at what is in Mr. Gray's mind as regards this advisory Board. Would you give them arbitrary power such as the Local Bodies' Loans Board has got ?—No ; I had not cleared my mind to the extent of trying to draft out their powers, but my idea was that in the main that should not be more than advisory, because it must be the duty of Cabinet to say what the policy of the country is to be. There are times when, in my opinion, there should be a go-slow policy in spending, and there are other times when work should be speeded up, and it should be the duty of the Board of Works to keep in touch with all the Departments and advise.

As regards local bodies and public works, would you simply have them as an advisory committee to the Local Bodies' Loans Board ? You say you are co-ordinating those two organizations ?—I would expect the Board of the central bank, the Board of Works, Local Bodies' Loans Board, Highways Board, to be in touch with each other. The Main Highways Board has so far been in the position of spending what it is given, but it is in a position to advise as to whether expenditure on the roads is urgently needed or not.

You would only set up this Board as an advisory Board, both as regards Government public works and local-body public works ?—Yes ; I do not think you could give the Board the powers over the Departments. I do not think that is advisable.

That is a point I quite realize, but how about in connection with local bodies ?—I would expect it to work in with the Local Bodies' Loans Board. That is already in existence and doing good work, and that at the present time the Board of Works should confer with it and ask it if there is any way in which it can encourage local bodies to undertake useful work.

Under certain conditions ?—Yes.

Then under certain other conditions, normal conditions, you would expect this Advisory Board to advise the Local Bodies' Loans Board to refuse the loans if applications came in ?—Yes ; refuse some of them.

Do you realize you would be taking away the prerogative of democratic local government ?—That is already in existence in the Local Bodies' Loans Board.

Up to a point ?—I would not go beyond the point ; I think it has quite sufficient deterring powers.

The Local Bodies' Loans Board has power now, but they do not take into consideration the economic times we are passing through ?—The only consideration they take up is : Are the work and the loan justifiable from a monetary standpoint ?

Is it not a fact that by fixing the rate of interest, they can practically refuse ?—That is what they do. And that actually by having the Secretary of the Treasury on the Board they have been doing some of the work that I propose should be done by the Board of Works.

Were you going to step in and give to some other Board some arbitrary power that would defeat the prerogative of the people ?—I consider that the Board of Works, while dealing with the bigger total, would probably have somewhat lesser powers than the Local Bodies' Loans Board has now.

The Chairman : That stands to reason.

Mr. Munro.] It would need to. As you know, this is a Monetary Committee. While I have been very much interested in your explanation of the position as regards our roads from the civil engineer's standpoint—I think you have given very valuable evidence there—what we particulary desired is some monetary reform suggestions or plans. You have quoted Professor Pigou this morning, and in your statement you refer to Bowley. I presume you are quite conversant with the Reserve Bank Act and the Reserve Bank that has been set up ?—I have studied it fairly closely.

Do you think that that central bank would be able to finance satisfactorily local-body and Government undertakings ?—Yes, if it so desires.

That is, if it is administered for that particular purpose ? Yes. You do not believe it is necessary I take it, that some new form of monetary control should be brought into existence ? Have you given that any study at all ?—As a matter of fact, I have discussed this matter with Dr. Finlay and Mr. Haddow for a long time, and I am in very close agreement with the proposals which Mr. Haddow put before the Committee. I consider them evolutionary. I do not know any new scheme I have heard proposed that I think would work better than the present one with emendations. At the present time the trouble is due partly to faults in the system, and partly inability to know what is going to happen next year.

Captain Rushworth.] You suggest the opening of extensive public works in times of depreciation and closing them down as times of prosperity come along ?—As a matter of fact, that is assuming a bad depression and a bad boom. If this governor combined with other governors mitigated the severity, it would simply be a case of slowing down a bit and hastening up a bit.

You would finance them by internal loans ?—In the long-run, yes ; but at the present time I think by Treasury bills.

Is not that an internal loan ?—Temporarily.

Those internal loans would involve extra taxation ?—Yes.

So that in times of depression you would get a rising taxation ?—Not if the borrowing is carried out with the assistance of the central bank. At the present time in England the rate for Treasury money has been ½ per cent. or about that for over twelve months.

Do you mean the Treasury bills we are accustomed to deal with here in New Zealand ?—The same kind of thing, but only ½ per cent. on them.

You know these Treasury bills are issued in anticipation of revenue ?—Yes.

Is it not a fact that if you increase these Treasury bills or increase the governmental borrowing, you must of necessity increase taxation ?—Yes, but for that reason I have advocated work, and this Committee of Engineers has done so, only in which savings would be made which would more than offset the expenditure. If you take £2 taxation out of a man's pocket and save him £3 in expenses, he is not less able to bear it, but better able to bear it.

The net result would be that in times of prosperity you would have a falling taxation and in times of depression, a rising taxation ?—No, I do not think so. Suppose during the time of depression you finance your works substantially with short-term money at 1 or ½ per cent., and when your prosperity came you floated those into long-term loans ; that could be done. It is a banker's business more than mine ; so as to work in with the regulation of the economic machine.

Do you suppose that the Treasury bills for the short-term loans would not carry interest and sinking fund ?—Yes, but very much lower interest. They would actually increase taxation in the sense that it is an additional loan, but they would not increase it a great deal, and in times of prosperity this would be floated and then your taxation would increase. If the work were worthless, it would be a dead loss, but if the work is selected on the business principle of paying 5 per cent., the country will be actually paying more in taxation, but will be better able to pay it. Its transport will be more efficient.

Public works should be revenue-producing ?—More cost-reducing that revenue-producing. The transport costs are £30,000,000 ; £7,000,000 road costs and £23,000,000 running-costs. Increase the road costs to £8,000,000 and reduce the running-costs to £21,000,000 and the total is £29,000,000, instead of £30,000,000. The figures prepared show that there is a great deal more direct saving to be made. In ten years' time this particular argument may have ceased to have great effect, but there are thousands of miles of roads in New Zealand upon which capital expenditure should be made from the point of view of business efficiency.

We might agree with that, but my colleagues might suggest to you, where is the money to come from, and your answer to that is Treasury bills which are funded.

Mr. Murdoch.] I am very interested in Mr. Gray's evidence, and there are one or two points that have occurred to me. With regard to the question of grades, is it not a fact that with your present surface system that does not affect you very much ?—Not a great deal. I had not mentioned the question of grades.

Mr. Clinkard mentioned it ?—The grade does come into it, but you are quite right that with road transport grades are nothing like so important as with railway transport.

You are more inclined to sealing than to concrete ; will you tell us something about concrete ?—In this Committee's report (I cannot give you the reference at the moment) the opinion is expressed that a road does not justify concrete until it has got 3,000 to 5,000 vehicles a day on it—that is the Committee's report, and I signed it. I would have been prepared to see a lower figure of, say, 1,500 to 2,000, but the argument is not affected. Outside the cities in New Zealand there are very few miles of highway that carry as many as 600, so that whether the true economic point is 1,500, 2,000, 3,000, or 5,000 for concrete does not matter. Outside the cities there are no roads in New Zealand which economically justify concrete.

Look at it this way : You have here cement-works—quite a number of good ones—by using concrete you have your labour here and money in your own country. As against that a lot of your money goes out of the country when you have tar-sealed surfaces ?—In that connection the figure is worked out here. This point was considered and quotation is made from a report by an engineer who furnished figures comparing the length of a road 18 ft. wide which could be surfaced for an expenditure of £10,000 worth of bitumen compared with the length that could be surfaced with an equivalent amount of cement : 4·03 miles of concrete road ; sixty-seven miles of sealed road. He worked it out for varying types of bitumen, asphalt, concrete, and so on ; but while they are all very well for city roads, the important comparison is on rural highways which comprise the vast bulk of the mileage of the country. I would not have made the figures quite so outstanding. It is a question of estimating, but I do not think you can alter the figures a great deal.

Is your sixty-seven miles inclusive of laying down ?—No. That figure, £10,000, is for bitumen only. The point is this : That that works out at £150 a mile for bitumen on work that would cost £3,000. That means that of these millions that we propose to spend on roads 5 per cent. would go for importing bitumen. That figure might be raised to 6 per cent. or 7 per cent., but it would not go beyond that. Five per cent. is a shade on the low side I think, but it is substantially accurate.

I do not think we are quite on the same mark. What I am trying to get at is this : We have a lot of what we call country roads to-day. I am not referring to Auckland City or anything like that. In the South Island running up from Christchurch to Blenheim they have a lot of these roads that they have done up with their scarifiers, and they have miles and miles of gravel, but what I want to get at is this : We have in the North Island here many roads which it appears to me it would pay to put a dressing of say 9 ft. of concrete and have a permanent road. Now, assuming that we put down, say, 4 in. of concrete, I know it will be said that that will not stand, but we know that it does stand. Would it not pay us to increase our actual capital costs, our initial cost, even if it were £6,000 to the mile against £4,000 to the mile bitumen ? Would it not pay us to increase that cost in the initial stage and so get a greater length of time that the road would carry, and employ our people and material ?—I think the best thing I can do is to refer you to the Rural Roads Report (Proc. N.Z. Soc. C.E., Vol.

XVIII). That thing is threshed out there, twenty or thirty pages of it, and I agree entirely with the report. I think that there is too big a difference in the costs, and when you say that a 4 in. concrete road would stand, the consensus of engineering opinion that I am in contact with is that a concrete road must be made to a high-class specification or not at all.

Have you seen that new Skram method ?—Yes. As a matter of fact, there has been a bit of work done over the other side of Birkenhead here, that I thought was very promising for a start.

That is more expensive though ?—Yes. But the 9 ft. road I do not think is desirable. One of the advantages which is commonly overlooked is that the sealed road lends itself to continuous development. When your traffic is one hundred vehicles a day you cannot think of concrete. Your gravel or metal road does, and your maintenance costs so-much. When your vehicles get to two hundred a day your gravel or metal road still works, although if you are paying 15s. or £1 for your gravel it may be cheaper than to put sealing on it, but you can have one-coat sealing if your road has been kept properly. £3,000 a mile need not be spent at all. I mean, not much over £1,000 a mile will seal your road. I have not got the exact figures, but recently the local Public Works Department did a bit of one-coat sealing on that Bombay deviation, and I think it cost 8d. a square yard. Now, concrete alone costs 8s. a square yard on a standard road, so it is twelve times the cost in that case. Now another comparison : The figure is not in the relation of 3 to 6. I mean, the £3,000 a mile includes a lot for work that very often is not required. There is a road not far from here where concrete was laid where it was not justified, and there was a railway crossing in it and because of the railway-crossing a length of 12 chains was laid in bitumen. That was a job done in one contract at one time. The costs were as clearly comparable, as you could see. There is no question that the concrete was laid to a very high specification, the Main Highways Board, Type 1, but they have only one specification for concrete, and I think they are right, and that is the best. The figures I was going to mention on that road are the bitumen surface cost £18 a chain and the concrete cost £90 a chain.

I notice your statement here is a plan to control public-works expenditure ?—As well as other public expenditure.

Yes. Have you ever tried to work out any plan about the banks ?—On general lines. I have discussed the general monetary problem with Dr. Finlay and Mr. Haddow at great length, and I subscribe to the plan which Mr. Haddow put in.

I thought you said you discussed it with Dr. Finlay, too ?—Yes. The three of us have discussed it.

You do not adopt his view, do you ?—In part, but not generally.

Dr. Finlay said this the other day : He said the administration of justice was not in private hands. That was a State matter. The banking and finance and credit systems he said he would not leave in private hands either. You would not go as far as that ?—I would say this, that the present Reserve Bank, if properly handled, is very nearly a fully democratic institution as carried out.

Let me see what your idea of a democratic institution is. The Government have £1,000,000 paid into this bank and the shareholders put in £500,000, and after the first appointment of the Governor or Deputy-Governor expires the control is in the hands of private individuals. Is that democratic ?—Democracy consists of private individuals.

You say it would be democratic to allow the control of central banks to be in the hands of private individuals ?—It depends on the number entirely. You say it should be in the hands of all the private individuals. I say if it is in the hands, of, say, 50 per cent. of the electorate it is very democratic. If it is ½ per cent., no.

You know, of course, something about banking shares. How many of the working-people of the electorate have shares in banks ?—These are only £5 shares. The present times are abnormal, but I think that in normal times most workmen in New Zealand would be able to buy a share.

You think this Reserve Bank Bill is all right for the control of finance ?—Yes ; I like it.

Mr. Munro.] If it is properly administered ?—Yes. It depends very largely on the personnel of the management. It must, and it always will. It does not matter what your constitution is.

Mr. Schramm.] And you say the other banks are all right too ?—No. I think the position is quite different. I agree entirely with what appeared in Mr. Haddow's report about the Bank of New Zealand. I think that we, as a country, have made a mistake for the last forty years. The State has nominated four directors, and it has omitted to tell them that they should regard themselves as trustees for the people. I think that is the position : That they have allowed them to go on the directorate of the Bank of New Zealand regarding themselves as commercial directors, and I do not think there is any need for any change in the legislation. If they had merely said to them, " This appointment, of course, is that of a trustee," I think if that had been said for the last forty years the control of the bank would have been very different from what it has been.

This scheme of yours, you say, is to control booms and slumps ?—To mitigate the effects of them.

Will you agree with me if I say that in my opinion the booms and slumps are caused by the present financial system ?—Not entirely.

Well, to what point do you agree with me ?—It is very hard to define, but if, by the present financial system you mean the present condition of education of yourself and myself and everybody else, I would say, " Of course, the whole thing."

But do you think that this present system has been produced by the banks by deflating money ?—Only partly. It is partly due to war debts and the last war. You need not go back beyond the last war, but you can make a long list of causes that have nothing or very little to do with the banks. The banks did not make the Versailles Treaty, and there are quite a lot of things in that that seem to me to have a very big bearing.

When the war was on there was plenty of money about, was there not ? Things were prosperous ?—Yes. But there was inflation.

What caused the deflation after the war ?—As I say, various causes.

The banks calling in overdrafts ?—Partly. I should say that the Cunliffe report unquestionably had a lot to do with the monetary policy of the Empire from 1918 onwards.

In connection with the public-works policy do you say the Government should borrow money by Treasury bills or otherwise ?—During a slump, yes.

They should borrow ?—Yes. From the central bank. It is another name for creating credit.

But they would not pay any interest would they ?—½ per cent. is not much. I think I would pay ½ per cent.

Would you go outside New Zealand for money ?—I do not think I would. It seems to me that on general lines there should be money invested in New Zealand from Britain in the future, but not through the Government.

You think it is not necessary to go outside New Zealand for any money at all to carry on our public works in New Zealand ?—Not now. When we were buying railways and engines and hydro-electric machinery I think there was a lot to be said for buying some of that on credit.

Mr. Lye.] Mr. Schramm has asked you a series of questions. I take it you mean that the causes of the present depression were largely non-monetary factors, and that as far as the banks are concerned and the policy of the banks, that has been largely the reflection of non-monetary factors, which were incident during the war and after ?—Yes. I do not know enough to say whether the non-monetary were more important than the monetary, but I am sure there were a lot of both.

Would you say there was no shortage of money in New Zealand to-day, having regard to the deposits in our banking institutions ?—I should say that they give the impression that there is no shortage.

I put it to you, it is not a question of the people who own these deposits not spending it. Is it not rather through a want of confidence that people are not prepared to borrow from any institution at current rates of interest, because of the low price-level ?—I think so. And that is why I consider that as an objection to public spending. I think lack of confidence is a big factor at the present time.

Your method of planning and controlling of public expenditure, could it not also apply to land-development. In times of depression or slump periods, the cost of development of land would be correspondingly low, and your proposals could be the basis as far as public expenditure is concerned for almost any State activity ?—Yes. I would say this: That any activity of that sort which shows a prospect of paying 5-per-cent. interest could be undertaken.

In other words, many of our public activities in times of prosperity and high prices might well be left to private enterprise, but in times of great difficulty the planning and controlling of public expenditure would only O.K. suitable undertakings, and that would be the time to offset a period of low prices ?—Yes.

I think that is sound. I entirely agree. Now, what I want to get clear is: Can you give us an idea what the constitution of that Board would be. Would it be an amalgamation of the Highways Board, Public Works, and Loans Board, and, say, the Railways Board, as far as national undertakings were concerned ?—No.

Or a representation from the lot ?—I am not sure that I would have representations from anything but the Public Works Department, and possibly the Railways Board. The job seems to me a different one. The job of the Railways Board and the Public Works Department control is the actual spending of money. The job of this Board would be to discuss the total amount that should be spent.

It would act really in an advisory capacity, but would not be in the position of preparing plans and estimates ?—No; it should be in the position of passing opinions.

With power to veto or prevent any of what they considered were uneconomic undertakings ?—I put it to Mr. Munro that I did not think you could give this Board the power of veto. It is too closely connected with public policy, and all it could do would be to advise.

Purely an advisory capacity ?—I think in the main it would have to be.

Dr. Sutch.] In your scheme you are going to vary exchange-rates slightly to mitigate the effects of booms and slumps. Would you devalue the currency at 125 per cent. as a permanent normal about which this variation should take place ?—I would be in favour of that.

WELLINGTON, TUESDAY, 6TH MARCH, 1934.

Proposals submitted by Mr. F. W. MOORE, Wellington.

Borrow £10,000,000 by bank overdraft or Treasury bills, re-employ fifty thousand men on all kinds of necessary public works, roads, bridges, drainage, building, and maintenance of all kinds, where necessary, at £4 per week average, 50,000 for fifty weeks = £10,000,000. These men spending this money would reabsorb the balance of the unemployed, about thirty thousand, back into their ordinary vocation at an average of £4 per week. Impose a wage-tax of 10 per cent.; this would return £1,600,000. Restore the 20-per-cent. cut to all other citizens. A wage-tax on these people of 10 per cent. would produce about £9,000,000, so the loan and interest would be more than provided for the first year, this good cycle going round would continue by its own impetus; if not, the wage-tax could be retained at 5 per cent. or 10 per cent., this would keep all people employed. The people having been provided with the spending-power, this would mean they would purchase their usual amenities. This would also mean a large increase in importations resulting in improved returns from Customs duties. The increased importations will mean more employment for workers in Great Britain, enabling them to purchase more of our exports at a more satisfactory price to the producers here. The increased and improved trading conditions here would mean increased returns from all sources for the Government. The Government would receive interest and rents from the many thousands of tenants who now can pay nothing, larger returns from income-tax, &c. Sales tax could be withdrawn.

Witness: Mr. F. W. Moore.

Mr. Moore: Mr. Chairman and gentlemen—As you see by my proposals they are not very difficult to understand, I think, and I am not going to trouble you with anything very difficult. You may think, from the reading of the newspapers of the last few days, that I might have something to say derogatory to the banks, but I can assure you that I have not. My personal feelings about the banks are that they are very necessary institutions and organizations, and I do not think we can possibly do without them. I do not suggest for one moment that they are faultless. They are just like ourselves. I do not know that you can introduce any better banking system than we have got to-day. The banking system has been evolved for some hundreds of years, and as I said before, it might just have a few faults, but if we carry on we might be able to remedy them as we go along. I would like you to allow me to give you my idea of the cause of the slump, to start with. My idea of the cause of this slump is that the cause of the slump started in 1929 in the United States of America. You possibly remember that in 1928 President Hoover was reported to have said something like this, "We have succeeded in defeating adversity and we are on the road to permanent prosperity." That was in 1928. And in 1929, as you know, something struck the financial condition of America. It was something like this that happened: People had gone to the extreme, and, as you know, extremes are never good in anything, in nature or anything else. You get into trouble if you go to extremes. Now, they had been going to extremes in speculating and financing in the United States of America, and the big financiers at the top said something like this, "We will have to stop this or else there will be ruin." So the big man put the lid on the man below. That man put his lid on the man below again, and so it came right down to the small banks and from the small banks on to the small traders. Small traders then had to put men out of employment. The men got out of employment and they wanted to know what was the matter with the country, and they jumped to the conclusion it was on account of the importations coming in from Europe and Great Britain, and they said something like this, "We will have to go down to Washington and tell those people down there that they must put on tariff barriers to stop this stuff coming into the country." Well, something like that happened. They went down to Washington and the people at Washington put on the tariff barriers, as you know, but they did not realize when they put those tariff barriers on that they were stopping exports as well as imports, because, as you know, imports are only bought with exports, and by stopping imports coming in and the exports going out of course the situation got worse and worse. Of course, the stopping of the imports from Great Britain and Europe had a great effect on Europe and Great Britain. Then, you will remember, there was a Disarmament Conference about the same time, and what happened? The Disarmament Conference decided that they would discontinue constructing armaments and building ships, and decided to reduce the navy, and as you know Great Britain reduced her navy by 47 per cent. Now, you do not require very much imagination to realize what it means when there is only one ship put out. The personnel of one ship of about a thousand men means about £5,000 going out of circulation per week. But she reduced her navy by 47 per cent. Well, it meant these seamen and officers all going on to the relief work, to be numbered amongst the unemployed. No armaments being made; no warships on the stocks. Such a thing had never happened for many many years. And, as you know, European countries have followed suit, and they stopped building armaments and buying armaments, with the result that the great armament trade of Great Britain just practically stopped and all those thousands of people went out of work on to unemployment, and it was the lack of their currency and then the lack of confidence or the fear that people got, that created the unemployment in Great Britain and Europe. Then it followed to New Zealand. You know as well as I do what happened in New Zealand. The Government said something like this, "We will have to be careful. Look what is happening in America and Great Britain. We will have to be careful. We will have to stop this and stop that." All functions were stopped, Sunday school picnics and socials, and everything was stopped to economize. Most of these things were stopped, and then what do we find. We find the Public Works Department putting off men. All the public works in the North Island and South Island were stopped; the railway from Napier to Wairoa, from Rotorua to Taupo; ease down on Tawa Flat; ease down on Stratford to the Main Trunk. All these public works were stopped, with the result that all these men who had been brought into this country for nothing else but pick-and-shovel work were thrown amongst the unemployed and their currency was all stopped, with the result that one helped to put the other out of work. One bank in particular advertised, "Put your money on fixed deposit," and, as you know, people took the advice, with the result that we have millions of money on fixed deposit, so this money now is locked up and people have lost their confidence.

Mr. Schramm.] What bank was that that advised the people to put their money on fixed deposit?—Well, you know the bank. The less said about it the better. Then, we have the sad spectacle of a Minister of the Crown taking a lot of praise that the Government had saved £6,500,000. This is about last March. He was speaking at a dinner, and he said, "We have saved £6,500,000 on public works in two years." Well, I could hardly keep my seat because I thought, instead of being pleased about it, he ought to have been ashamed of it, because that was one of the causes of all the unemployment in New Zealand, the stoppage of the public works. One of our Ministers boasting about it; thought he had done something great, when, as I say, he ought to have been ashamed of it. Then we have the Government interfering with exchange. Well, I do not want to bring up a lot about the exchange. The manipulation of exchange is neither more nor less than playing pak-a-po, and the Government gaols the Chinese for playing pak-a-po. When you play pak-a-po the few win, the majority loose, the bank gets the rake-off. When you manipulate the exchange the farmer wins, the general public pays, and the bank gets the rake-off. I have gone to the trouble on two or three occasions to speak to some of our leading men on this question, thinking that I might get them to see my way of thinking.

A Member.] Would you mind telling us who the leading men were?—Well, I can give you the names afterwards. I do not just like to bring them up here. The man I am going to speak of, first,

is a man whom the Government consults, one of the leading business men in New Zealand—not only in Wellington, but in New Zealand; and I know the Government consult him on these questions. I went to see this man last June, and in the course of conversation he said that he had been addressing teachers at the teachers' refresher course in Auckland in May last. He had his address printed and he gave me this book to look at. And I looked at it and I saw this, "New Zealand is the most dependent country on other countries of any country in the world." And to prove this he goes on: "You have only to look at our enormous exports and imports." I had to tell him that to my mind he was diametrically opposite to me, and I made the opposite deductions. New Zealand is the most independent—not dependent—the most independent of any country in the world. At that particular time every stitch I had on me had been made in New Zealand—boots, clothes, underclothes, and everything else—had been made in New Zealand. We do not have to go out of the country for our food. We have the best food in the world. We make as good clothing as anybody—that is, for comfort. You will get the best clothing and boots, &c. We have no need to go out of this country for anything, so therefore I claim that we are the most independent country in the world, and to prove that I say you have only got to look at our exports. What are our exports? Our surplus. And what are our enormous imports? Our second necessaries, or our non-essentials, but our requirements; what we want, but not what we need. If it came down to tin-tacks, as the saying is, we could do without most of our imports, but we do not want to do without them. We want to import as much as ever we possibly can. That is one. Now, here is another. This happened when the riots were on in Wellington about two years ago. I am just giving you these instances to show, to my mind, the wrong thinking of our leading men, our leading citizens. I went to this man the morning after the riot occurred about two years ago, and I said, "This is a shame to see these men destroying innocent people's property, smashing windows, &c." He said, "Well, what would you do about it?" I said, "I would see if I could not induce the Government—a man like you, you are in a position to get a number of the business people together and wait on the Government—I would see if I could not induce the Government to make these men contented. I would give a single man £1 15s. a week and married man £3 5s. as a minimum." He said, "What would you give a single man £1 15s. a week for?" I said, "To pay his landlady, and buy a few necessaries—cigarettes, &c." He said, "Would you give a single man enough money to buy cigarettes?" I said, "I am a non-smoking man myself, but I know that the average man to-day looks upon smoking as a necessity." He said, "I think it is a bad habit." "But," I said, "you have just lit a cigarette yourself." "Yes," he said, "but I think it's a bad habit all the same." "Well," I said, "the average man enjoys it like you are and he is going to have it if he can. If you are going to stop everybody smoking, are you going to improve the economic position of the country? Certainly not. You are going to put the growers, the factories, the distributors out of work. There are thousands of pounds spent in the growing, manufacturing, and distributing of cigarettes and tobacco in New Zealand. That sort of thing will not help the community." Then, another leading citizen. He said something like this. I was speaking at a public meeting and afterwards he said, "Mr. Moore said that this depression started in America in 1929. I would like to tell Mr. Moore that this depression, as far as New Zealand is concerned, started forty years ago when the Arbitration Court gave artificial wages to the workers." Now, that kind of stuff from public men—you can quite understand why it would lead us all into the workhouse.

A Member.] We are not considering that here to-day.—Well, I want to lead up to what I am going to say. This man said artificial wages given to workers forty years ago. Less than forty years ago you could go into Jacob's Place, off Tory Street, and you could see the women going to the pump to get their water, the community pump for the whole street. Now what did it mean? It meant no drainage, no water, no plumbing, no electric light, no amenities at all. It meant no work for anybody. If we come down to forty years ago, why we would have everybody out of work, practically. We want to have all the amenities possible. In speaking to a lawyer here in town about a couple of years ago—he was speaking on this economy business—he said he had a client in the other day who said he lived on 1s. 6d. a week. I do not know whether any of you gentlemen have been in Ireland. I have seen them in Ireland myself eating potatoes off the bare table, not a fork, not a spoon, or a cup. They would have a mug of buttermilk and the potatoes tipped on the centre of the table. And the second Head Constable of Liverpool came out of that same cottage where I saw his father and mother and sister and brother eating a meal like that. Now, this lawyer's client was a Shetland Islander, and if any of you gentlemen have been in the north of Scotland in the Shetland Islands, you know how frugally those people can live. But we do not want people to live down to that. We want to bring them up. We want to let them have every amenity we possibly can. I have come here to tell you how to do it. We want people to have all the amenities because it is luxuries that make trade. You may remember last year you saw in the Wellington papers where American women spent £36,000,000 on beauty culture in one year and £12,000,000 on millinery. A lot of people would say that is an awful waste, but it meant the employment probably of a million people at £1 a week for one year. It is providence that makes wealth. A lot of people cannot understand that. They seem to think that it is money. Well, as you know, gentlemen, you have heard it time after time, that money is not wealth. Money is only the means of exchange. Now President Roosevelt, as you know, was blamed for the breaking-up of the London Economic Conference. President Roosevelt was not to blame at all, because I will give you my reasons, and this is all leading up to what I am going to say is the remedy. When the London Conference was sitting something like this happened. We had our delegations from New Zealand, and delegations from other countries. President Roosevelt was in telephone communication with his men and he said something like this, I expect, "What is happening over there?" "Nothing." "No new suggestions?" "No." "Nothing constructive?" "No." "Well, you had better come home. I am satisfied that the remedy for this is internal first and not external first." As you know, gentlemen, he got his delegation back, and he was blamed for breaking up the London Conference.

What is he doing ? He started off by employing the people, by raising billions and billions of money. He got condemned for that, but what does it matter. The billions of dollars that he is raising he is only raising in his own community, and he has put, so we are told, about seven million people to work. We are told there will be an awful financial smash. Supposing there is an awful financial smash. Where will the money go ? With all the smashing, the money will still be there. It will only mean that one financier has got it and the other fellow has not, and it will still mean that six or seven million people who were down on the bottom floor or below the bottom floor are now getting maintenance. They are getting work, and is it not better to feed seven million people even if a few financiers lose their money ? Of course it is.

The Chairman.] Mr. Moore, in your statement you have made certain suggestions to the Committee. I do not want to see you cut short, but I want to point out to you that the Committee will want to ask questions, and I am hoping that we will be able to get through in the time ?—I will just give you another illustration of what I was saying. A fortnight or three weeks ago you gentlemen may have heard Mr. Schofield over the air. He gave an address on Venezuela, and he pointed out that Venezuela was in the best financial position of any country in the world and all through her President, who, he said, was illiterate. He had done what I am going to propose New Zealand does. Start employing the people on work amongst themselves with the money and the finance raised from other countries from the surplus exports. My proposal, which you have before your is this, that the Government will raise £10,000,000 of money either by overdraft or Treasury bills. They then start off all the necessary public works—the necessary public works, understand—throughout New Zealand. When they start those men working with that £10,000,000 of money, that currency must automatically put practically all the other unemployed people back into work. Now, when those people are brought back into work the merchants and the capitalists and everybody else will be doing well, like we were all doing about 1924 or 1926 ; and, as I suggest, in order to do that you first of all restore the 20 per cent. to all those people who were cut and then you charge every one a 10 per cent. wage-tax, liberating over £10,600,000. You have got that money paid off, and you have got a cycle of prosperity going, and all the people working. If you find that you require some more money, you can still retain the wage-tax and you will get the money. The solution of this problem of the depression is so simple that it is the simplicity of it that confuses and confounds most people. I do not come before you and say the banks are to blame for this and for the other, because I do not believe they are. It is the lack of intelligence of our own selves to see the cause and the remedy. That is practically all I have to put in front of you. I will be pleased to answer any question.

Mr. Clinkard.] You say we must get away from the idea that the Great War is the cause of this economic depression ; that is quite wrong. You have read the report of the MacMillan Commission in the Old Country, have you not ?—I have not read the report, but have read extracts in the newspapers.

You are aware of the very complete capacity of that Commission ?—That is quite possible, but I still adhere to my statement.

Of course, if you have not read their report you are not aware of their finding. On page 93 they say, " In particular, war and post-war non-monetary causes led to the great and unwanted flow of gold to the United States from which such vital consequences have ensued. Further on they say, " First, the unusual instability in the demand for capital resulting from the losses and interruptions consequent on the war ; second, to changes in the established relationships between debtor and creditor countries consequent on the war debts ; and, third, the rapidity of technical changes in manufacture and agriculture."

And yet you say that you are firmly of opinion that we should drop the war altogether as the cause of our troubles ?—Yes, I still adhere to that, and I will give you my reasons. As I told you before, President Roosevelt sent his delegation to London because he thought there might be something in the statements of these economists and very capable gentlemen. As I say, he sent his men to London, and when they got there they did not find any one with a constructive idea that would help them. Has not President Roosevelt told us time after time that he is just about tired of all these experts on economy. He has tried to follow them for years, and where have they led to ? They have led America to a worse position than she has ever been in. When Dr. Campbell came back to New Zealand from Ottawa he gave an address at the Victoria College and I went to hear him. One of the audience said, " I presume you met some great economists in Ottawa ? " he said, " I met some of the most eminent in the world." " Did they have no suggestion to make for a remedy for this depression ? " " None whatever." That was Dr. Campbell himself at Ottawa. If after about four or five years (it is nearly five years since the depression started) we have been faithfully and patiently waiting for these economists to do something and they have not given us a constructive idea. All they can tell us is something about the cause being the sending of all the gold bars to America. America has all the gold that she needs.

Mr. Clinkard.] A great deal more than she needs ?—She does not need gold at all. We do not need gold at all ; we want the exchange of services ; we want the man in Featherston to make a pound of butter for the man who will make him a pair of sox in Wellington. That is all we want.

If you income was declining, would you continue to increase your expenditure ?—If my income was declining, would I increase my expenditure ? As a business man, I would take all things into consideration, and it is quite possible I would. What happens to a business man is this : if business is bad, does he pull in all his travellers ? No, he says to them, " You get after it." Perhaps he puts on an extra one. That is increasing expenditure.

Could you continue your expenditure indefinitely if your revenue failed ?—I would endeavour to see that my revenue did not fail, by increasing my expenditure. We want the Government to start men working on public works in making amenities for us, and the men will then give an order to the man in the country to grow mutton and beef.

That is beyond my point. I am asking you this because you complain of the fact that when the Government found their revenue seriously depleted, they began to cut their cloth accordingly. Is it not the case that, when revenue falls, you are bound to reduce your expenditure? On this you plunge further into debt?—You do not seem to be able to understand me.

Oh, yes, I can understand you?—I am arguing from a service point of view, not a revenue point of view. Money is only a means of exchange for these services. The man who is going to work on the railway does not care whether he ever sees any money if he can get a pound of butter and clothing for his youngsters.

You suggest, Mr. Moore, that the people of this country make a great mistake in assuming that money is the only form of wealth, and so on? Surely, in view of our education, our people are not so ignorant as all that?—I thought you were arguing on those lines.

Thank you. Your view, Mr. Moore, is simply to borrow £10,000,000 of money either by Treasury bills or so on, and to reinstitute public works. Are you aware that at the time that our revenues were so seriously falling we were spending £7,000,000 a year on public works, and our falling-off took place in spite of that fact?—Yes, but will you follow on? I explain how it can be paid in twelve months; surely that ought to be sufficient for you.

I see that you explain that you put money into your right pocket and take it out of your left pocket, and are going to make yourself very wealthy in that way, but I cannot follow that?—I have explained in the statement that money is simply the means of exchanging services. Will you point out to me where that scheme is wrong? I have pointed out to you that by borrowing that money just to get the use of it, to enable these men to start their service, they would pay you back. Do you see where the man in the country would be wrong?

I can see that you are simply going to land another £10,000,000 on to the posterity of this country in the form of additional borrowing. That is your proposal?—No, it is not.

Well, if you can explain to me how that is not going to add to the indebtedness of the Dominion——?—I think you must have got a wrong copy. I start off here by borrowing £10,000,000 on bank overdraft or Treasury bills, re-employ, say, fifty thousand men on all kinds of necessary public works, on roads, &c., fifty thousand for fifty weeks at £4 per week, say, £10,000,000. These men spending this money would reabsorb the balance of unemployed, which is about thirty thousand, back into their ordinary vocation, at £4 a week. Impose a wage-tax of 10 per cent. on these people and this would return about £1,600,000. Restore the 20 per cent. cut to all the citizens, and a wage-tax would produce £9,000,000, so the loan and interest would be more than provided for the first year.

In the first place, what are you going to pay the 20 per cent. out of? When you say, restore the 20-per-cent. cut all round, that is not to be paid out of the £10,000,000; what is it to be paid out of?—Out of increased prosperity. I am a business man—possibly I have been in business longer than you think. I have been in business for fifty-four years. In my business I would be delighted to give all my men and see every other man restored the 20-per-cent. cut, because it would give them more spending-power, and my turnover would go up proportionately, and I would get the increased turnover to pay the 20 per cent.

Here is a poser: How are you going to pay that £10,000,000 in wages? One would require materials to carry out public works; not more than 40 per cent. is taken out in wages; you would only circulate about £5,000,000 instead of £10,000,000?—Supposing we did that.

It knocks all your other figures into smithereens?—I am sorry for you.

I am sorry for you; it is your proposal, not mine?—I will guarantee that there are other intelligent men who might be able to see it.

Mr. Holland.] In your remarks you mention that the banks are advertising urgently to replace their money on fixed deposit. You state that that money was locked up. You suggest that the banks take money on fixed deposit and pay interest on it, and lock it up?—We are told that they have £11,000,000 or £13,000,000 locked up. You do know that they called in as much money as they possibly could that was on overdraft, and if that money was on overdraft, what was it doing? It was employing people and they called it up.

You suggest that the Government should borrow £10,000,000 and put all necessary public works into operation. Now, as a business man and as a citizen, you know that the Government is constantly being blamed for having borrowed too much in the past?—I know that, and it is just why I am here; if every one was of the same mind as I am, I would not be here. About three years ago a Ratepayers' Association was formed in Wellington, simply to impress upon the City Council that they should not spend money, that they should stop spending and reduce our rates. They condemned George Troup because he was such a waster. They said, "Look at the tunnel going through Hataitai; look at Glasgow Street, and the money wasted there." I said, "Tell me where the money was wasted in Hataitai tunnel; did the workmen dig a hole and put the money into it? No, he took the money home and that money was circulated in the community because the tunnel only consisted of labour and the mixing-up of grit from Lyall Bay and cement from Nelson." The money was still in the community; it never was buried or burnt; it only circulated. I said to these men, "If you talk like that, you will commit commercial suicide as sure as you are living men." Four of them are bankrupt to-day; they were shopkeepers in the main streets.

Prior to 1930 you are aware that there was only a limited number of men unemployed, and all men were receiving standard rate of wages up to that time. Then, as a consequence of the drop in the prices of our exportable commodities, our revenue for four years fell by £67,000,000, and in 1932 it dropped by £27,000,000. Is not that the cause of so many men being thrown out of work? If I put it as an individual: I am employing 67,000 State officers; my income is cut down by 40-odd per cent.; something must be done?—You must find the cause.

The cause is overseas ?—No, it is not overseas altogether. When the public works were stopped in New Zealand, their currency was stopped ; those people were not able to purchase the amenities of life which came from overseas. When we stop our imports, we are taking the currency out of the hands of the people in the Old Country. The thing works automatically, as I want to show. We live each on the other. Our imports are down by millions. If these millions were being spent, say, in Bradford, look at the thousands working in Bradford who would then be in a position to buy our commodities. It is our lack of purchasing that is causing them the lack of purchasing-power.

Is it not the war debt that is causing the lack of money ?—The war debt has nothing to do with it. I thought you gentlemen would have got past that by two or three years.

Mr. Lye.] I am going to ask questions in connection with the war debt ; will you admit that the war debts have been a determining factor ?—No.

You will not admit anything ?—Nothing unreasonable.

Let me ask this question : First, the cost of the war has to be paid ; is not the payment of the war debts a first charge upon the industry of the people who are in debt as the result of the war ?—How are you going to pay the war debt, only by service.

Exactly, that is a payment. It is no use dodging round it ; have the war debts to be paid ? Are they a first charge ?—It is not a case of yes and no. I have had some experience in that. The position is this : If the circumstances had not happened in America, as I explained at the outset, business would have gone on in a normal and natural way, and Great Britain and the other European countries would have paid out of their surplus income. They would have paid this war debt ; I do not say we should repudiate it.

In view of the fact that America demanded payment in gold and refused to take goods and services to meet the debt obligation that was owing to her by Great Britain, and Britain eventually reverted to the gold standard, did not that increase the dead-weight of indebtedness ? I am wanting to arrive by a series of questions at what I believe to be the present cause of the lack of purchasing-power that we all agree on ?—Yes.

The fact that America demanded gold and refused to take goods and services in payment of the war debt, and Britain's reversion to the gold standard ; did that increase the weight of war debt ?—The artificial manipulation and the interference with currency and trade will get us all in the same condition as you would be in physically if you started to take drugs instead of food.

It appears to me that it is impossible to get a definite answer one way or the other ?—I want to explain it. You have asked me whether these interferences make the thing worse.

Yes, and did it bring about a period of deflation which placed us all in the position that between the cost of purchasing and the selling-price there was no margin left ; otherwise, there was no purchasing-power ?—It is the stopping of the exchange of these services which brings about that position.

Do you agree with the suggestion I make that, when the period of deflation set in through the reversion to the gold standard and America demanding gold, that brought about a fall in prices and left the people no margin between the cost of purchasing goods and the purchasing-price ?—Of course I do.

You said, I think, that we are the most independent country in the world ?—Yes.

What would happen if we lost our export market ? Do you attach any importance to the export market we have in Great Britain if we are so independent ?—Of course I attach a great importance to it because, as I said before, we want our people to have all the amenities they possibly can have, and by increasing our exports and increasing our imports we are placing the people in Great Britain in a position to buy our exports.

Do you rely upon your scheme of the raising of the £10,000,000 loan and the restoration of the two cuts to Civil servants ?—Not only to the Civil servants.

Well, all the people in New Zealand. Do you rely upon that plan as being the method which will restore purchasing-power to the people of New Zealand ?—As an intelligent man, sir, I expect you to realize that I came here for that purpose, and believe that.

Would you deny that the London price-level does determine the amount of credit ? That the London price-level is a very powerful determining factor in the increase or decrease of the amount which is made available from month to month ?—My answer is that, as a business man, we mind our own business first, and do not worry about what the other fellow is doing in London or elsewhere. If we get on with the job here, as I have explained it, we then may improve our position. We will improve our purchasing-power and improve the purchasing-power in the Old Country by increasing our importations.

You talk about "increasing our purchasing-power." Is it not a fact, New Zealand being an exporting country, that our purchasing-power is largely determined by the exchange value which our produce brings in the markets of the world. Our purchasing-power is largely determined by conditions governed outside New Zealand ?—Yes and no. The position is : First of all, we get on with our own job here, not worry about what is happening in England. We must realize that we have eighty thousand people here who are not getting 100 per cent. of nourishment. Will you admit that ?

Yes, I will admit that we have probably got over eighty thousand, and many millions invested in production, and that unfortunately, owing to the price-level in London, there is no margin of purchasing-power left after meeting our liabilities ; no margin between the cost of purchasing and the selling-prices in the markets of the world. You admit that eighty thousand people in New Zealand are not getting sufficient nourishment, clothing, and amenities ?—Yes.

Is it not really our business first of all to see that they get that, seeing that we can give them that out of our own soil ?—Yes.

Would the borrowing, according to your plan, of another £10,000,000 and increasing the wages-tax 100 per cent. materially help to supply the purchasing-power of the people, by making the burden of

indebtedness heavier and the rate of taxation heavier ?—If you carry out the scheme which I propose you are going to give everybody 100 per cent. of the necessaries of life. In the spending of that £10,000,000 the whole community will be benefited, the revenue will be increased on the importations, the margins of shopkeepers and traders and professional men will be increased, and they will be able to pay more income-tax and you will have quite sufficient revenue and you will be in as happy a position as you were in 1926.

A beautiful theory ?—Just a moment, tell me what is wrong with my proposal. You said "a beautiful theory"; tell me what is wrong with the scheme.

The Chairman.] That is hardly our job. It is for you to uphold your proposal ?—I do that.

Mr. Lye.] Let us agree to be as calm as we can be and agree, if necessary, to disagree, and get on with the job ?—I did not come here for you to disagree with me; I came here for you to agree with me.

And we came here to listen to your proposals. There has been a rise in the price-level lately and will you admit that that has gone a step along the road to restoring purchasing-power ? The rise in the price of lamb and wool, I mean ?—I agree that that has some effect.

If there happened to be a corresponding rise in the values of dairy exports, that would be another move in the direction of restoring purchasing-power, would it not ?—Yes.

Do you not think that by the steps that have already been taken in keeping down administrative costs—that does not necessarily mean wages cuts and so on—keeping a close watch on public finance that eventually, with a rise in the price-level, there will be a very material improvement in the general economic conditions of the people of this country ?—Yes. I do not believe in waste in administration or waste in anything, but it appears to me that you seem to be confining yourself to the increased prosperity of Great Britain and the increased purchasing-power of Great Britain. The position is that we are waiting for the man to get a job to lay some bricks in Birmingham to get some money to buy our butter instead of employing the man in Wellington to lay some bricks to buy our butter. That is what it amounts to. What is the cause of the improvement in the Old Country. We are told that Great Britain has more spending-power and things are better. That is because she is building armaments for herself and all foreign countries and manning her ships. She is restoring those men and that money is going into circulation; she is building armaments for every foreign country in the world and increasing her armaments.

Mr. Langstone.] You started off with the war-time. Is it not a fact that during the war years those were the most prosperous years we ever had ?—Yes.

Is it not also a fact that everything was paid for as the war went on ?—Yes.

Everything ?—I understand so. There was some debt created.

All done for destructive purposes—to destroy wealth ?—Yes.

We have a civil war of unemployment and we cannot use the national credits to end the civil war and make the people prosperous and happy ?—That is what astounds me, the lack of our intelligence.

A question was put to you about prices going up. Where did the money come from for the price of wool to go up in New Zealand. Did any one fetch any money to New Zealand ?—They had some credit, I understand, but no actual money.

If it is possible for the banks in New Zealand to find the money to sustain a higher price for wool cannot they do it for every other commodity ?—My proposal is on the lines which you are pursuing with these questions and my proposal is 100 per cent. sound, and I have never found a man who can put up a sensible argument against it.

The farmer who advocates a 25-per-cent. local exchange-rate does not believe in the London price-level, does he ?—No.

He repudiates the London price-level ?—Yes.

And if it is pegged at 25 per cent. there is no reason why it should not be pegged at 100 per cent. or 200 per cent. ?—No, not as I understand exchange. Exchange is much like pak-a-po. There is no asset created.

In regard to your scheme, I do not think the borrowing of £10,000,000 will do the job for this reason: Our first wages cut on Civil servants was £1,390,000; our second cut was £1,100,000. The 10-per-cent. wages cut imposed on all other workers by the Arbitration Court was at least £10,000,000, so, altogether, we had a reduction of over £12,000,000 in actual wages and salaries in one year. Had that wages-tax gone on instead of a wages cut, we could have given that £12,000,000 to the unemployed workers, giving them £4 a week, 50,000 of them. That could have been done ?—Yes.

But now we find that the national income to-day is £70,000,000 less than it was in 1929. The fall in London price-levels that we hear so much about from the farmers is actually £24,000,000 on the maximum. The difference between £70,000,000 and £24,000,000 how is that created ?—It is one of the difficulties I cannot understand.

Through internal deflation, reducing every one, creating unemployment ?—Yes.

Now, if we had used the credit of New Zealand to make up that difference, notwithstanding the fall in overseas price-levels, we need not have any fall in local price-levels at all ?—Not necessarily at all.

If it is reasonable for us to link New Zealand price-levels to London, would it not be more reasonable to link them to Bengal or Shanghai or Tokio; that would be a lower level still ?—Yes.

And the mere fact of New Zealand for many years ignoring the Eastern standards of living and competing in the same world markets with them is *prima facie* evidence that they can ignore the London price-level too ?—Yes, they can do that.

As I see the position, what is wrong with your scheme is that the £10,000,000 could not meet the £70,000,000 deficiency that there is to-day ?—Well, I would suggest giving it a trial for a year and

see how we get on, and we will be in a better position in twelve months, and if it is not quite what you think it is, well, we can try something better, but give it a trial for twelve months.

Do you propose to pay interest for this money?—Yes, I was providing for interest in the £10,600,000.

What rate?—The usual bank rate, 4 per cent. I have no fault to find with the banks; they are entitled to something because the money is circulated through the banks; they are entitled to something.

Do banks lend depositors' money or where do the banks get money from to lend it?—It is a matter of book-keeping with them. They accept deposits from depositors and give credit to borrowers.

What I want to know, if I can possibly do so dealing with the monetary system, is: If a depositor, we will say, has £5,000 in the bank, is that the class of money that the banks lend to the Government and to other enterprises needing finance?—I presume it is, as long as they keep a certain balance in the bank themselves.

When they lend that class of money there is usually a reduction in its deposits?—But they have certain reserves.

But I am not talking about the reserves. I am talking about the deposits?—There would be a reduction in the deposits.

But there is no bank balance-sheets showing a reduction in deposits?—I must not say that I thoroughly understand banking, because I do not.

If you do not thoroughly understand banking, then why do you say that the banks are all right, and not responsible for the deflationary policy we have had?—As far as I am concerned I have no fault to find with the banks.

Because you do not understand them?—I understand them to this extent: As a merchant they suit my purposes. I do business with an engineer, but I do not understand the engineering business, but he suits my purpose. I do not understand a doctor's business, but if I want a doctor for my family I go for his services.

There is a good deal of faith in that?—There is a good deal of faith in lots of things.

In regard to the question of handling the slump as we see it to-day, the financial stringency, the only constituted authority that can handle it is the Government itself. It has the right to do it. There is no local body or firm or any one else?—It must start with the Government.

It is a national question, and must be dealt with from the fountain head of the national control of New Zealand. They are the only authority?—Yes.

And if we spend £10,000,000 in paying wages it would reflect itself within a very short time in £10,000,000 worth of additional wealth, either in the form of extra goods or extra services rendered?—Yes.

So that you would have the goods and services to back up the £10,000,000 that had been spent in wages?—Yes, but there would be no debt in existence.

There would be if you paid interest?—No. You pay the interest off the same year. Simultaneously with the paying-off of the principal you would have the interest paid off.

All interest money is debt money?—If I borrow £1,000 off a man to increase my turnover and I borrow it at 6 per cent and I pay him £1,060 back, there is no debt remaining.

No, but if you go to borrow money you cannot borrow it unless you have some security, can you?—No, you cannot.

Therefore, money can only be the representative of your own security?—That is all.

Then, why should you have to pay for it. If you monetize your wealth why should you have to pay for it?—I have been prepared all my life to pay interest and perfectly satisfied, because I say that if a man is going to lend me £1,000 of his savings he has gone to the trouble to save his money to enable me to expand my business and I am quite prepared to pay him for that service.

Although it is possible for us, as individuals, to make profits, either by way of interest or rent or anything else, between one another in New Zealand, if some person was to run New Zealand as a great big co-operative concern with various departments like farming and mining and transport and all that sort of thing, in the sum total of things would they be able to make a profit?—If they went out to make a profit.

How can they? They can only make a profit while others are making a loss. You cannot have one without the other, and if you had the thing centralized and running it would be impossible in the sum total of things to make a profit?—In the sum total of things everybody would get what they wanted in the way of amenities of life, and there would be no need to make a profit.

Hon. Mr. Downie Stewart.] Were did you get your figures from suggesting that Mr. Roosevelt had re-employed seven million people?—I saw that in the newspaper.

In the newspapers I have seen it is suggested as two million people?—No, it was in a paper last week that I saw seven millions.

However, that is not important for our purposes?—No.

So far as the cuts were concerned you think they were a mistake?—Yes. The whole policy was a mistake.

Take your own individual case, if you were carrying on a business and times were bad; you were running at a loss and you had two alternatives, either to sack your men and close down or by cutting them 10 per cent. you could keep them all employed, which would you do?—Under those circumstances I would cut them 10 per cent., of course, but in regard to the Government it has the thing in its own hands because they are in a position to——

Borrow?—Not so much to borrow, but in the position to place these men, or in the position to enable them to exchange their services with the other fellow. I do not attach much to borrowing. The Government is in a position to place the men in work, in a position to enable them to exchange their services.

And you think the Government is never justified in reducing wages ?—I would not go so far as that.

At any rate, a different rule applies to a Government as to an individual ?—What I am saying is that the Government is in a position to see that men are employed, to give them the amenities of life, and they are in a position to keep up the standard of living and the standard of wages.

I gathered that you had no great opinion of the economists ?—I do not believe in detracting from anybody, but the position is this: we have had the advice of economists for about five years, and to my knowledge no economist has come forward with a constructive idea.

Do you not think that some of the eminent economists in the world have advocated what you are putting forward. A bold public-works policy is one of the main channels for relief ?—I refer you to a statement made by Dr. Campbell when he was asked a question in regard to the economists he met in Ottawa. He said he met the most eminent economists and he was asked if they did not have any constructive suggestions or ideas to give, and he said they had not.

In adopting a bold public-works policy is that not a means of helping just as you do ? No doubt you know that the British Government tried to carry out such a policy as you are laying down and it was said last year that they had spent some hundreds of millions on public works and had to abandon it as it was not helping to solve the problem at all. No doubt you saw that statement ?—I saw that, but they did not attempt to create a sinking fund like I suggest.

That is the cardinal feature of your plan ?—Yes.

Mr. Schramm.] You said the banks are all right because they suit your purposes. Would you say that everything is all right because it suits your purpose ?—That is rather a general kind of question. I suppose I might say I am very fond of anything I like.

It would not prove it was a right institution all the same, would it ?—I can see nothing really wrong with the banks because they are institutions which have been in existence for years. They have performed the services required of them for trade and commerce, and I think they are satisfactory.

Would you not say that the banks had called money in that they had out on overdraft, and advised people to put it in bank deposits, thereby adding to the deflationary policy that was going on. Does that not show that the banks have contributed to the present position ?—As I said before, although I have nothing extraordinary wrong to find fault with about the banks, they are like ourselves, they are not 100 per cent. right. As a man, I give you credit for having the best ideals in the world, but the question is: Do you live up to those ideals ? I know I do not.

At the present time you are not dealing with me; you are dealing with the banks ?—Well the ideals of the banks are all right, but sometimes they might just not carry out their own policy to 100 per cent.

Do you believe in the control of finance and money by private individuals for their own profit and gain ?—I would be quite satisfied if trade and finance were carried on in the same way as it is to-day.

You believe in the present banking system being carried on by private enterprise for private profit, as at present ?—Yes, because in 1926 when times were good there was not a wrong thing thought about the banks, we were all doing so well that we were smacking each other on the back.

I put it to you. You seem to think that lots of us have not awakened up to the present position. I put it to you that you have not awakened up to the position regarding the banks ?—I am sorry to hear you say so.

You do not agree with me ?—That is so.

You say that extremes are no good in all cases ?—That is so.

You adhere to that bold statement ?—I adhere to that statement. I would not call it a bold statement because it seems so patently true.

Sometimes we have to go to extremes. Supposing some one had an accident and it was necessary, in order to save his life, to cut off his leg, that is an extreme ?—Well, one swallow does not make a summer. You are going to extremes now.

I was going to show you where the banks had fallen down on it and that part of the system was not functioning properly, so that it was necessary to go to extremes to rectify the position ?—If the banks make a 1 per cent. failure you would not shoot them for it, would you ?

The position of the banks to-day is that they are the octopus controlling the situation, and I submit that credit and finance should be taken out of their hands and controlled by the State for the people ?—I am sorry I cannot agree with you. No, I am not sorry, perhaps I should not say that; but really I cannot agree with you.

You said you believed in interest. You believe in interest under the present system ?—Yes.

You know that interest was debarred in the olden days. It is only of recent growth ?—That was in the days of usury and people went to extremes.

Do you think it would be better, instead of borrowing £10,000,000 from the banks and paying interest on it, to issue your own credit without interest at all ?—The Government can do that, but then that currency has to go through the banks for the convenience of the people.

If we had control of our currency we could do that ?—You could have your own banking concerns.

The assets at the back and the credit at the back is the country's ?—The only credit here is the people.

At the present time you have given that to the banks ?—We have up to a point.

Mr. Massey.] Several members of the Committee have put questions to you about the world's prices. I presume that you agree that the world's price-level is a decided factor in the present situation ?—The position, as I said before, if we stop worrying about price factors overseas and get on with the job here ourselves, is that we can give our people 100 per cent. of the necessaries of life, irrespective of what is happening at Home, and by putting men in work and putting them

in a position to buy the amenities of life we are going to increase our imports and by increasing our imports we are going to increase and improve the price-level at Home.

I put it to you that up till, say, 1929 the world price-level was reasonably good, and there were very few unemployed in New Zealand then ?—That is so.

Then is it not reasonable to expect, seeing that the world price-level of wool and meat is increasing, that there will be more money coming into New Zealand during this year than last ?—We expect there will be more coming in.

Probably wool and meat will realize about £9,000,000 or £10,000,000 more than this year ?—As I explained before, there is an improvement in Great Britain on account of the extraordinary activities in naval requirements and armaments and that sort of thing. We can do our share by increasing our importations; we would be helping to improve the conditions in New Zealand.

The Hon. Mr. Stewart drew your attention to the fact that in other countries they had tried out a public-works policy. I notice in your statement that you have drawn particular attention to it, and you say "necessary works." What do you class as necessary work ?—Necessary public works, I presume, roading and draining and breaking in new country for helping settlers and public buildings, keeping our public buildings in good order, maintaining our public buildings.

I presume, then, that you agree with the policy of the Unemployment Board. The Unemployment Board at the present time is subsidizing building ?—Yes, I believe in that.

Well, you can only go to a certain point with that ?—Yes. That can be overdone of course, and they are limited, of course, for money. But still, it is one of the best schemes, to my mind, that the Government has produced, because it is enabling tradesmen to get back to using their tools; instead of the carpenter using a shovel and pick he is getting back to using his plane and hammer.

I think you will admit that that is only a temporary improvement ?—Yes. If the Unemployment Board had the amount of money to spend which I have suggested, they would be able, first of all, to put the skilled worker in his proper place at his proper work at a proper wage, and that would automatically start all the works of trade and commerce going.

The Unemployment Board's policy is that they operate on a tax on wages to the extent of 5 per cent. How much do they collect per annum ?—I have seen a statement in the paper, about £4,500,000.

Well, you would simply be doubling your tax, making it 10 per cent. ?—Yes. And then you would collect on the 20 per cent., too, and collect it from the unemployed which are not paying the tax at the moment.

Mr. Munro.] You claim that this scheme that you present to the Committee will cure our economic depression ?—I do.

You will borrow £10,000,000, you will put all the unemployed at work, give back to the workers of this country the reductions made by the Government in salaries and wages, and that purchasing-power will practically cure the depression ?—Yes, that is what I believe.

You know that the farmers of this country are possibly in the worst position of any. What effect will it have on the farmers ?—It will have this effect, that the people—the eighty thousand people, who, at the present time, have not got 100 per cent. of nourishment or clothing, instead of being able to buy a pair of boots made from New Zealand leather made from New Zealand hides are coming round to our back doors and begging our old boots and clothes—they would be able to go to the shops and buy new ones. In the purchasing of new boots and new material they then will be helping the farmer and they will be able to buy 100 per cent. of the farmer's wheat and meat and butter, &c. That is how they will improve the farmer. And then what they spend over and above the necessities of life they will spend on amenities that will be purchased from overseas. That credit will go overseas and enable the people in Birmingham and Sheffield to buy more of our produce and give us a better price for it. That is how it will help the farmer.

That is the point I wanted to be sure about. You believe that the extra orders given to the manufacturers in England, because of our increased purchasing-power in our secondary industries, would have the effect of bringing up the balance of world parity prices to such a point that it would reimburse the farmers in that way ?—Only in proportion to the amount that we send over. We are only a small community, but just as the world is made up of units, if we do our share we will be helping to improve the economic condition in England, which is improving at the present time through the extra purchasing by foreign nations of armaments which they were not purchasing two years ago.

If your plan, as proposed to the Committee, was put into operation to-morrow, the effect on world parity prices of the primary producers' exports from New Zealand would be infinitesimal, would it not ?—It would be small, but we would be doing our best, and as I said before, what we have to be concerned about at the moment is our people here. I am not worrying about the people in England so much. What I am saying is: Start a scheme like this, employ our eighty thousand unemployed, give them the spending-power, and you will see that the improvement will extend just like a ripple. It will extend right out to Great Britain.

I agree with that, but I cannot agree with you that it is going to have anything but an infinitesimal effect on the world parity prices of our farmers' products in the world's markets ?—Well, why worry about that infinitesimal improvement ?

Because it is our farmers' want of spending-power to-day that is part of our economic depression ?—But we would not have the economic depression if we employed our eighty thousand people.

But we would have the farmers just the same ?—No. The farmer's position would be improved to the extent of the purchasing-power of that eighty thousand plus the increased purchasing-power which we would be sending Home to the Old Country for the manufactures which we would import.

You still claim that this scheme will cure New Zealand's economic depression, farmers, unemployed, business men, everybody ?—I claim this, that it will improve the economic conditions in New Zealand to the full satisfaction at least of eighty thousand unemployed at the present time, and will also assist considerably to the benefit of the farmers.

Mr. Murdoch.] This scheme of yours has been tried in England ?—Oh, no; it has not.

Yes it has ?—With a sinking fund provided ?

No ?—You see, only partly tried.

Well, put it that way, partly tried. And it has not proved a success; in fact, they have decided to drop it. In spite of that, you still think that it would pay to try it here in New Zealand ?—Well, as I just said, they had only partly tried it. You see, the scheme is that you raise the money and you pay it back again yourselves because you pay it back in your services one to the other. Instead of the tailor working alongside the bootmaker at digging clay on Brooklyn Hill, the tailor would be making trousers for the bootmaker and the bootmaker would be making boots for the tailor, but here these two tradesmen are looking at one another and using all the foul language they can about the Government, while they are standing on their shovels looking at the clay bank. And here we are in a position to put those men in a happy frame of mind, and you can do it by that scheme.

The money which you provide for here, is it proposed to spend that entirely in wages, or have you made provision for the cost of materials ?—As long as it is circulated it does not really matter which way it goes. It is the circulation—the distribution of this money that is going to improve the condition.

I noticed in your working out you base your necessities on wages-tax. But I presume that if you borrow £10,000,000 you will want to spend half of that on materials, and that will not come back in the tax ?—Yes, it will, because these men with their spending-power would help to increase the farmer's position. The farmer would be able to export a little bit more credit Home in the way of butter, and you could bring any material back.

Now, this point arises: It is a fact that at the present time the consumption of butter in England is better than it has been for some time, and there is a short supply of New Zealand butter in England. Yet the price of butter in England is very low and it only pays out here at 6d. So how do you account for that fact ?—As I say, I am not concerned so very much about the position at Home. My argument is, first start the business here of employing these people. But to answer your question, there is more butter being consumed at Home, but those people are consuming less margarine and it does not say that they are still getting the 100 per cent. of that kind of nourishment that they need. They are still in a position to buy still less margarine and more butter, and if they had more spending-power, which we would send Home by purchasing the manufactures, they would be able to buy more of our butter.

That is the point that is concerning us at the present time, to help the farmer here ?—If you adopt a scheme like I suggest you are going to make eighty thousand unemployed people happy. You are going to enable them to buy 100 per cent. of boots, clothes, meat, fish, vegetables, and fruit, all found in New Zealand, and you are bound to improve the farmer's condition.

You suggest here in your statement that the increased importations would mean more employment for workers. Do we assume from that that the bulk of our imports will be from Great Britain ?—Well, we should endeavour to induce the trade to go where our exports go.

Dr. Sutch.] This is hardly a question, but you mentioned Dr. Campbell when talking to the Hon. Mr. Downie Stewart. I know Dr. Campbell slightly, and asked him that same question when he came back from the recent World Economic Conference, "Had the economists any constructive plans ?" And he said, "Yes." I said "Well, why was there not any result ?" And he said, "Because none of the politicians would agree to them." I asked who were the economists of note in England. He mentioned Mr. Keynes. You have heard of him ?—Yes.

He has a scheme similar to yours, except that he would say that New Zealand should borrow abroad rather than borrow at home. That is the one difference. And have you heard of Mr. G. D. H. Cole, of Cambridge ?—I have seen his name mentioned in the papers.

He has constructive schemes. And Mr. Ambrose Dodd, of Cambridge, another economist with constructive schemes. Sir Josiah Stamp ?—I have heard of him.

Another economist with constructive schemes. There are several others, of course. I just brought that point up because the Hon. Mr. Downie Stewart also brought it up. Now, assuming that your argument is correct here, and I do not want to argue about it, why not spend £100,000,000 rather than £10,000,000 ?—We do not want to go to extremes, as I said before. We want to get into our natural and normal stride, and the natural normal stride at the moment is to get our eighty thousand unemployed working.

But, assuming that this will do that, and assuming that all your arguments are correct, would it not be advisable, a good thing, to spend £100,000,000 a year and raise our standard of living ?—Well, what I suggest is, get on with the job in a reasonable manner to start with, and then, if you think you can keep on improving your standard of living, there is no harm in adopting it.

But if this is correct, there is no need for us to worry about the future. We could go straight ahead and spend £100,000,000 a year, surely ?—But I have said before, let us do the thing step by step and see how we get on.

So there is a possibility of error in this ?—No. No possibility of error.

But, logically, we could spend £100,000,000 ?—No. We would be going to extremes.

Why should that be extreme ?—Well, we would be raising our standard of living.

But why not raise our standard of living ?—Well, you have to grow, you see. I might tell you that butter was a wonderfully good nourishing food, and if an ounce of it was good for you why not have a pound.

But we would vary our standard of living if we had more radios and motor-cars ?—Well, that would all gradually come.

With this £100,000,000 ?—No. Gradually come. Educate the people up to it.

I see. Well, still assuming that this argument here is correct, I have heard suggestions, particularly recently, that we build roads all through the Tararuas. Could we go ahead with that do you

think, as a Government scheme ?—What I should suggest is, we get on with the maintaining of the roads that we have and putting in the roads that we feel absolutely necessary for transport and utilizing our eighty thousand men in the normal way. If we did all that, plus the roads through the Tararuas, we would want a wonderfully increased population and we would have to import them.

Well, that would help us to solve the British problem. They could send the population here and we have got the work to be done. We could bring the population here to do it ?—We are in the position in New Zealand that we are in now through immigration.

That is interesting. It would not be a bad idea if we built pyramids and attracted the tourists ?—I refuse to be drawn on what I call silly questions like that.

But that is no different at all from the roads through the Tararuas ?—My suggestion is that we have eighty thousand people at the present time thrown out of employment, and my suggestion is just at the moment to see that those people are put back into employment in the normal way, because we are not getting on with the normal requirements. There are thousands of pounds' worth of further public buildings required at the moment.

I grant you that, but I was assuming that we could bring the people from England and help solve their problems. For instance, we are putting certain roads through the Milford Sound district. It would be quite an advisable plan, assuming that this is correct and we had the workers to do it. It is just a matter of getting the money is it not ?—I suggest that we grow normally and steadily, and we shall get all that in time. When the first settlers arrived in New Zealand they did not start to talk about building roads through the Tararuas. They said, "Let us make a road along Lambton Quay so we can get along from one spot to the other." Then they grew a bit more, and they made such roads as Wallace Street and Boulcott Street, and the Terrace.

I follow the basis of your argument. Referring to one or two questions that were asked earlier in the debate, do you think that tariffs have had anything to do with the world depression ?—As I stated before, when America put up her large tariff barrier she shut out the exports of Europe and Great Britain, with the result that they could not export and they blocked the imports and exports.

So it has had a big effect. And would you say that changes in the demands of people for articles, has had an effect on the world depression ?—Of course it has, because the money has been so short.

I mean a change in demand like this : Women wear shorter skirts, therefore they are not going to going to wear so many woollen garments. That kind of demand ?—The money that they spent on the heavier garments, if they have any surplus over they find a way out for it, the same as I spoke about beauty parlours.

Yes, I grant you that ?—We have women in New Zealand who spend money on beauty parlours to-day who never spent money on beauty parlours before.

I grant you that. But if you throw a big industry out of operation because you are going to dispense with the use of hairpins, that industry is nevertheless out of operation ?—Yes. But the spending-power which went to buy those hairpins is going in some other direction.

I agree. And technical changes in industry, would they affect the world depression too ?—Just exactly what do you mean by that ?

Machinery for instance. The invention of machines will eliminate fifty men here and a hundred men somewhere else. If a good deal of that came at once, would that affect industry and the employment of men ?—It would affect the employment of men possibly in those particular industries, but you would find some other industry springing up.

So that you would not put our troubles down to machinery at all ?—No. May I give you my reasons ? When the mechanical navvy was invented and men were taken off shovelling dirt with the hand, at that time we had no aeroplanes, no gramophones, no wireless. You see the demand for these amenities is increasing with the decreasing of man labour. We are having thousands of people manufacturing aeroplanes, wireless sets, who were not manufacturing them twenty years ago. Twenty years ago you would find that people were shovelling dirt and coal with their hands.

The reason I asked those last few questions was that you said the sole cause of the economic depression was the restriction of credit in New York in 1929. Following on a question of Mr. Munro's about additional purchasing-power in New Zealand, affecting the farmer, how much would the additional purchasing-power drive up the price of butter in New Zealand ?—I cannot say.

It would rise, would it not ?—Of course it would if demand increases.

So the price does rise ?—Yes. But our butter price varies daily with the butter price in London.

Well, we will grant you that ?—Perhaps the important argument is this : If we as New-Zealanders would spend more time in worrying how to employ our eighty thousand unemployed instead of worrying about the market price at Home, we would find very quickly employment for those eighty thousand men.

But what I am worrying about is the butter price in New Zealand ?—Well, the butter price would improve with the increased demand. You have no idea, possibly, of the decrease in the consumption of butter with all these thousands of people out of work.

I have a slight idea. You mentioned the Navy in England. The Navy is kept up largely out of revenue is it not ?—Yes.

So that if they cut down their expenditure on navies and armaments they have released so much purchasing-power from buying bayonets for buying dresses and other materials ? They have stopped the circulation of the currency of the personnel of that ship, but they have increased the circulation of the currency of the people who supply electrical goods and artificial-silk materials ?—No. You see, if we were to put out of employment another hundred thousand men in New Zealand by perhaps closing down some works, we would be very much worse off.

But the position I am putting to you is this: You have a certain amount of purchasing-power in England. You take some of it and build a warship or some armaments for England. You could

spend it on goods for the people?—But you are putting that money out of circulation from that particular class of people who would be buying the necessities of life and not the amenities of life.

I put it to you that we are taking the purchasing-power from the armament firms and giving it to the firms who are supplying the amenities of life?—The people who are working for the armament firms are the people who are living on the necessity line and they are buying necessities, and once you put those people out you are putting the farmer out.

I know that, but you may be giving a job to somebody else, somebody who works in an electrical factory or a textile factory?—No. When you take the purchasing-power from the working-class you are going to disorganize the whole economic position.

Well, do you agree with me, then, that there was a reduction in purchasing-power in England when naval expenditure was cut down?—Yes. I quite agree with that.

I am not saying that I agree with that, but you do?—Yes, I agree with it.

What proportion of our production in New Zealand is exported?—You have probably got the figures, but anything you say I will agree to because I am not particular about that.

The reason I ask is this: You said that it did not matter about what we exported. Let us get down and do the job at home?—First things first. What we have to worry about is our unemployed here. Get them employed. Get them put in the position to buy the necessities of life. A man's first duty is in his home.

You have talked about President Roosevelt to-day. He admits that some of his problems are due to the low price for wheat in the world's markets, and the low price of cotton in the world's markets. Do you agree with that too?—Yes.

Yet those low prices have nothing to do with our prosperity?—All these things reflect on one another. Once you start to allow your own body system to get into ill health you will be bound to have all kinds of germs attacking you and all kinds of sickness. Keep the body whole politically, and you will be starting to get the world all right.

So that world prices have an effect on our economy just as much as they have on the American economy, or perhaps more?—Well, world prices will have an effect.

You did not admit it to Mr. Lye. That is why I am asking?—You want to go to the extreme. What I want to impress upon you gentlemen is, begin at home; start and see that our eighty thousand people get the food and clothes which we produce here in New Zealand.

You stated that we could do without our imports if we liked. Do you think we could go on exporting if we did without our imports and did not increase our overseas debt payments?—Certainly not.

But you made that statement. That is why I am asking you?—Of course we can do without wireless sets. We could do without motor-cars. But I say we do not want to do without them. We want all the amenities we possibly can, and the more amenities we bring in the more exports we will be able to send out.

Exactly, but seeing that you have made that statement, if we did without our imports we would either have to increase our foreign debts or we would have to cut down our exports?—No. You could go without boots if you wanted to. But you do not want to. But the position is this: When you come down to tin tacks we could go without a lot of things. We could get down to where I said the Shetland Islanders got down to, living on 1s. 6d. a week. But we do not want to get down to that. We want to get into the position that we can improve our importations and by improving our importations we will improve our exportations, because we are putting the people who make our imports in the position to buy our exports.

It is really a difficulty which comes first. Are we going to increase our imports, and that will mean that our exports are increased?—Work them simultaneously, so that they will be balanced.

AUCKLAND, 20TH MARCH, 1934.

Statement of Mr. H. G. R. MASON, M.P.

It is the pain, misery, and injustice arising from the defects of the present monetary system which prompt thoughtful men to devise a better. Men do not seek to paint the lily, to gild refined gold.

Recently certain defects of our monetary system have obtruded their unhappy result with great insistence. Two palpable defects are outstanding ones, viz:—

1. That the system in ordinary circumstances leaves the great bulk of the people without sufficient money to purchase and enjoy the immense wealth of the modern world; and
2. It creates only money of which the real value varies through a wide range from time to time, with the result that there is injustice as between classes, and in particular as between debtor and creditor.

To consider the first of the foregoing defects of the present system—its inability to supply the bulk of the people with purchasing-power—it is to be noted that a great change has been brought about in the world by modern methods of production. We now hear of the problem of overproduction. Previously the vast poverty of the world was explained as being due to insufficient wealth. Theories were invented to explain this supposed phenomenon of which perhaps the most famous was that of Malthus, which asserted that population always tended to grow faster than the means of subsistence, and hence that there must in the nature of things always be great numbers of miserably poor and destitute. When such doctrines could be accepted it was natural to accept a financial system which

created money to enable commodities to be produced, and disregarded the need of money to enable commodities to be consumed and enjoyed. With to-day's surplus production glutting every market of the world, with restrictions, quotas, quantitive regulations on every hand, the need becomes clear and urgent of creating money for the purpose of the consumption and enjoyment of what is produced.

The present system cannot create money for that purpose. Its money has its origin in bank overdrafts. That money is created by the banks, is the explanation given by the head of the banking world, the Deputy Governor of the Bank of England, Sir Ernest Harvey, giving evidence (page 22) to the Macmillan Commission on behalf of the Governor and the Bank. The method appears clearly in the procedure used in raising the war loan in New Zealand. The banks arranged to advance £85 to any customer taking up £100 war bond. If the customer had £15 credit, his cheque was honoured, leaving him £85 in debit, and the £100 was credited to the Government. Thus the overdraft produced the credit. The credit was the end, the result. Had it existed in the beginning there would have been in this case no overdraft.

Reference to page 23 of the last (January, 1934) issue of the *Monthly Abstract of Statistics* issued by the Government Statistician shows by far the greater part of our money is created by the banks. We there see that on 22nd January the deposits not bearing interest—that is to say, available as ready money (which are in law and in fact nothing but debts owing by the banks)—amounted to £21,250,000. Bank-notes in circulation were £6,250,000, and even if £3,000,000 be added for silver and copper, the bank deposits are thus much the most important part of our ready money. It is thus clear that we are dependent upon the banking system to create the money we need.

It is clear that the money created by the bank is created in the course of a loan transaction. This involves a debt and interest. No debt, no money, is thus the rule, and thus no money is created without interest. It is clearly not feasible to use for enjoyment the money thus created by the bank. A consumer who buys an article for consumption and enjoyment, say, a loaf of bread to eat or a pair of shoes to wear, exchanges his cash for an asset which vanishes. His debt, however, does not vanish. On the contrary, it grows by the addition of interest.

Hence it is that, although banks readily and invariably intensify the depressions which occur on the cessation of expenditure of money for war purposes, it is not easy for banks to raise us from the depression, for consumers are required, nor would it make any difference who owned the banks so far as this is concerned, for money lent at interest, whether much or little, cheap or dear, to one man or to another man, must of necessity be for what is called "reproductive purposes," as opposed to the enjoyment of what is produced. That is why the Governor of the Bank of England, as reported in a well-known statement, could see no daylight ahead.

There is a second limitation imposed upon us by the creation of money in the present system. If the bank's customers use an increased amount of money to provide for increased production, they must in the aggregate raise it on overdraft. In the prices of the goods they sell they must include the sums paid to the bank for interest. As the bank's shareholders have not yet the joyful news that the bank's earnings of interest have increased, and will not have till next annual general meeting, this extra interest is not expended or otherwise put into circulation by them by the time the goods come upon the market. Even if the goods are not sold till after the next annual bank meeting, the shareholders will probably be so impressed by the Bank Chairman's invariable speech to the effect that only hard work and thrift can save us in this age of plenty that the extra interest will be saved, not circulated.

The money required by the manufacturer as the price of his goods thus exceeds the amount distributed and available to the community. This must result in some goods remaining unsold. A cessation of production must follow, with unemployment and all the other evils of depression.

Any improvement in our financial system therefore which proposes to confer practical benefits must deal with the two great evil products of the present system, viz :—

(*a*) Instability of price-levels ; and

(*b*) Tolerance of the existence of warehouses and shops everflowing with unsold goods, of unemployed ready to render every service—while at the same time the people are hungry, unclad, suffering and worn with anxiety for lack of that money which would be all sufficient to enable them to come by that which they so much need and which exists in so much abundance.

That these defects are inherent in the present system is seen by a reference to the history of the last hundred years. A period of falling prices lasted from the close of the Napoleonic Wars till 1849. Another such period, the so-called depression of the "eighties," lasted from 1875 to 1895. Another marked sudden fall occurred in 1908–9, another in 1922. In between these falls there were rises. The prolonged misery and degradation of the people in the first of these depressions is a well-known feature of history. The gloom of the second is remembered by many yet living. It is interesting to notice the similarity between the monetary phenomena of the depression of the "eighties" and that of to-day, showing that the monetary system behaved in those days as in these, and that its present behaviour is not due essentially to war debts, reparations, customs barriers, quotas, economic nationalism, moratoria, or any of the dozen or score of present-day problems which separately or collectively are put forward as the explanation of its misbehaviour to-day. The system does not stand the test of time.

It has to be observed that what enables the banks to create money is the fact that they are substantially the sole reservoir to which money can go. If in the case of the war loan the Government wished to draw its whole £100 at once in cash, the operation could not be performed, for the only cash in the transaction was the customer's £15 deposit, or so much of the deposit as was covered by cash. But as the Government's £100 was spent the persons to whom it was paid had only the same banking system to deposit it with again. Only a small percentage of it was out of the bank in cash

at the one time. Thus it comes about that with a little cash a bank can create a large sum in its books and find itself able always to honour all demands made upon this sum in practice, for the money paid out in respect of it has no other permanent home to resort to save the bank. Where there is a central bank the trading banks are bound to deposit with it a fixed proportion of the moneys deposited with the trading banks and that takes from the trading bank and hands to the central bank the power to create money. So by requiring the banks to hand a fixed proportion of their deposits to the Dominion Treasury, the power to create money can be taken from the trading banks and handed to the Treasury.

If the power to create money be so transferred from the banks to the Treasury, money can be created for enjoyment of the world's wealth. The Treasury is not concerned to make interest on the money it creates. As the banks at present can create money without limit if sufficient justification appears—namely, security and interest—so could the Treasury for a sufficient but different justification—namely, the purchase and consumption of the world's abundant wealth.

I suggest that money so created be disbursed as follows :—

(1) To all citizens over fifty-five years of age, an annuity giving an ample living according to the standard of average citizens without restrictions on account of property or income. From the Population Census of 1926, Volume IX, Industrial and Occupational Distribution, page 94, it would appear that there are 82,299 males over fifty-five years of age. This approximates to the number of unemployed, and is less than the war-time Expeditionary Force. If we can afford to have that number of men of mixed ages unemployed, or could afford to have that number of young men overseas, we could afford to have that number of older men retired from remunerative employment. Such retirement would provide the opening young men now desire. Leisure with happiness would take the place of unemployment, want, and anxiety.

(2) To increase the amounts payable to the blind, and other pensioners, to widows, to increase family allowances, and to make payments to cripples or other incapacitated citizens, all conformably with the standard of the foregoing superannuation payments.

(3) To pay to all producers such sums as raise their income to the same figure as if the price of each wholesale commodity produced in New Zealand were the same as the average during the seven consecutive years prior to the depression.

4. To prosecute necessary public works.

There is a saying that 95 per cent. of the problems of business are problems of salesmanship. The purchasing-power distributed by the foregoing method should dispose of the greater part of these problems.

As always, taxation would require approximately to balance disbursements. In days of prosperity, when much money circulates, nominally low rates of taxation produce large gross sums. Any adjustment would require to be made in the light of results and experience, as at present.

If any difficulties were experienced with exchange it might be dealt with by rationing the exchange, and in such rationing preference might be given to imports by classes. For example, essential raw material, such as phosphate, might have a preference over what could be locally made, such as clothing.

Witness : Mr. H. G. R. Mason, M.P.

Mr. Mason : Mr. Chairman and gentlemen, I do not propose to enlarge upon my statement. I have tried to set it out as clearly as possible, and I have tried to confine it to what I believe to be the vital elements which one must consider if one is thinking of the monetary system and possible changes from the practical point of view. I have tried not to go far into theories of any sort, but to base everything upon those facts which are within the knowledge of every one ; and if the Committee has read the statement, then I think I might simply leave it to the Committee to put any questions to me which they please.

Dr. Sutch.] I have one or two questions, Mr. Mason. You say that under ordinary circumstances the monetary system leaves the great bulk of the people without sufficient money to purchase and enjoy the immense wealth of the modern world. You do not mean the economic system ?—No. I mean the monetary system.

You do not think it is the fault of the economic system ?—The two cannot altogether be separated, of course ; but in times of depression, it is the monetary system.

So you admit the booms and slumps ?—Undoubtedly. I conceive those to be essentially the product of the monetary system, and the proof of its evil, or one of its evils.

Booms and slumps would not possibly be a function of the economic system—" function " in the mathematical sense, I mean ?—I do not know that life can be divided into watertight compartments.

Our financial system is part of our private enterprise system, is it not ?—It is.

You say that, under ordinary circumstances, there is not sufficient money ; but these things have obtruded themselves just recently. Do you think that in the past they were not evident ?—They have obtruded themselves recently with more insistence than previously. We know, of course, that we have cycles, and this is not the first cycle. We have had that sort of thing frequently enough in the past.

Do you think there is a chronic deficiency ?—Chronic deficiency ?

Why I use that is this : the Douglas terminology claims that there definitely is ?—I know that. But I have not based anything on that proposition.

You do not believe in the A plus B analysis ?—I am not basing anything upon it.

Do you think it is a correct analysis ?—I do not feel called upon to discuss that which I may not understand exactly as it is intended to be understood.

Yes, that is everybody's difficulty.

Captain Rushworth : Not everybody's.

Dr. Sutch.] I was suggesting that it is difficult for many people to understand what is propounded ?—I have seen the A plus B theorem set out in one of Douglas's books, and I believe that as it appears there the statement is correct enough ; but I do not think that the proof that there is given is so complete that the matter does not need to be followed up further before one can see that the subject has been exhausted.

I see ?—But still, I am not basing anything upon that.

I realize that ?—In this phase of the economic cycle that gives us trouble there is that lack of purchasing-power which is claimed by the A plus B analysis.

You state that the extra interest—that is, the way annual bank dividends are paid out—is not expended or put into circulation in time to meet the goods that are coming on the market ?—Yes.

In view of the fact that purchasing-power is a flow and that goods are a flow, do you think that matters ?—Yes, decidedly it matters. They may all be flows, but the flows vary in volume all the time.

Yes, but in this particular case, if I know that in a couple of months' time I am going to draw a bank dividend, and I wanted something now, I would not hesitate to buy it ?—But the point I am making is this : I do not know that I am going to draw an extra bank dividend in two months' time.

You mean that—— ?—The extra goods are there, but I do not yet know that there is going to be an extra dividend.

The man who invested in the shares did so on the assumption that bank shares would give him a fairly steady return ?—True. But the point I am making is that the goods will increase in quantity before it is known to shareholders whether that fairly steady return on bank shares will increase.

That is typical of our economic system ?—Of course it is.

We produce goods now. We do not know even whether we are going to sell them. I was wondering why you especially took that bank share example ?—There was no special significance in that. It was simply to make the thing concrete, that is all.

And you would definitely support the statement that the money required by the community does exceed the amount distributed and available to the community. You would say that this was true, and always true ?—I do not wish to say that that is always true. I say that it can be and is often true.

That is a different matter ?—And it is when it is true, then we have trouble ; in times of boom it may be different.

Yes. You say the system does not stand the test of time. Here, again, you have a well-known fact that the system did ?—I would not say that. My statement was meant to express the contrary.

It is a definite statement. Have you to say that it is the conjunction of the economic and financial systems which will not stand the test of time ?—As I say, I am not dividing life into watertight compartments.

In the next paragraph you say that the banks can and do create money, that the banks do not create credit against the cash they hold, but against produce which is going forward to the British market on the assumption that it will reach a certain price. The amount of cash they advance varies with the English rates rather than with the amount of cash they hold ?—I think the cash varies very little.

No. I just wanted to reverse that point to get greater accuracy. The cash does vary from time to time. The cash held by the banks ten years ago was probably greater than to-day ?—Yes.

You say that money has no other places to revert to than the banks. Where else would it go ?—Anywhere.

That is not blaming anything on the banks, is it ?—There is not a word of blame in it.

What I want to get at is this : Do you think it stays in the bank ?—No, it comes out and goes back. That is what I say.

But the fact that it goes back to the bank does not mean that it stops there ?—Not at all. The point I am making is that it cannot permanently run out and leave the bank system dry, because it has no other place to run to.

You say in discussing this question,—

> To citizens over fifty-five years of age an annuity giving an ample living according to the standard of average citizens without restrictions on account of property or income. From the Population Census of 1926, Volume IX, Industrial and Occupational Distribution, page 94, it would appear that there are 82,299 males over fifty-five years of age. This approximates to the number of unemployed, and is less than the war-time Expeditionary Force. If we can afford to have that number of men of mixed ages unemployed, or could afford to have that number of young men overseas, we can afford to have that number of older men retired from remunerative employment. Such employment would provide the opening young men now desire. Leisure with happiness would take the place of unemployment, want, and anxiety.

Well, we carried on without a great deal of discomfort during the war ?—I realize that we were very prosperous during the war, but that means that we did not pay for it. We borrowed to do it. We had to let England pay for it.

We certainly did increase our debt to a tremendous extent ?—In what way ?

Our overseas debt. From £8,000,000 you increased it to £27,000,000 overseas. We really could not afford the war ?—The overseas borrowing was not tremendous.

Also in New Zealand we were getting extremely high prices for our produce. You forget that element in the situation ?—No, I do not. All prices went up during the war owing to inflation.

But the farmers were receiving 2s. 6d. per pound for their butter during the war ?—But imports also rose in price. I can remember £100 per ton for roofing-iron where previously it had been £22. I can remember copper wire used by electricians went up to £80 from £56, then I think it went to £120, and even higher.

I agree with that. We can cite these examples for ever ?—I remember some of those figures.

The position in New Zealand is this, that it is the export price that matters ?—And may I be permitted to point out that these high prices for imports may explain the increase of our overseas debt during the war, and it may be that we did carry on during the war in such manner that on pre-war prices the overseas indebtedness would not have been increased.

I do not think so, but we will never be able to find out. Export prices vary in this country according to import prices ?—Well, if the export prices go up we cannot discuss the matter of how far we might pay our way unless we also discuss the extent of the import price rise.

If export prices go up, New Zealand is more wealthy because of that fact ?—Yes.

So that my point is correct; the fact that when our exports went up, even if our import prices went up to the same extent, New Zealand was better off ?—That is only on account of interest payable overseas by New Zealand. When all prices rise the amount of that interest expressed in goods becomes relatively less.

That is the general principle. As I intended making this point, I tried to get some information from the Government Statistician. I tried to get those facts, but I could not get it. I am going to pursue that further when I get back to Wellington ?—I was saying that roofing-iron at £22 a ton went up to £80 and £100 most of the war-time. I can remember that. Those factors are far higher than the factors by which prices of our products were multiplied.

You would have to get the total on each side before you could make any generalization on the facts. It was just the general principle I wanted to get at. Have you made any computation as to how much money your proposals will need by the issuing authority ?—No.

You have made no calculation ?—None at all.

I notice you say that taxation would require approximately to balance disbursements. By that you mean that the money would have to be paid back ?—Yes. To prevent inflation it would have to be paid back. At present we do not do that. We borrow from time to time, but at any rate taxation would be approximately the same as expenditure to keep the price constant.

Just one other thing; a definition of necessary public works. What would you mean by necessary public works ?—That would be determined by what the Government and the people considered to be necessary public works.

What elements of cost come in ?—I do not understand that.

I mean, you have got the Midland Railway, and it costs a lot in capital equipment. Its returns are doubtful—that is, its costs may not be covered. That is what I mean. Would the cost element come in ?—I am not putting forward my suggestions as supplying only money enough for reproductive purposes. If public policy decided that a public work was necessary there is no reason why it should not be gone on with. For example, a Courthouse. I do not know that one ever thinks whether the fees paid would pay for the Courthouse. For present purposes, from my point of view, I am not differentiating. That is a matter of public policy.

But you would get the return in taxation any way ?—Or otherwise.

Or some other manner. You would complete the circuit, you mean ?—I am not saying that the question of returns should be disregarded. I am simply saying that that would be a separate consideration.

Have you made any decision as to how many of these disbursements you would not require to be returned. You say that approximately disbursements would have to be balanced. That means that as far as is humanly possible it would have to balance. Is that what you mean ?—I would take the price-level as the test, and I suggest that if the money that was distributed was not ultimately got in in taxation or fairly soon, the price-level would tend to rise and therefore it would be necessary to impose taxation, with that end in view. I am simply mentioning that fact in case somebody thinks that by creating limitless money limitless wealth can be got for nothing. That is the only reason I put that in.

That is quite clear and you would have an Import and an Export Board I suppose ?—I do not know that one would want the export one for its own sake. One controls or deals in exports, or controls them in any way primarily, I suppose, with a view to securing the control over the imports. I suppose that would mean an Export and Import Board ultimately.

Would you have any other greater control over our economic life ?—I am not suggesting that this solves all our problems. There will be innumerable problems to solve after those we have mentioned. I am simply saying that these are the important present problems.

The Chairman.] Following up that question that Dr. Sutch raised about the retirement of all men fifty-five years of age, is not that rather an early age for a man to retire ?—According to present ideas it is, but with the tremendous surplus production of the modern world, I am afraid that we shall not know what to do with our produce if we keep men working until very late in life.

I see the number here is 82,299. What would you pay those men ? It is a compulsory retirement is it not ?—I do not say that one could have a compulsory retirement straight away. There would be a difficulty about compulsory retirement. There might be some men of special skill whose services might be very necessary in certain spheres.

It would be rather costly, would it not ?—It would cost nothing really. It would mean a great deal of money but that money would enable them to use up the surplus production of the world which is very often going to waste to-day.

I was just wondering when I was reading this, how would members of Parliament get on ? Would they be compulsorily retired at fifty-five ?—I would give them a few years' grace.

Then, you follow that up to increase the amount. You know, the many friends we have there would be sorry to part with us. To increase the amount payable to the blind, and other pensioners. You want to fix that on the ordinary superannuation basis ?—I want to fix it on a high basis.

But you say the standard is on the ordinary superannuation from the different Departments ?—In accordance with what I have said. I have said that the citizens of fifty-five years of age should have an annuity such as would give them an amply living.

Well, what would you say for that annuity ? Say a man with a wife ; probably his children would be old enough to earn ?—Exactly. So that he would not require to have the same as a younger man.

Would you say £1 10s. a week or £2 10s. ?—For the couple ?

Yes ?—I would not give the couple less than £3 10s. I would not think of less than that. I should hope it would be a good deal higher, but certainly not less than £3 10s.

Of course, to pay all the producers such sums as would raise their incomes, that would be paid in paper money, would it not ?—I suppose they would get a cheque for it.

Yes. I know you would issue money would you not ?—Yes. The present issue of money.

Mr. Langstone.] You mean the present method of issuing money ?—Yes. I notice you mentioned about the soldiers who were maintained while the war was on. I suppose that really in physical things the war was paid for as it was being fought ?—Yes, undoubtedly.

And that our debt system of money has only given those who allegedly loan money a mortgage on future production ?—True. But the point that Dr. Sutch made refers not to the internal debt which would have no significance at all, but his suggestion was that we borrow from overseas. That, of course, is outside our economy, and he suggests that that position was worse than appeared because our export prices were high. That is why I explained that, on the contrary, the prices of our imports from overseas were much higher as I remember them. The probability was that on reducing those to the ordinary basis of values we did pay our way.

When you said that goods remaining equal, exports and imports at the higher price-level would make us more wealth, you meant—— ?—I meant that the overseas interest would sink into a smaller figure by comparison. I presume that that is what the doctor meant.

And even internally, a higher price-level would restore the level between the debtor and the creditor in the form of a contract or agreement ?—That is the purpose of suggesting that a previously existing standard should be restored. That is the significance of it.

Beyond that, the question of a price-level—— ?—Has no significance, so long as it is not varying all the time. The proper price-level is the price-level on which you are for the time being.

Now of course, there is no such thing as a natural price-level is there ? There has never been a natural price-level ?—No.

We have got the unemployed, we have got the old people, and we have got the young people coming on, which is possibly the most urgent need. By releasing the men of fifty-five on an annuity you are opening the door of opportunity to the young people. Is that the idea ?—Yes. That is the idea.

You pre-suppose that it is far better for the older people to be in retirement than for the young people to be forcibly kept idle ?—For a number of reasons, very obviously. First of all, for reasons of character. It is an appalling problem to-day to see a young boy idle. A little idleness at that period of life when his character is being formed, may be the ruin of his life, whereas at fifty-five a man's character is formed. You do not need to talk about ruining his character then.

You believe that every young person should be given an opportunity to express themselves in some trade or calling or undertaking which makes for good citizenship ?—Yes. And it is in accordance with the order of nature that the young people should be given every opportunity of expressing themselves and developing vigour and energy and strength in working, and that older people should take it more easy. It is unnatural, the present position of affairs, hideously unnatural, I suggest.

By this method, then, you would be putting the income or purchasing-power into the right pockets, the people who are going to use it for buying things that are on the market ?—That is the essential point of what I am trying to explain, that the money should be provided for people who want to buy, to enjoy the consumption. That is the main purpose of money from my point of view.

So that by just a readjustment of society you would not have any more unemployed than you have got now. Only you would redistribute so that the young people would be on and the other people would be off ?—That is so.

And really the strain would not be as great on us as it was at the war-time ?—That is so.

Is there any relationship, do you think, between what we call our till-money, notes and that sort of thing, and the general turnover of the business ?—The till-money is in a sense unimportant.

It must have some relationship to it, possibly 5 per cent. or 10 per cent. ?—Well, the figures are something like this, that when we have a maximum of activity, that was during the war ; I think there was then one peak, and after the war there was another peak. You had about £8,000,000 worth of notes in circulation. To-day I think you have got about £6,250,000 in circulation. Those figures, I think, answer your question as to the limits within which it varies.

What I want to know is this, that if its relation is 5 per cent. to our general turnover, then £2,000,000 reduction means really £40,000,000 reduction or more than that ?—Yes. But I think the 5 per cent. would be inadequate. I do not know what it is in New Zealand. We are not given those figures, and I do not see that there is any available, but it is commonly said in England that the cash involved in commercial transactions amounts to 0·7 of 1 per cent. of the total turnover.

So that it means, the mere fact that we see a reduction of our notes (because the banks do not stop notes from going on the market if there is a demand for them) denotes a tremendous reduction in the general turnover of business ?—Undoubtedly, but I have tried to see if I could see those figures, and though they give the figures now they do not seem to have done that in back numbers of the

statistical publications, so it is hard to make a comparison. But there must be an enormous difference.

The getting into circulation of this money, you would do it through the ordinary channels that it is done through to-day, like our Pensions Department?—Unfortunately, one can hardly speak of that as the ordinary channel, because so little money is disbursed that way by comparison with what is lent for reproductive purposes.

I did not mean it in that sense. I meant the facilities are there?—Undoubtedly. It is not a novel method.

Do you think that there is any relationship between the national income and deflation? In 1929 we had £150,000,000 supposed to be national income. To-day it is between £80,000,000 and £90,000,000?—Of course that is a feature of the deflation.

And in 1929 we did not have too much income. We had a vast number of our people, ordinary working-people, who did not have too much money then?—In 1929 there were many thousands of unemployed.

The Chairman: Very small then, was it not?

Mr. Langstone: About ten thousand.

The Chairman.] Less than that?—There was a big jump when the Act went through, but I remember in April, 1926, there were a thousand unemployed in Auckland. The thing just started then.

Captain Rushworth.] The figure of three thousand unemployed was used frequently in the session of Parliament in 1929?—Well, in 1926 there were a thousand in Auckland, because I remember a deputation to the Minister of Labour the very first week that I was elected to Parliament, and that was in April of 1926.

Mr. Langstone.] The question of the guaranteeing of the price-level, that would mean that if the State purchased or paid the farmer through the ordinary channels, they would make available to a dairy factory on the production of butter, the amount of credit available to pay by cheque to the ordinary supplier?—That would be a convenient way of doing it.

It would mean, then, that the goods that went overseas would be the property of the State?—Not necessarily, but I think you would find that you would quickly have to interest yourself in the product of those goods because of the exchange question.

That is what I was coming to. If those goods became the property of the State exchanges in London would belong to the State?—Yes. I think you would find yourself compelled to do that to ration the exchanges.

That is to say, they would take up the operation of that Board that was mentioned by Dr. Sutch, the Export and Import Board. Now we come to two positions. You have paid the farmer considerably more in New Zealand money on his production than possibly you are going to get overseas. I presume that money will be spent in New Zealand. It will only be spent in New Zealand?—All of it, yes.

That would give a revitalizing effect to all our industries, would it not?—That is what I am counting on. Certainly it would restore the position.

Then, the natural result would be that you would get increased production almost to the value of the increased prices that had been given to the farmer. Leaving imports out of it altogether, the increased volume of production from our factories and various other avenues would almost balance up the increased prices they would give the farmers?—The increase in the industries outside the ones that received that benefit, yes, certainly.

So that really you would have a two-fold benefit. You would give the farmer the income to meet his commitments, but that would be reflected in a bigger increased production, so that we would have increased wealth from that fact alone?—Undoubtedly. It is not merely for the farmers' benefit that the subsidy is given, although of course he comes into the scheme. It is for the benefit of everybody. The money goes on and on. It is the life-blood of the whole social system.

The reason why you give the farmer a guaranteed price here is because at the present time he is the victim of any jugglery that goes on in the markets over which we have no control at all?—That is so. But when we speak of that reviving industry I want to insist on the payments to the old people as being the most important element of all, because it is there always, irrespective of what happens to the price-levels.

That is purely consumers' capital and income, outside of production?—Yes. And it is the most essential element of all, because whatever happens to prices or anything else those payments are inevitable, and consequently there is the consumers' purchasing-power inevitably present in the system.

Therefore, in addition to what we have already said, you would have balances on London which would purchase goods in London to come back into New Zealand, and that extra wealth coming into New Zealand would again make you more wealth in physical things, in addition to what we have already said?—Not more than at present. What I am suggesting will not increase our credit in London one penny.

But I mean to say that you will still buy goods overseas. If you export and get credits there, you must buy back with those credits to get imports to come into New Zealand?—That is what one would normally do.

Do you think it would be advisable to purchase New Zealand bonds in London and cancel them out and pay our debt that way?—Yes. I think that our debts should be worked off steadily that way.

So that Government exchanges going there and the imports not coming into New Zealand, that could be an angel in disguise?—I do not think it is disguised at all. I think it is a very obvious one.

Under the present system of banking such as we have, the banks never reach the great mass of the working-class population. It is something separate, away from them?—That is so.

So that, although you have not mentioned banking here, you have mentioned money, and we have got to have a proper institution to operate it. Any banking would be more in the nature of a people's

bank ?—I am not raising that point at all, because I look upon it as quite a minor point. I do not want to put myself with those who throw bricks at the banks, but the banks leave a gap in our system which requires to be supplied. I am not overlooking the useful work that they do.

The question of the war loans. I notice you mention that they put down £15 and they got £100 of scrip. That meant £85 of purely bank created credit ?—That is so.

Now, the position arises that while they were getting 4½ per cent. on the scrip and the bank was charging them 4 per cent. for the overdraft, there was a margin of profit there, but when the bank-rate went up to 5 per cent. what was an asset returning a profit turned immediately into a liability. I do not suppose you have any idea of how much of that scrip issued in that way which would be held as security by the bank against the loan, has been commandeered or confiscated by the bank because of the raising of the bank-rate on exchange ?—I have no idea at all, but some of the wiser insurance companies who invested in the free-of-income-tax scrip managed to hold on very tight to their large blocks of that scrip.

To-day the amount of money available is generally determined by the amount of money on current account, the notes and the silver, and the unused portion of overdrafts. That is the total amount that is available. We can get the current account deposits and we can get the notes, silver, and copper, but we have got no means of finding out that unused portion of the overdrafts. We are not in a position to tell how much money there is in circulation ?—No. I do not know that the figure is very significant, however, because the rate at which it turns over is a factor which must come into any attempt to find its importance, and that does not come into ordinary banking figures.

But the turnover over the whole community would be an average rate, would it not ?—Very likely.

Have you any estimate of the amount of reduction that has taken place in actual wages from the period of 1929 to to-day ?—No. The nominal reductions give no idea of the real reductions, because so many are working short time. Almost everywhere there is short time worked.

It is estimated that the first general order of the Arbitration Court in the reduction of that first 10 per cent. ran into £12,000,000 and that the first reduction of the Civil servants was £1,390,000 ?—Yes. I have heard some such figures as those quoted.

And to-day there is £30,000,000 less paid in wages and salaries than there was in 1929. Do you think that figure is too high ? It was £13,000,000 the first year that the Act was put into operation, but to-day, owing to short time, more unemployment and less people being employed, and the other reductions, they have estimated that it is £30,000,000 ?—I am not in a position to check that figure.

Now, the income of the farmers owing to reduced prices overseas (to take the increased production into account) is something over £24,000,000 ?—Yes. I should say at least that.

And then, if we take others in the community that are affected, that is about £16,000,000, so that brings us to the same figure, that the national income has been reduced by that fixed at £70,000,000 ?—Yes.

Then it must be able in a diplomatic and judicious manner, to infuse sufficient money and credit back into society to the amount at least that has been taken away ?—That is necessary, yes. One assumes, of course, that the circulation of money that we had in more prosperous days is necessary, and consequently that is the figure to which one would aim to attain.

You think that, if a Government took this matter in hand and utilized its own credit for doing the job, would not serious difficulties arise ?—None at all. I am not suggesting that any one should do anything I could not do myself.

Would you suggest, then, that this money should be a bond issue or should it be just a further issue of money ?—Bonds do not come into this. There is no lending in my proposals.

The question of mortgages will come in. We have a tremendous number of mortgages in New Zealand and if you fix your price-level high ?—It should restore the securities and restore the mortgages to their original value.

In the event of a mortgagor being pressed by the mortgagee because the contract is already broken ; if he was to foreclose, do you think any protection should be given by the State coming in and paying off the mortgagee and transferring that mortgage to the State ?—I think it should be a simple enough matter for the State to find money to do that sort of thing.

Would there by any dislocation or upheaval in that ?—Apart from that we have a moratorium at present. I do not see why that should be taken off before it appears safe to do so. I am not suggesting that that mortgagor should instantly be deprived of that moratorium.

Do you think that such a system as you have outlined with further amendments could readjust our economic system, both internally, in regard to the internal requirements, social and economic, and also our external trading relationship with other countries ?—Yes ; I am satisfied that the proposals I have put forward will dispel the depression and create no difficulty that cannot be adjusted with the utmost simplicity.

The question of our trade to-day is a matter of selling either for gold or sterling, and because we have a debt we are more or less compelled to do it that way to satisfy our bondholders overseas, but accepting that operation, would it be possible to enter into a trade reciprocal agreement with other countries on a goods-for-goods basis ?—Very likely, but it does not do to count too much on that because one is really to a certain extent substituting barter for buying and selling, and we know that internally the buying and selling has been a great advance on barter. Barter between nations may be convenient, but it could not entirely solve the problem, because there would be some countries where we would require to buy things which would have a demand for nothing of ours.

Even leaving out the reciprocal agreement and saying that they will not agree to that, even then the overseas prices have very little to do with an internal price-level ?—Unfortunately, as the monetary system is constituted at present, a variation in overseas prices gives an instant shock to us here, but that need not be so, and if these proposals were adopted it would not be so.

Because of your price-level which you fix ?—Yes.

If the argument that overseas world price-levels is the determining factor, you would have thought that the country would have been the determining level of prices; that countries like China, Japan, and India, very cheap producing countries, would have been the level instead of London ?—Certainly.

But that has never happened. They have very much lower standards based upon a lower price-level than in New Zealand ?—That is so.

Then it is evident that it is quite possible to free ourselves from the entanglements from overseas ?—I see no difficulty about that.

The question of the gold we have here sterilized in the banks; do you think it would be a good policy to take that gold and profiteer to the extent of whatever the commodity price of gold is to-day and utilize that in helping to reduce our national indebtedness ?—Yes, it could be used in London or anywhere else.

But our indebtedness is in London ?—Yes. It might be well to leave a small amount for an emergency.

Without going into all the pros and cons, the present system of money has failed to deliver to the people that which it should do and which it is expected to do ?—It has failed; yes.

And naturally it is necessary for the people to become agreed on some—what we might term—fundamental change in our money system ?—I hope we will get the fundamental change, anyway.

Mr. Lye.] I have read your very interesting paper. There are one or two questions I would like to clear up. I presume that you would agree that history shows us that whenever there is a sharp and sudden falling-off in public expenditure either for the purpose of public works or prosecution of war, the general result is a falling-off in demand and a general depression ?—That is right. That is usually intensified by the action of the banks.

What is the first effect of that putting into circulation of large credits in exchange for goods, and then the cessation of hostilities and this expenditure; does not that credit that has been put into circulation for the purchase of goods sharply return back to the banks ?—Yes.

That is an explanation, then, of the growth of deposits which is usually to be found to be existent during the period of a depression ?—After the close of a war like that, many events come between.

The net result ?—Where a depression has developed considerably, there is a period when that happens.

There is a time lapse before that money finds its way back to the bank ?—The growth of deposits comes when the depression is still developing. Those are fixed deposits as opposed to the money on current accounts.

You say that banks invariably intensify the depression which occurs ?—Yes.

I put it to you that when the bank does find that, owing to economic circumstances there is an increase in the flow of fixed deposits for which it has to pay interest, can you imagine that it would be the policy of the bank to pay interest if they were not prepared at the same time to recoup themselves by making fresh advances or loans ?—I suppose they would not, but if you are relating that growth of fixed deposits to my statement on the action of the banks, I am afraid there is a little misunderstanding there.

The growth of fixed deposits is a result of the depression ?—Exactly.

And comes on at a fairly late stage in the depression because no one has any confidence that they can make a profit ?—That is a feature of the late phase. It comes on after the mischief has been done by the banks intensifying the depression.

I would suggest, by the sudden falling-off of this public expenditure and the very fact that the community is burdened with a war debt, internal and perhaps external debt. That that is a feature that very largely contributes to bringing about the depression; the burden of war debts created through the war period and the falling-off in demand for goods immediately on the cessation of public expenditure ?—The falling-off in the cessation of demand for public expenditure is of course a great cause—the war debt is not the cause. The war debt is the legacy from the expenditure of money which raised prices and caused inflation.

We are largely in agreement, but I wanted to ascertain whether your viewpoint was what I think you really implied; whether you attach greater importance to the policy of the bank which you say invariably intensifies the position by, say, a calling-in of overdrafts and restriction of credits ?—They do pursue a deflationary policy. During a war the expenditure required being very considerable is partly financed by loan and partly by taxation. The extent to which it is not financed by taxation is the extent of inflation. Often there is a great deal of inflation. As soon as the war expenditure stops, there is a falling-off in consumptive power; there is a depression and that depression does not seem to go away and the banks say to themselves, everything was all right when we had a fair basis of value and normal price-levels; let us get back to the old values. They then pursue a deflationary policy and intensify the evil which exists.

If that is the case, would you suggest as the remedy an inflationary policy to correct the evils brought about by deflation ?—Yes, but only to the extent of repairing the previously existing position.

Do you know of any system of controlling inflation ?—The banks more or less control it to-day.

Through the exchange-rate ?—Through the exchange-rate partly.

I put it to you that the manipulation of the exchange is the best method of controlled inflation that we have, because immediately it brings about an additional charge upon goods for overseas coming into consumption, which is immediately paid by the consumer and so it helps to create the position of inflation ?—I am not disposed to deny that the variation in exchange-rate may sometimes be helpful, but I do not say for a moment that it is the best way of controlling the inflation.

Would you agree it is a simple way to keep a check upon it ?—I think that variation of the exchange like that is very irritating, and to be avoided if possible.

Any system of controlled inflation must ultimately, through the exchange-rate, find its reflection in an increase in the price-level, and must automatically cease to be of any benefit in the long-run, because there is a falling-off in purchasing-power of the depreciated currency ?—When you say it must cease to be of any benefit, I would not quite say that. If a variation in exchange-rate kept the internal price-level up, it might be important to consider it in relation to the mortgage indebtedness, for example. If that were based on one price-level, and your new price-level was the same as that, that would be an argument in favour of your alteration in the exchange-rate.

Mr. Langstone raised the question of salary reductions. What happens in the case of a sharp fall in prices ? What happens to these individuals who are fortunate enough to have their wages, salaries, or incomes fixed by contract or by statute, such as Supreme Court Judges, heads of Departments, officers of the Treasury ? Does it not have the immediate effect of increasing the purchasing-power of those people's wages or salaries whilst the producer at the same time is getting a lower price for the goods and the produce he has to sell ?—Undoubtedly that is the position. That brings about an unfair state and really a maldistribution.

Yes, but if you seek to create it by reducing the salaries that you have mentioned, you intensify the stagnation and what is lost in the stagnation by the diminished activity is vastly more important than those discrepancies. You propose to retire citizens at the age of fifty-five ?—Not compulsorily.

At the same time it would not be part of your scheme to reduce purchasing-power by putting them out of employment and giving them nothing ?—I would give them a good standard of living, well up to the average.

There is nothing in your proposal to set up a State banking institution or State credit authority, is there ?—No ; I am not talking about that. That might be a good thing, but I am dealing with what I consider to be the urgent necessities.

You say here that as the banks at present can create without limit, if sufficient justification appears—namely, security and necessity—so could the Treasury do likewise, and could issue credit without having the objective of collecting interest ?—Yes.

When the bank issues credit it issues credit against some asset or security ?—Yes.

Then a debt or a charge is against that security ?—Yes.

In the case of the Treasury I presume you would get your credits for the issue for the people you are going to retire, and for education, &c., and also to subsidize the producer, you would really issue that money, I presume, on the taxable capacity of the people to reimburse the Treasury for the advances made ?—Yes ; that is a fair way of putting it.

The State must reimburse itself through the taxable capacity of the people ?—Yes, but the essential difference between what I am proposing and what is attempting to be done at present is this : That at present we are trying to get money out of the pockets that have not the money in them, by taxation, and then we say, where are we going to get the money from ? I am saying, put the money into the pockets and you can tax it out and keep it going round.

There is such a thing that has been referred to by various witnesses as the time lag. In the first instance there would be a temporary inflation to make these advances to those who are retiring at the age of fifty-five, and by increasing the amount of pensioners and the subsidy to exporters, there necessarily would be a temporary inflation until that time lag had expired and the Government through increased activity as the result of this purchasing-power coming into distribution before it could reimburse itself ?—The inflation may have a time lag too. I do not know. If one circulates so much money, I believe that the appearance of that money would instantly secure new production. It would take a lot of money to set the price-level rising very much. It is pretty hard to get any exact ideas as to the extent of these time lags.

I see that you say "As always, taxation would require approximately to balance disbursements" ?—Yes.

That was really the answer I was seeking to get, and I see it is already contained in your statement.

WELLINGTON, TUESDAY, 24TH APRIL, 1934.

Witness : Mr. WALTER NASH, M.P.

Mr. W. Nash : I have read the order of reference of your Committee, and desire to make the following submissions as to a monetary system which will promote—

(*a*) The maximum development of industry and utilization of the resources of the Dominion ;
(*b*) The welfare of the people of New Zealand (which means that the proper utilization of the resources of the Dominion is to get those resources to the people—and the monetary system should be organized to achieve that end) ; and
(*c*) The best machinery for the improvement of the relations of New Zealand with other countries.

The progress of a country can best be measured by the number of its inhabitants who receive the things necessary to their development. The objective of Governments should be to provide such facilities as will promote the maximum development for all individuals within the area under their respective controls. Monetary policy has a major effect on development. The objective of a monetary

policy for New Zealand should be to encourage the maximum exploitation and utilization of the resources of the Dominion. The monetary steps towards rational utilization of the resources of the Dominion would be—

(1) The creation of a central credit authority with such powers as would enable it to determine and organize a monetary policy to attain the maximum utilization of the resources of the Dominion :
(2) The appointment of a National Investment Board to determine the use of savings for the maintenance and extension of production and services ;
(3) Nationalization of the present banking system in New Zealand by the purchase of the existing bank assets at the value certified by the banks for income-tax purposes. (The latest statement of the assets and liabilities of the six banks trading in New Zealand is published on page 985 of the *New Zealand Gazette* No. 23, of the 12th April, 1934.)

The creation of credit and control of monetary policy is the most vital factor in modern agricultural, pastoral, manufacturing, commercial, and business practice, and it cannot without immeasurable suffering and loss be left to the private decisions of private directors for the benefit of private persons. Existing monetary policy in so far as it is associated with banking practice is covered by law. Bankers may not extend their liabilities beyond a certain ratio of some of their assets, and there is nothing to compel them to "go the limit." You cannot compel a bank to advance money. Bank directors are trustees charged to administer a business for the benefit of the shareholders of the banks in such a way as will bring the maximum return to these shareholders. If the interest of shareholders and the community conflict, the bankers must play safe and conserve the interest of the shareholder. Criticism of banks and bankers is easy and popular, but the fault does not lie with the banks or bankers. They are individuals, companies, or corporations, charged by people who have subscribed capital to utilize it and the powers which they have under the law to make the maximum return to the shareholders of the banks. If extension and expansion of loans will pay they will give overdrafts. If contraction or withdrawal of overdrafts looks necessary for profit, they will call them up. I do not think any bank manager or director will call up any loan for which he considers he can collect interest and ultimately the return of the principal, neither will he refuse to make an advance on any project or to any individual, provided the project or individual is sufficiently sound to ensure that the interest on the loan will be paid, and the loan ultimately redeemed. It has been stated that the banks are not concerned with the welfare and prosperity of the country. I do not agree. They are interested, but only to the extent that the prosperity of the country will ensure profitable business. The development of the resources of the Dominion for the benefit of all the people sometimes conflicts with the development in accord with the rules of banking practice which is to give the major benefit to shareholders of the banks. (I might interpolate there and say if you will refer to the banking profits in New Zealand in the year 1921–22, you will find that they were then at their maximum in spite of the fact that those were the worst of the post-war years until we entered upon the present depression.) The loss to the community is so great and the power for individual advantage so extensive that monetary policy should in my opinion be completely controlled and operated in accord with the will of the Government: Provided that the bank officers charged with operating the policy should be allowed to determine the most effective method to achieve the objective of the Government. I do not think there should be political interference with a man charged to do a certain job unless he is not doing that job. He should be allowed to determine how in practice the objective of the Government should be reached. Only at the point when he is working against the objective determined by the Government should he be told to go.

Monetary policy and overproduction: Despite the prevailing condition of the world, I am of opinion that the extent of overproduction is very limited. If overproduction means production of a commodity in greater quantities than can be marketed at a profitable price, then it is prevalent the world over, but a profitable price is largely (not entirely) determined by monetary policy, and under a rational monetary policy the stocks which are now lying idle allegedly on account of overproduction would have been used long ago. If overproduction means the production of commodities in excess of human needs, there never has been overproduction. The maximum utilization of our resources can only be achieved by finding out the requirements of the people in New Zealand, and the requirements of markets for our products overseas and then making the necessary arrangements to supply the markets and meet our own requirements. The method of the present system is to produce a commodity and then try and sell it at a price that will leave a margin after all costs have been paid. This method inevitably results in booms and slumps with speculative profits in commodities and land at one end and bankruptcy and dislocation at the other—with unemployment and distress of workers at both. The better method would be to estimate our national requirements and make arrangements for their production at a price which will include full payment of all legitimate costs—labour, material, &c.

The present World Trend.—The trend of all countries is to control external trade, and the only rational policy for the Dominion to follow is to promote agreements with Great Britain and other countries for the sale of our surplus products and to offer in turn to utilize the credit received from the sale of these products by purchasing goods within the countries to whom we export. This allocation would be limited to the extent that a first charge on the credits from our exports would be to meet the interest and repay the principal of our external debts. (This is qualified by the fact that I think there should be some readjustment of external debts to meet the fall in the price-level since the loans were raised. That implies negotiation, but in any case I think there should be a first charge on our own credits for exports to meet whatever sum is required to pay the interest and redeem the principal of our overseas loans.) The procedure proposed is to estimate our internal requirements, explore

new markets overseas, and make agreements for the sale and purchase of our primary products. The estimated requirements of primary products for internal consumption and external exchange would be ordered through primary production boards at prices determined by negotiation. The operation of the guaranteed price for primary products would tend to stabilize the value of land used for primary production, and a condition of the guaranteed price would be an agreement providing for any subsequent appreciation (other than for actual improvements) of land-values to be paid to the State under these conditions. The income of the farmer would be determined by the price he received for the commodity he produced and would not be dependent on speculative land factors over which he has no control, and for which he is in no way individually responsible. The commodities produced at the agreed price would be exported by the Government, and the proceeds of all sales overseas would be under the control of the overseas credit section of the central credit authority. All external trade would be under Government control. As previously mentioned, a first charge on the proceeds of the sale of exports would be the service of the overseas debt, and the balance would be allocated for the import of commodities which cannot be economically produced in the Dominion. (That would take away the necessity for any protective tariff, but would not necessarily alter revenue tariffs.) The amount of credit allocated to be limited to the sum available from the sale of exports, and the price charged for overseas credit to be sufficient to meet the guaranteed price paid to primary producers. A preliminary to a permanent system of guaranteed prices (to ensure maximum production) would be the readjustment of existing land costs and mortgages. The guaranteed price to the primary producer as determined by negotiation would be linked up with a minimum wage based on the index of retail prices. Summarized the submissions are,—

(1) That the objective of a monetary policy should be the maximum utilization of the resources of the Dominion.
(2) Utilization of resources covers not only the maximum production, but equitable distribution.
(3) The objective cannot be reached whilst monetary policy is under control of the private banks.
Therefore the State through a central authority should take complete control of monetary policy.
(4) That the utilization of the investment resources of the Dominion should not be left to speculative company promotion and other doubtful projects, but should be under the control of a National Investment Board charged with directing the savings of the people into channels most beneficial to the Dominion.
(5) That the national assets of the banks now operating in the Dominion should be purchased by the State at the value certified by the banks for income-tax purposes.
(6) That steps should be taken to promote agreements for the sale of our primary products overseas, and that the requirements of primary products in New Zealand be ascertained.
(7) That the quantities sold by agreements overseas, plus the ascertained internal requirements, be ordered from primary producers through production Boards at a price fixed by negotiation.
(8) That all external trade be under the control of the central credit authority.
(9) That the proceeds of sale of products overseas be allocated as follows:—
First: To meet all charges, interest and redemption of overseas debt:
Second: For imports of commodities not economically produced in New Zealand.
(10) That the agreements for sale of products overseas be reciprocal, and to provide for the allocation of credit to the country purchasing our commodities equal in value to the purchases, less the cost of serving any debts due to such country. (The credit may not necessarily be used exclusively to purchase commodities produced in the country to which New Zealand commodities are exported, but its allocation would be provided for in the reciprocal agreement.)
(11) That the price guaranteed to primary producers be linked to a minimum wage for workers engaged in direct production, commerce, or the professions.
(12) That mortgage and land costs be readjusted on the basis of the guaranteed prices and any appreciation in land-values to automatically revert to the State.
(13) That the duty of the State is to organize productive developmental work for all able-bodied and able-minded citizens, and to pay a price for such work that will ensure a standard of living in keeping with the productive resources of the Dominion.
(14) That world trade and modern industrial development have brought such profound changes to working-conditions and income distribution that failing the provision of productive or developmental work and subject to willingness to work, an income sufficient to maintain good living standards should be paid to all unemployed.

Mr. Schramm.] With reference to the question of political interference, is it possible for those interested in banks to often influence the legislation in their own interests, as against the interests of the many?—I should say that they have done so. I could give you direct evidence where the banks of Australia told the Government that they could only provide credit to the extent of £4,250,000, and that they would require the Government to submit statements to the banks showing exactly how the money was to be spent before they could have it.

Captain Rushworth: You think the administration of the monetary system should be similar to the administration of the law?—To a certain extent, except that a bench of Judges is charged to administer the law as it is written, and is not charged to achieve an objective. The central credit authority

would be charged to so work as to achieve an objective, but the interference with a central credit authority would be as great an evil as interference with the Judiciary.

Mr. Langstone.] The Government would make the objective and the central credit authority would carry out the policy ?—Yes. I do not want to make any very long statement. I personally am of opinion that there is only one possible way in which this country can go forward to a point that it is imperative that it should reach in the interests of the people. We should try to completely control the external trade, find out the way of utilizing our own resources, and then work out some scheme by which all get their share. That implies complete control.

I suppose that you are aware that our present monetary system is controlled through what we call the sterling-exchange standard; that means evidently that the whole monetary business is controlled in London ?—Yes. The credits that are issued in New Zealand are conditioned by the credits received for our exports to Britain and the banks in New Zealand issue credit in New Zealand in accord with the funds that they have in London, and the amount of this credit is determined by the quantity and price obtained from the sale of our exports in Britain with slight modifications on account of overseas loans and debts.

Our export trade is possibly only 40 per cent. of our total production ?—That is right, but I would not say that the banks entirely confine their issue of credit in accord with sterling balances in London, but it is the controlling factor. The banks do issue credit in New Zealand for the production of commodities in New Zealand and the sale of the same commodities in New Zealand.

But we have experienced that any fall in London prices—we are so sensitive in New Zealand—not only affects the income of the exporters directly, but it reverberates through every section of the community and brings almost a collapse ?—I do not see how you can prevent a reaction of that type unless you control external trade and determine your standard of living here by preventing uncontrolled imports having an ill effect on your manufacturing industries—and consequential disorganization of employment. You cannot do what you apparently want to do unless external trade is completely controlled.

Do you think the economic system is made to fit the monetary system through the control of finance in London ?—I do not think you can work any economic system advantageously for New Zealand while you allow the private banking system, which is the prime factor in that economic system, to be the controlling factor.

Do you think, then, that the only one practical way to handle the finance necessary for New Zealand is in New Zealand ?—Yes.

Absolutely ?—Yes, completely. Of course, New Zealand's income is to a certain extent conditioned by what it can get for the products which it sends overseas. If we get a low price for our primary products overseas and their manufacturing price-level is high, at that point we will get less commodities in. Our income is conditioned by the return we get for the produce we send overseas.

Supposing there has been a corresponding fall in goods overseas, you get the same volume back again; it still interferes with your monetary factor here ?—I think that control in the way I have said is the only way to get over your difficulty, but if the price-level in Britain for commodities we want to import falls to the same extent as the price-level of the commodities they import from us, there is no reason why we should not receive the same commodity income as we had before, with the qualification that we have got to pay our overseas debt services on the high-level basis unless there is some alteration.

If we have a public-works policy when imports are high, and we borrow money, that meant that money was cheap and goods were relatively dear; then we come to a period when they are on a lower monetary standard, they have been demonetized, but we have still got to meet the same monetary commitment on previous expenditure ?—To the extent that you repay your interest and capital charges on the high-level basis when your price-level has fallen, you have got to give a larger quantity of goods at the lower price-level for a lesser quantity which you received at the higher price-level. If you borrowed £1 to buy a railway sleeper while the price-level is at 1120, and try to repay it at a price-level of 560, you have got to give two sleepers for the one you borrowed.

When there has been an alteration in the price-level, mainly through demonetization, you completely upset the previous economic fabric and with no pulling-down (if you pull down you have to write off money or contracts), then there is some one in the community that has possibly subscribed to loans and they have got to lose their wealth by that amount, therefore they are that much the poorer, and therefore there is less money by that amount in circulation ?—Yes, if there is the same amount of goods in circulation with less money you get the chaos that we are experiencing to-day. In past depression periods the price-level has drifted down to a low point through hardship and suffering until some measure of readjustment has been achieved. I do not think that this drift is inevitable. It appears to me that under a national economic system it should be possible to control the internal price-level to such an extent as would give a comparatively minor spread between high- and low-level price points which would enable loans to be redeemed and commodities exchanged without many of the existing injustices.

Of course this is not the only slump we have had ?—They are inevitable under this economic system.

Are you of the opinion that banks lend their deposits ?—The advances made by the banks become deposits.

Yes, but it has been stated by professors of economy that they lend their deposits ?—Let me put it this way: Any money that is advanced by a bank for the purpose of bringing productive facilities into being cannot be fruitful unless it has an impact on the actual saved commodities. Any money that is issued by a bank or any one else, at any given time can only be fruitful if it causes people to do something useful, and whilst those people are doing something useful they are living on what has been saved in the past.

Do you think advances have been made by banks for purposes of speculating on the Stock Exchange, buying securities?—I think that one of the prime factors in the crash in the United States was the Federal Reserve Bank's policy of issuing credit which was used by the trading banks to lend to speculators on the Stock Exchange. As an actual fact, when the Stock Exchange boom in the United States of America broke in 1929 the value of securities fell by £10,000,000,000 in a fortnight.

Some one else would get that?—The resulting crash is shown in the United States to-day, and all that that tends to prove—and it is an important point in monetary policy—is that the mere issue of money will not solve any economic problem.

When money is issued that way to purchase securities of that sort, it does not go into circulation for the consumption of ordinary goods?—The point, I would say, is this, that if you are going to issue money you have got to direct it where it is to go, and the only money issued that will be fruitful in the real sense is the money that is going to some one who is usefully employing his time in bringing into being other commodities that are necessary.

Under the present banking system, as you pointed out, it is impossible for a bank to function that way?—Yes, banks are not concerned completely about that; they are concerned about the utilization of their funds in the maximum way for the benefit of their shareholders. That is their trust; I am not blaming them.

They do not care how much gambling takes place so long as they can see a chance of the interest being paid and the capital returned when necessary?—So long as they are comparatively sure of interest and redemption. We have a conservative banking system here that is sometimes beneficial and sometimes harmful, but our banking system is nothing like so speculative as the banking system in other countries; either in Germany or America or France there are more speculative factors introduced into banking policy and practice than there are in Britain or New Zealand.

Comparatively speaking, then, the administration and working of the banks in New Zealand is very efficient and does the job as capably as it is possible to be done under the existing conditions?—For the benefit of shareholders, yes.

Do you think that under the present monetary system there is sufficient money in circulation to meet the requirements of the community?—I do not think the bank will ever refuse an advance, when they get the security, but security is not always necessarily the main factor in determining whether money should be issued or whether credit should be issued. I think, under the existing state of conditions in New Zealand, with a tremendous lot of care in watching it, it would be beneficial if perhaps £4,000,000 or £5,000,000 extra was issued definitely to put the unemployed into productive and developmental work, to pay them something to enable them to buy the things that we already have in stock. If their demands exceed the quantity of the goods we have in stock at the present prices, then automatically the benefit accruing from that would be mainly for those given the employment through the extra note-issue and through a rise in prices might be detrimental to the remainder of the people, workers and others.

We will assume that the Government discounts with the banks £1,000,000 worth of Treasury bills at 5 per cent. They get £950,000, but when they collect taxes from the people to redeem the Treasury bills they have got to collect £1,000,000?—You mean, when they issue Treasury bills at a discount they take on a liability not only of the money that they receive, but for the discount as well.

The Government must do that, must they not?—Yes. If they issue at 95 per cent. they take a liability for 100.

Where is that other £50,000?—We have got to find that.

Is it in existence to be found?—I do not know what you mean by "in existence."

If we are getting a shortage of money we have got to collect the full amount out of the ordinary currency of the country to pay back the banks. Then, there is never in existence the amount of money to pay the banks?—If the bank pays to the Government £950,000 for £1,000,000 worth of securities, they at that point have £50,000 which they can distribute to their own shareholders, and the £50,000, then, is with their own shareholders and £950,000 with the Government. There may be a lag in between, but it is ultimately there.

Let us confine it to the one system. The only money we have is this £1,000,000, but there is only £950,000 in circulation to do all our trade, but we have to collect in taxes to pay back £1,000,000. How can we get that other £50,000?—I do not know how that can be done. There is only one transaction. The question you are asking is, What would happen, presuming that the Government discounted £1,000,000 of Treasury bills with the bank for £950,000? The Government at that point have £950,000 cash with a liability of £1,000,000. Then the other £50,000 is held by the bank as a credit on its trading. The £50,000 that they do not pay to the Government will go to the bank's shareholders.

They cannot redeem this £50,000 worth of debt then?—But the bank's shareholders have got it. That £50,000 that the bank does not pay out to the Government is paid out by the bank to somebody else, and the Government pays its £950,000 out to somebody else, and then out of the production they collect certain sums of money to enable them to redeem the £1,000,000. The £50,000 in the ultimate goes into the same pool as the £950,000.

At the end of the year, when they have gone through all their ramifications, they may say, "We will create a reserve fund with that £50,000 which is held by a debt." That means demonetization?—Yes. To the extent that they withdraw the £50,000 from circulation automatically the price-level is affected.

Then we come to the question of reserves. You know from your experience that there are possibly many millions of reserves that have been demonetized—that is, that the book value of them, the ordinary value, is nothing like the value they would be if they were sold or brought into a form of revenue. Does that not create a shortage of money in the community?—Yes. There could be a

shortage of money through the banks not advancing the money that they have made by way of profit, or obtained in any other way, but the banks cannot make a profit unless they invest their reserves.

If, instead of paying it to reserves, they distributed it in dividends each year, then those dividends would be in the form of currency would they not ?—If they distributed dividends to the people that would spend it in consuming goods, or for the creation of further capital goods, it would be all to the good but if they distributed to the individuals who saved it and did not spend it in consuming, or creating capital goods, then the last state might not be any better than the first. It all depends on who gets it.

I am assuming that when it is distributed in dividends the people who get it are going to spend it ?—Then we would be better off, because we would have a more stable demand for commodities and we would probably produce more.

That would mean that, with the same amount of goods and services in the community there would be a more equal distribution of them owing to the more ready flow of the monetary factor in the community ?—That would tend to be so.

I asked this question in Auckland, and I said, If a bridge were to cost £4,000,000 and were to take four years to complete, that would be an average expenditure of £1,000,000 per year, and we will assume that half of it would be paid in supervision and wages and the other half in materials and that sort of thing. That would be an expenditure of £20,000 per week. Now, when the bridge is completed, unless there are other works to take its place, the labour is demobilized and that amount of income ceases to circulate in the community. Is that so ?—Do not the people who use the bridge get the benefits from it, and do they not pay that £20,000 a week to enable the debt to be served out of their proportion of the wealth that they have created ?

That is another question. Supposing, after the completion of the bridge, there is 5 per cent. to be paid on the £4,000,000. That is another £200,000 a year, so that means £4,000 a week roughly, so that you have got £20,000 less being spent for the payment of wages and services and materials, but you have got an extra amount to find of £4,000 to pay the interest, so that you are really £24,000 short, are you not ?—I think that is a bit involved, and would want a little working out, but unless the expenditure of the £4,000,000 created facilities that were worth £200,000 a year and a little more, then your argument would apply, but if it did enable facilities to be brought into being for the expansion of production and services that made the wealth produced £200,000 a year more, we would all be that much better off, and the monetary factor at that point would not necessarily come into it.

But, of course, a bridge would possibly only supplement another service. It may do away with a ferry service because it is quicker and better to do it over the bridge, so that you kill one service to bring another into being ?—Unless the second service is of more potency and more uselful than the service displaced, then it is absurd to build it.

Mr. Schramm.] The old service might have been uneconomic ?—That is the reason you created the new one.

Mr. Langstone.] But the bridge could not have been built in the first place unless the labour and material and equipment was in the country to do it with ?—That is right. Unless people had actually saved the money which is expressed in commodities the bridge could not have been built.

But, seeing that you have got extra wealth, a tangible asset to that amount, bridges do not produce bridges, like potatoes for instance. If you were growing potatoes you might get a bag of potatoes and sow them in the ground and you might get thirty or forty bags from them, but when you build bridges you cannot go and grow bridges from bridges can you ?—You get two things there. One is that you get more commodities because of the facilities of shifting goods about being increased, and secondly, you produce leisure, because people get over in better time and quicker time.

Now we will come to the Wellington Railway-station which they are going to build. If you spend the capital expenditure in building that railway-station there, you are only going to serve the same people that are served now. The extra money put into circulation in the building of that railway-station and equipment will bring a certain amount of extra money into Wellington. When it is built, and if there are no other works to take its place, then there will be that much less money circulated, so that, looking over the thing generally, in all of our capital expenditures, unless they can be concurrently replaced by further capital expenditures, we get a continual void created. When we build our hydro-electric works, we do not build them every day, and when we have finished Arapuni we will get a lag period of less currency, will we not ?—If the thing produced does not make things better for the mass of the people, they do not get an advantage by the thing being created, but if the spending of £1,000,000 in building a railway-station brings additional conveniences, &c., to the whole of the people, then to that extent the money is well worth being spent.

Suppose that, as a result of all these things, we do produce more wealth ?—Then we are better off.

But suppose that the price-level in London has been made lower, so as to cancel out, demonetize, that wealth, so that it means less money, then are we better off ?—I am of opinion that we cannot do what we want to do in the direction I have mentioned unless we can completely control external trade and establish our own monetary sytem and our own price-level.

What I was trying to find is some of the fundamental faults that are in the present monetary system. If the monetary system is all right, we need not change it. If we can find and prove that there are discrepancies or anomalies or faults, we could possibly build up those faults and make the monetary system right ?—I think that we have got to start at the other end. We have got to complete the control of the monetary policy, because of the fact that you cannot do the other things that are necessary until you do.

The question has been asked, whether we have had to curtail expenditure in New Zealand because our income has been reduced owing to the fall in prices ?—I do not think in that direction that we should. We should go on endeavouring to produce more in New Zealand and if the creation of credit would enable us to produce things that we actually require, not just for the sake of spending money, then to the extent that it did bring new production into being, we are that much better off.

Then we come to this point: If we cannot spend any more than our income nationally, then our income nationally cannot be any more than we spend. Is not that so?—Our production is income.

Providing that it has not been demonetized?—In actual fact, if we get down to realities, what we produce is our income, and if we can facilitate the production of more things by some monetary system, all right, but unless the monetary system does facilitate more production of the things required, then it is not beneficial.

When we produce things we do not barter them. We have got to translate them into money. That is the process that we go through. I have seen cases, in my own district, where people grow cabbages and they send them to Wellington. Now it takes many months to grow cabbages. They have been sent to Wellington, the cabbages have been sold, the grower in Ohakune has had to supply the sacks, pay the railage and the freight, and do the growing and the manuring and everything, and he has got a debit note. He has had to pay for the privilege of growing cabbages and sending them to the Wellington market?—That is inherent in the capitalistic system, and the fault is not necessarily completely monetary.

But, at the same time, you would have many people in Wellington that would like cabbages but could not buy them. Is not that the result of monetary causes?—Not completely. The failure that you are referring to is inside the system. The monetary factor is an important one in the system. The same thing applies to Hutt. I know they send cases of lettuce in and get 6d. for them—twenty-four lettuces—and it costs them probably 9d. or 10d. to grow them, and the next day they will send them in and get 2s. 8d. or 4s. for the same thing. The whole procedure is absurd. We want some rational organization to determine what we want and then set out to produce it. Even then there will be some difficulties and anomalies to provide for.

Dr. Sutch.] When they get 4s. a case is there something wrong with the monetary system?—No. Do you think that it is a question of anarchy?—Yes.

And the only alternative to anarchy is some order, consciously planned?—Yes.

Seeing that the overseas trade is an important factor in New Zealand's economic life, nearly all of our dealings with other countries (you mentioned tea, but coffee and spices and other things that we get) they are pretty well all cancelled out or acquired through London. It really does not matter much. It is a fairly convenient way of doing it, providing that we are able to get the exchange of the goods with the various countries, and even if we made a reciprocal agreement with the various countries that we dealt with, the question of clearing the bills of exchange would still be done in London?—It could reasonably be done in London, not necessarily, but they do it so well there from the clearing-of-trade and bills point of view, and at such minute cost, that probably they would let it go through there still.

Because London, geographically and possibly traditionally, is the financial nerve centre of the world, and they have got all the equipment there for handling the question of the exchanges?—Yes. They do it better there than anywhere else.

So that, when you make an agreement with other countries, it does not mean that we are going to have a *quid pro quo* of trade equal between one country and another?—Not necessarily, but if we went to London and asked them what they would take from us in butter, and they said they would only take 120,000 tons, and our production capacity was 200,000 tons, our job, if we want to raise the standard of living here, would be to go to other countries and say to them. "We can produce 80,000 tons of butter more than we require. We are willing to give you an allocation to the value of that 80,000 tons if you will take it from us, and we will take goods from you of equal value to the butter's realized price."

Would the value be assessed by a London price-level or a Japanese price-level, or would we fix it in New Zealand?—No. We could not fix it. I wish we could. We can only fix a price that we will charge for a commodity outside. The other man determines whether he will pay it or not, and in the ultimate he determines the price that he will pay for the commodity that we have to sell.

I am talking now of a conscious agreement being made between countries, goods for goods. I am not talking of sending goods on to a market and letting them be sold and accepting any price. That is the position to-day. Suppose we said to the Mother-country, "You will take 120,000 tons of butter from us. We will take goods from you. We will measure it in a price factor, in money." But suppose that Japan said they would take 10,000 tons of butter and we would take an equal amount of goods. Would the price-level between London and New Zealand and Japan have any point of contact between one and the other?—I do not think so, except that the price-level in London would determine the price that was being offered for the butter in London, and the price-level in Japan would determine the price that was being offered for the butter in Japan, and the price that we got in the respective countries would determine the goods that we could buy.

The point I am trying to get at is this, that it is possible, in fact it is practicable, for one country to have a low monetary standard and another to have a high monetary standard, and you can still carry on trade with them?—Yes. Quite well. The example of India and China and Japan proves that the lower their price-level and the higher our price-level, presuming they will pay us for our goods according to our price-level, the more we get from them in exchange for what we send to them.

Suppose I buy an article from you for 1s. and I sold it to somebody else for 3d. Then I bought an article from that other person for 3d. because that was the only money he had, and then I fetched it back again and you wanted it and I sold it to you for 1s., would not that square the thing?—It is mentioned in the opening statement, "That the prices charged for overseas credit must be sufficient to meet the guaranteed price paid to the primary producers. Suppose that we had paid the New Zealand dairy-farmers £100 for butter. We sent it to London and it sold there for £80 sterling. We have then got £80 sterling to sell. If people in New Zealand want to buy that £80 worth of sterling, they have got to pay £100 New Zealand for it.

The reason why I am putting that question is that it is practicable here for us to fix an internal price-level for the primary producer in New Zealand currency, irrespective of what prices are overseas ?—I agree with you entirely. I think the price paid to the primary producer here in New Zealand should be determined by costs and other factors in New Zealand, and not be determined by factors overseas.

The farmer in New Zealand is short of income. He is not short of wealth. It is a matter of translating his goods into income, so that he can meet his commitments ?—Yes.

Hon. Mr. Downie Stewart.] When you said that the banks of Australia, when they were asked to advance £4,250,000 to the State, demanded to know what the State was going to spend that on, is that not reasonable when they were responsible to their shareholders to see that the State did not throw the money away on some unproductive work ?—That has quite a lot of reason behind it. I was quoting it to show that the banks were determining Government policy. The actual words used by the banks at that time were, " The States are to ascertain the amounts actually required by them up to a combined total for the six months and to submit schedules setting out their monthly requirements." If the Government of the country is of the opinion that the expenditure of a certain sum of money is necessary for the welfare of that country, then that Government ought to determine whether that money should be available or not, and not a body of men charged with the duty of making profits for shareholders.

While they have that obligation you speak of, it is not unreasonable for them without any appearance of dictation to say to the Government, We want to know whether you are doing unproductive work ?—I think some supervision would be worth while, but for a bank to come to a Government and tell them what they are to do or not to do with the money is simply handing over the power that the Government ought to have. I am not arguing about the banks being right or wrong ; their interest is with their shareholders and if they feel that the advances would jeopardize the funds or the profits of their shareholders, they have a right to make conditions. I am saying that it is not good for the country to allow such a body to determine the policy that benefits the whole people. There is the instance of London ; there is no question that the banks in London, associated with the banks of the United States, discussed with the British Government (with Mr. MacDonald) what the Government must do in certain directions before they (the bankers) would allow them the necessary credit. I think that is wrong.

It depends on what angle you view it from. From your angle that private individuals should not have the power of deciding, that is all right—I do not quarrel with it at all ; but, on the other hand, I approach it from the angle that whoever is controlling the monetary policy wants to see what is being done, and then the banks are within their rights ?—If the banks are fulfilling the trust that they have and they feel that the lending of money to the Government or any one else is going to jeopardize their funds and interfere with the trust to their shareholders, they have a right under existing circumstances to say what they think should be done to ensure that their shareholders are properly looked after.

Under your system, if you take over all the banks on the basis you suggest, whoever is the substitute for authority, it would only mean you would have to use them in the same way as now ; you would still have the daily problem of advances to invest, and would keep on probably the same staff ?—It is quite reasonable to assume that the managers of the branch State banks would be just the same as the managers of the trading banks to-day.

The object of the transfer would be to control the destiny and the direction of commerce ?—That is the main factor, but the other factor is of some importance. Their objective as proprietary banks is the limited one of interest to shareholders ; the objective of a Government is a totally different one—it is the welfare of the whole of the people. Under the proposal which I submit the Government will have cited their objective in an order of reference to the central credit authority ; the actual practice of that authority would be different to the practice of a private bank.

To a great extent, the object you are aiming at will be covered by the central bank—that is to say, on the broad question of expansion or contraction of credit ?—Not completely, but the machinery that the Government has already started with some very important alterations will probably enable the central credit authority to do what I think ought to be done.

It would be wise to try that out as a movement towards the more full programme you have in view ?—I would say, because I think the power of the central bank is very much limited under the existing law ; I think it would be wise, before it commences operations, to fix the objective, and say, " Your job is to work towards that objective."

In answer to Mr. Langstone, you asserted at one stage you could control the standard of living if you took control of the export trade ?—External trade—yes.

A little later on you said that it was true that if the external trade on a world's market would only produce a certain result, that was really our standard of living ?—It affects but does not control the standard of living. We live on what we produce less what we send away plus what we bring in. There is nothing else for us to live on. To the extent that what we bring in is less or more, so the quantity to be distributed is less or more.

Assuming the Government took control of the external trade, do you anticipate that will enable you to get a better price than at present ?—In a bigger market I would not doubt it. The fact that the British Government will probably limit the imports of butter from New Zealand to about 100,000 to 120,000 tons of butter will probably raise prices, but I think it is possible to convince the people at Home that it would be to their advantage to take 200,000 tons of butter. If the British consumption of butter was raised to what the health authorities say it ought to be they would require 590,000 tons of butter more than what they are actually getting to-day, and if we could go to the British Government and say our object is definitely to get you to take more butter, and we guarantee in return to take from you the commodities in exchange for that butter, I think we would convince some of the Government authorities in Britain that it is worth their while to increase our allocation.

Supposing they increased our allocation to the extent you suggest, if it was still at a price that does not cover the farmers' costs where do you get to then ?—There is only one way that I can see ; if we want the farmer to produce we have to determine what legitimate costs are here in New Zealand to produce the commodity required and pay him that price.

If the price at Home would not correspond with the cost, would you stand the cost here ?—That does not necessarily follow. We send 200,000 tons of butter to Britain, and assuming we sell it at £100 a ton, that is £20,000,000. The proportion of this sum required for our debt service is £5,000,000 ; that means we have £15,000,000 in sterling in credit. We tell them we will spend that £15,000,000 in Great Britain.

You buy it before you export it ?—Yes. We pay the farmer the guaranteed price fixed by negotiation and based on cost. We then sell the product overseas and fix the price of the credit at a figure sufficient to recoup the price paid to the farmer. If New Zealand currency is depreciated as compared with sterling then our imports are limited, but Britain still gets the full trade advantage of the proceeds of the sale of the products we send to them.

It is a sort of jig-saw puzzle. Assuming you cannot sell your credits at the price you want to recoup the farmers—I mean the products you buy in London, the items you propose to import—the Government is buying those, too, of course ?—No, I do not think the Government would buy the imports, but would allocate the credit for imports.

Have we not got that now, and got £20,000,000 or more stacked up in London ?—I do not think the position applies just exactly the same as at present. We would definitely allocate the credit we get in London for the importation of commodities ; there is no other way of getting paid for the goods we send.

The individual trader in New Zealand may say, You are offering me the opportunity of buying imports at that price, but I do not think I can market them at that, and will not buy them ?—At that point we have got to utilize our internal resources for the production of the things we previously imported. I am satisfied that our exports in a rationally planned economy would go up and our imports go up proportionately, and all would be better off.

You do not agree that any hiatus exists such as exists now where you are in that difficulty that the importers say, Your sterling is too dear, we will not buy it ?—That is a totally different thing as far as fixing the price is concerned and fixing exchange ; the present procedure means that a section of the people in New Zealand is being taxed for the benefit of another set of people, and the appreciation of the exchange price is found here in New Zealand.

Will that not happen in New Zealand ?—The proposal is to recoup the New Zealand guaranteed price by making the sale of the sterling credit equal to the amount paid to the exporters (farmers). The guaranteed price will be linked to all prices ,wages, and other factors. It (the guaranteed price) goes automatically into the retail-price index figure which determines the minimum amount that has to be paid to an ordinary worker, so that the farmers' income is linked to the workers' income ; to-day it is not ; the farmer gets the 25-per-cent. exchange premium to-day largely at the expense of the other worker in New Zealand.

In the course of expounding your view, you must have often heard numerous objections raised ; I think you could probably indicate these latter more quickly that I can ?—There is only one that I have heard that has any validity, that I cannot see the answer to at the moment : How you are going to get the people of Britain to spend their money on the extra butter you send them ?

I think we discussed this once before ; if I understood your scheme right, you say to Britain, Here is 100,000 tons of butter ; in exchange we will take fifty thousand motor-cars ; do we determine the direction of the credit ?—We do not determine the actual trader who is to get it ; that will be determined by the bank-manager here. Presuming that we have £15,000,000 of credit for trade purposes, we look at the class of goods that could be best imported with the least interference with our own position here and allocate the credits in those fields.

Assuming you said we are satisfied that New Zealand can absorb fifty thousand motor-cars and bring them out and cannot sell them ?—I do not see how you can get over a difficulty of that sort either here or there.

Over centuries of successful generations of experience, these traders feel the pulse of the market in New Zealand and are enabled to forecast with an accuracy that is almost uncanny. I do not see how any Government staff could replace that service ?—The amount to be allocated would be determined by the credit available. The quantity of any commodity to be imported would be determined by the consumption-capacity and that capacity would be ascertained by previous imports and consultation with the people who previously imported.

I think it is generally admitted that in all these schemes of planning it would involve almost supermen to administer them ?—Really able men who are given some vision to determine what we ought to get. I think the men are available and the job could be done.

Have you had time to see an article by Walter Lipmann on planning ?—Yes.

He said there, " The intricacies, complexities, and difficulties of a Government taking over the multitudinous ramifications of trade seems to imply the necessity of something more wise and more omniscient than anything we can conceive of " ?—Did you read the next article in which Mr. Wallace showed how it could be done in the United States ?

But he is getting into terrible entanglements ?—This is our difficulty. Britain is going to determine what is going into Britain and she has control of Britain's imports and exports. We have got to fit into a system of planned production, and as Britain has decided to control her imports and exports so must we here in New Zealand control our exports and imports.

I admit there is a certain amount of inevitability about it, but was wondering whether some extraordinary difficulties will not arise ?—I think it is the wisest thing any one can do ; I do not think

any one can render a better service to New Zealand than to point out the difficulties of a planned economy and make those who are advocating such an economy work it out.

You say that after you had sold all you could to Britain you would then negotiate with other countries and sell the balance to them. How do you get over the immediate difficulty that they are all going into this nationalism; it would be very difficult to work then?—I do not think we will sell them any less by negotiating than we would have otherwise done. Some are going in for a wise planned economy and some otherwise.

Assuming you came up against a dead wall; would you direct the dairy-farmer to produce less?—If he produced 100,000 tons of butter and people only wanted 60,000, it is only wasting the time of the farmer and the resources of the country to produce more. I would divert the use of the land to something that is required. I do not think the difficulty of limitation of production in New Zealand is likely to arise if proper steps are taken in the next year or so to facilitate the opening of new markets and getting the maximum from the British market.

I think that is the proper way to approach it. With regard to (12), "That the price guaranteed to primary producers be linked to a minimum wage for workers engaged in direct production, commerce, or the professions" to be logical should not that apply to every one?—I tried to imply every one there—workers in the widest possible sense.

You say, "By finding out the requirements of the people of New Zealand"; in finding out those requirements, you would practically obtain the advice and opinion of all those who are dealing with such matters?—In connection with butter, you could take Dr. Watt's statement, 1 lb. *per capita* per week; we want a pint of milk *per capita* per day. In a wise economy I think we would use those quantities.

You deal with the income of the farmer which should not be dependent on speculative land factors over which he has no control, it is a little difficult to estimate that factor?—I think that the Government system of determining what is the unimproved value and what is the value of improvements has a tremendous lot to be said for it, and it is probably 75 per cent. to 90 per cent. right.

I was talking to a farmer the other day and he advanced the rather unusual view that all the benefit of free carriage of lime and cheap manures was in his opinion being lost in the increased value of the land which absorbed it?—That is quite right. If he gets lime carried free his net return from his land is so much more and it would be expressed in the price of the land. Here the new system proposed is a tremendously important one; you are going to pay the farmer for what he produces and cut out the speculative factor in land entirely. That is something to be worked out; I am satisfied it could be done with such a narrow margin of error that the difficulties and evils of land speculation would be reduced to a minimum.

You would have to have each individual group on a different cost of production?—There are no two farmers who have actually the same cost of production; you would reward them according to their skill.

They would all get the same price?—Yes. Those who are more skilled would get more money because they would produce a greater quantity. Presume you have a man with 120 acres of land, the productive capacity of which is only equal to another man who has got 60 acres of land. The land cost there is obviously a factor in the price and it would require some working out and adjusting. That is the only difficulty I can see in this connection, and I think that could be overcome.

How do you in your distribution discriminate between rising and falling prices within a year such as we have now, by which the wool-grower is getting a good bonus as compared with the dairy-farmer?—I think the whole of the prices will have to be linked one with the other in proportion to their costs. I think in the ultimate it is as reasonable to order 50,000 tons of butter and one thousand bales of wool as it is to order one hundred thousand pairs of boots at a price; it is simply a question of the capacity of working out the cost factor in the service rendered.

If the price of wool showed a very rapid rise and makes a big profit, would the farmer get the profit?—No, the community, in the fact that they get more imports at a lower cost. You do not distribute any surpluses—nor debit deficiencies—but higher prices would mean that the credits held in London would automatically bring greater imports.

Mr. Munro.] We will assume that we have bought the banks and you have your State Bank in operation, would you take deposits the same as the banks at a guaranteed rate of interest?—I think I would take deposits at a rate of interest. I have tried for years, and would gladly work out (if possible) a system under which the paying of interest would not be beneficial and necessary. I cannot find one.

Do you not think that then you would immediately be running a State Bank and the interest paid to these depositors would minimize the possibility of using to its fullest extent the State control?—I do not think that would necessarily be so. I think you set out for a different objective altogether; you set out for the maximum production according to what you want and fit your monetary policy into your production. You make your monetary policy of such a type that you can produce the commodities that you determine you want.

Really, the State Bank then would simply operate on the same lines as it is operating to-day, except that the objective of the bank would be different?—Yes, totally different. I would not want to limit the monetary policy. When the Commonwealth Bank with all the limitations that were applied there was operating in Australia, in twenty years they made £22,500,000 for the benefit of the people. The profits on the note-issue equalled nearly £15,000,000 and the fact that they have lifted the note-issue up from about £9,000,000 to £50,000,000 means in effect an addition to the profit. They have been able to create £41,000,000 extra money without paying interest on it. That has happened during the last ten years in Australia. The profits of the note-issue department up until 1933 were nearly £15,000,000; the profit of another department was about £7,500,000 and, in addition, the profit of the Savings-bank Department exceeding £1,000,000.

That is operating largely in conjunction with the other banks at a fixed rate of overdraft and so on ?—A much lower rate than the other banks were charging.

It keeps the other banks down to a lower rate ; do you think that would hamper the bank in any way from carrying out the policy you have in mind ?—The present private trading banks would then be owned and controlled by the Government ; individual decisions would be allowed to individual managers, but the objective would be fixed and definite, and if we only had the limited success that was achieved by the Commonwealth Bank, which, in spite of the fact that since 1927 or 1928 it has been under the control of directors linked to private enterprise, has achieved remarkable results, we would make a wonderful difference to the position of New Zealand. From its inception in 1912 till last year the profit in the trading department of the Commonwealth Bank was £7,354,756, the profit in the note-issue department was £14,992,226, the profit in the Savings-bank which is now a separate organization, £1,291,167, so that, roughly, about £23,500,000 has come to the benefit of the people of Australia by the operation of one bank which had a tendency to be a controlling bank. In spite of the fact that although Government-owned, it has during the last seven or eight years been under the control of directors associated with private enterprise.

You do not think it would be advisable, instead of purchasing the banks on their income-tax assessment, to start a State Bank similar to the Commonwealth Bank in Australia in opposition to the other banks, and as the State Fire Department in New Zealand was started, and gradually build up that way ?—That would be quite good, but I do not think there would be anything more beneficial in that than what I am proposing here. I propose to buy their assets at the price they have certified to be their value ; I have taken the figures for the 31st March of this year, and if we took over the assets at those figures, it would be cheaper and more beneficial than starting to compete them out of existence.

I quite recognize that point, but what I see in my mind is a conflict or an objection by the banking institutions and a public campaign against any Government that would dare to confiscate the banks. If you took them over and paid them on the values assessed according to their figures, they would naturally want to bring in a certain value that the dividends would pay for a number of years and you would get some conflict in that manner ?—Why should we ? For years the sum of money that the banks have paid towards the running of this country is assessed on what is called income-tax ; they declare certain figures to be the figures upon which their income-tax should be assessed ; I am taking their sworn statement of the value of their assets as the basis for taking over the banking business. If they say they are worth so much more, then they are affirming that they have been robbing the community and making false declarations. I do not think they will do that ; I do not think they will affirm that the statements they have given as to the value of their assets are wrong.

I meant that they would ask for a heavy sum in compensation for taking away their right for future dividends ?—You say they would ask for so much for goodwill ? I think it is likely. Another method that could be used for the purchasing of the banks (I would not be agreeable to it, because all sorts of extraneous influences that are unjust would come into it) would be to buy them at their share-market value. If the possibility of that was announced the price of the shares would soar to abnormal heights.

In my mind it is just a question of policy, but personally I would favour the method of instituting the Commonwealth State Bank ?—Open another bank to compete with the existing banks. I would not mind that, except that it seems to be a long way round. We might have to erect buildings in various places. If, however, that policy was decided upon, I would say that by re-adjustment our Post Office Savings-bank and one or two other financial institutions already operated by the Government could be made into trading banks in the ordinary way with comparatively little cost and with perhaps no cost with regard to buildings, &c. The Post Office Savings-bank is the best operated savings-deposit bank that I have ever read of. Its costs of administration are lower. Its facilities are greater. Its charges for credit are lower (that is for loans) than any other bank. It makes a substantial profit, and with comparatively little readjustment it could be made into a cheque bank which would be a great source of competition with the private banks.

Mr. Lye.] After reading your interesting paper I have come to the conclusion that you are advocating planning of industry and a system of State banking ?—A system for centralizing credit under the control of the Government, a central credit authority to completely determine how the banking and currency system in the Dominion shall be operated, and the planning of our external trade.

Practically the nationalization of banking in New Zealand ?—Yes.

Do you not think that the Central Reserve Bank can be called a national credit authority ?—Yes.

You know, of course, that it will largely control the note-issue ?—Yes. For the benefit of some of the shareholders.

Only up to the extent of 5 per cent. of the share capital ?—Yes. I know they get 5 per cent., but they have the determining voice, and the limit of their benefit may not necessarily be the 5 per cent. that they will get by way of dividends.

In what other ways ?—All sorts of ways. The control of monetary policy in New Zealand and in Britain and other countries is definitely beneficial to one section of the community rather than the mass of the people.

Over and above 5 per cent. of the share capital. The balance of the profit goes to the Government does it not ?—Yes.

You know, I presume, that one of the chief functions of the central Reserve Bank is to largely control the national income through the exchange-rate, thereby stabilizing the price-level of goods, and incidentally that is its natural outcome, in the quantity of purchasing-power which shall be

available from stabilization of prices through the control of the exchange-rate ?—I think that the operations of a central Reserve Bank could stabilize within certain limits a price-level for New Zealand.

The central Reserve Bank will have the power and authority to contract your expenditure credit from time to time as it becomes necessary ?—Yes.

Would you say the establishment of the central Reserve Bank here in New Zealand is certainly a step in the right direction of giving people a larger measure of control of the credit of the country ?—If the control of the central bank had been confined to the Government, yes.

Would you agree that the exchange value of our exports is a factor which largely determines our purchasing-power ?—Not largely. It does have an effect on our purchasing-power. It may largely affect it to-day, but it should not necessarily affect it to the extent that it does. If we got control of our financial system and of our external trade, the impact of the exchange value of imports on the standard of living in New Zealand would be very minor.

Would you say that the price-level for our exports largely determines our purchasing-power in New Zealand, and that the price-level is the outcome of interaction between monetary and non-monetary factors, such as tariffs and demand for the particular goods that we are exporting ? Would you say that there are factors which might be called non-monetary, which largely determine our price-level ?—Tariffs obviously affect the price-level, and quotas affect the price-level. Those are non-monetary in the general sense.

But quotas have an effect on demand ?—Yes. They affect the price-level. The only justification for a quota as far as the British Government is concerned is because they want to lift the price-level.

There are factors other than non-monetary, which go to determine our price-level, and that in turn largely determines our purchasing-power does it not ?—It affects it more than anything else, but I do not think that the whole world problems are confined to a high or a low price-level.

Would it not be not so much a high or a low price-level, as the exchange value of what we have an excess of for what we lack, or what we require ?—I think the question resolves itself into producing the commodity that you want and finding a way of the people getting access to it.

Hon. Mr. Downie Stewart.] Did you see a cable this morning, where France is trying to bring her price-level in conformity with the rest of the world ?—Yes. They are going to control the economy of France in the same way as the British people are going to control the economy of Britain, and I am suggesting here that we have got to control the economy of New Zealand, and not let Britain, France, or somebody else do it.

Mr. Lye.] You say: "Existing monetary policy—in so far as it is associated with banking practice—is covered by law. Bankers may not extend their liabilities beyond a certain ratio of some of their assets—and there is nothing to compel them to go the limit. You cannot compel a bank to advance money." I presume that you know there are approximately £70,000,000 of deposits in the banks in New Zealand to-day ?—Yes.

And perhaps you will agree that banks do not refuse to make an advance to any project or any individual, provided that the security is sound, and that it will ensure the payment of interest and the return of the capital loan. Seeing that there is ample credit available to-day, would you agree that it is the unprofitableness of industry which has caused the piling-up of these deposits rather than any other causes. It is the general unprofitableness of industry which has really put them into cool storage as it were ?—Yes. That is right in so far as it relates to the deposits which are not reinvested by the banks.

So that it is not any failure of the bank in their desire to loan the money. The failure is that industry is so unprofitable to-day that people will not borrow the money or make applications for advances to the banks for loans ?—If that is the objective, are you not saying that there is something wrong with our system ?

I admit that ?—I am not blaming the banks. They are out to make profits and they know that they cannot make the profits except from the surplus of the farmer, the manufacturer, or the trader.

"Bankers may not extend their liabilities beyond a certain ratio of some of their assets—and there is nothing to compel them to 'go the limit.' You cannot compel a bank to advance money." I took that as a sort of complaint that the banks were not carrying out a policy which should be carried out ?—No. You would have to read that in conjunction with the succeeding paragraph, and you will see that I do not in the slightest degree criticize the banks. They are doing their job properly. They are doing their job for the benefit of shareholders, not necessarily for the benefit of the people of the Dominion.

Mr. Clinkard.] Would not a State bank be more or less governed by the same factors ?—No. I think you would start off with another foundation altogether by fitting the monetary policy to what you require, and then producing the commodity and trying to sell it at a profit.

Mr. Lye.] You say, "That the proceeds of sale of products overseas be allocated as follows: First, to meet all charges, interest, and redemption of overseas debt." We know, of course, that a first charge on our exports is debt service, but I want the latter part explained, the redemption of overseas debts ?—To the extent that we owe money overseas we have got to pay it back again, and I hope that we would definitely take out of each surplus, assuming that there is a surplus, a sum sufficient to enable us to redeem debts as they became due. It may be necessary, under certain circumstances, to reissue a loan, but the purpose we would have here, I think, if we had a wise economy, would be to try and live within our own means. But that should not absolutely and completely prevent us from even getting more money if, by doing so, we could increase our production of commodities required.

It does not necessarily involve any unreasonable burden in the redemption of overseas debts. If it happened to be advisable at the time that the loan fell due, then the Government of the day would probably renew the loan ?—I think we should take steps as far as possible to bring some system into

operation whereby our overseas debt will be redeemed comparatively quickly. Quickly might be twenty, thirty, or even fifty years.

You say, "That mortgage and land costs be readjusted on the basis of the guaranteed price, and any appreciation in land-values to automatically revert to the State." Now, if through a range of values for our exports from the land becoming so low that there was an appreciable loss, then the State would carry the loss I presume. If, on the other hand, there was to be any appreciation in land-values the surplus would revert to the same I presume ?—You cannot have a depreciation of land-values with a guaranteed price.

I am afraid I cannot agree with that ?—I cannot see how you can have a depreciation in land-values with a guaranteed price. Let me state this, the value of land is determined by the net amount that you can get from it after all costs have been met.

And that is determined by the man who is farming the land ?—Not entirely. This is the point: His net return fixes the price of the land. His net return again will be fixed by the guaranteed price, so that if the price is guaranteed the land-value will remain static.

For the purposes of this discussion I want to say that herein lies a very great difficulty, of trying, in any way, to assess the value of land and the productive capacity of land, because the human factor is the more important. I know of a case of a man who went bankrupt on a piece of land near where I live. It was £70 an acre in 1917 and that same farm was purchased at £110 an acre in 1918 ?—The price of butter had shifted in the meantime.

Very little ?—Under this scheme he would be able to produce more.

The previous occupier of the land paid £70 an acre and went bankrupt. The man who paid £110 an acre is still on that land to-day. He had got a readjustment of his mortgages down to £80 an acre. But he is still farming that property to-day and paying his way. That is where the human element comes into the picture and largely determines the productive capacity of the land. So that it is a very difficult matter to determine, even if you fixed the price of produce from the land, what the value of the land is, because that is determined by the man who is farming the land ?—No. He gets his extra return because he produces more commodities.

Would it be necessary, under this scheme, for the State to pay off the mortgages, much on the lines of Mr. Nicolaus's plan ?—No. I do not think so. I think they have got to be readjusted so as to ensure that the first mortgagee and the other mortgagees, as far as possible, should get an equitable return for what they have lent on it.

Under your proposals, if an owner of land desired to transfer that land or sell it, would it be necessary to get permission from the Government of the day ?—Not necessarily. But presuming that he was going to transfer it to somebody that was known to be competent (I do not want to have a test examination with regard to competency) there would be no bar to the transfer of one block of land from one man to another.

Would the State have to agree to any transfer of land under your proposals ?—I had not given thought to that. I do not think it would be necessary. It might ultimately become necessary, but I do not think it would be for the time being.

It is clear here that any depreciation in land-values would automatically revert to the State, the State having guaranteed a price. Now, supposing a man had purchased a farm at £150 an acre and farmed it for a number of years, and ultimately found that under this new scheme he could not carry on at that price, and sold it and made a loss, who would stand the loss ?—The loss would be readjusted immediately by the guaranteed price. There would be a readjustment of all costs and mortgages to start with, and the real factor is the guaranteed price, and if he could not make it pay at the guaranteed price it would prove that there was something wrong with him.

Could you give us any idea of how the readjustment of mortgages and land-costs would operate. How would it be brought about ?—Now you are asking me to give an address on readjustment of land costs and mortgages. But suppose we have got one block of land the actual value of which at to-day's price is £5,000 and the mortgages on it total £6,000. Then we have got to bring the readjustment of that block of land to £5,000 and that £1,000 has got to be written off. The value is not there. The State does not agree to meet the initial loss due to depreciation in value, but they make facilities for the readjustment of the mortgages so that the mortgagees will be secure up to the actual value of the land, and the guaranteed price would be so fixed that they would get their return on the £5,000.

So that the mortgagee, by the readjustment, would lose £1,000, but through the operation of a fixed price he would be ensured of getting interest on his investment up to £5,000 ?—Yes. That is right.

Captain Rushworth.] Of all the many urgent pressing problems, you regard the monetary one as the most urgent ?—Yes. Because I do not think you can do much else until that is solved. I do not think it is the only problem, but I think it is the one that has got to be solved first before you can get on with doing the job that ought to be done.

I was particularly interested in your remarks about the speculation in the United States. I had rather a difficulty in following that, because it seems to me that when people speculate all that happens is there are losers and winners. It is a case of the "tote" on a large scale. Was not the depression caused not by the speculation, but by the deflationary policy which caused the speculation to stop ?—I do not think that is right. I think what actually happened was that the Federal Reserve Bank was supplying the other banks with credit to enable them to maintain the price-level. Large numbers of people in the United States borrowed money from their banks to speculate in shares and also to purchase commodities that were being brought into being on account of the new price-levels. Then there was a realization that they could not meet the charges that were due with the commodities that were available. Then the fear came and the whole thing collapsed.

I suppose speculation will always take place so long as you have rising prices in commodities, land, shares, anything ?—Yes. Speculation takes place when there is a varying factor with the hope of some reward that is not justifiable.

Apart from bearing shares, which is not directly speculation, you could only have speculation in a period of rising prices. It would be difficult to speculate on a period of falling prices ?—I think there is not necessarily as much speculation in the one period as the other, but there is a tremendous lot of speculation on the basis of a fall in prices.

I was particularly interested, too, in your sterling pool in London. You are postulating our having £15,000,000 in the sterling pool in London, after having met our debt charges, and having £25,000,000 out here in New Zealand against that. Is it of necessity that that £25,000,000 would have to be translated into the £15,000,000 ?—There is only one other sound way that I can see that being done, and that is by taxation here. You could either charge the price for the credits that you have in London and make the imports bear the difference between the price paid in New Zealand and the realized price in London, or you could tax here to meet the difference. I do not see any other way of paying it. [Note.—The £25,000,000 was quoted as New Zealand currency required against £20,000,000 sterling, £5,000,000 having been allocated for debt services, which reduced the sterling balance to £15,000,000.]

Supposing you had your rationed imports as you indicated, and you allocated a small portion of that pool for, shall we say, overseas tourists, New Zealanders touring in England, and a prospective tourist wanting to buy some of that sterling exchange, could you not fix that at any figure you liked ?—To export or import tourist services is just the same as importing or exporting any goods. Just the same thing.

So that, if you have it rationed and you decide that a certain proportion shall be for tourist traffic and another proportion for necessities of a certain type and so forth, you could fix your exchange at par, could you not ?—No. If you fixed your exchange at par with sterling and your price realized is less than you have paid out here, you have got to resort to taxation here to enable your own account to be balanced.

But if you have your pool of sterling in London, that is the property of the Government. The prospective importer wishes to buy some of that sterling to meet his bills in London. You can sell it to him at any price ?—You can sell it to him at any price you like, but the price you realize has got to be sufficient to meet the price that you have paid out. You have paid it out at this end. If it is not sufficient to realize the price that you have paid out, then you have got to find from other sources the difference between what you have paid out and what you have got.

Why ?—I do not know any other way of meeting a debt, except by paying it.

But is there a debt in that case ?—Yes. There is a definite debt there. There is the difference between the exchange value, and I do not know any way of meeting that difference other than selling the credit at a higher price to meet the difference or by taxation here to meet the difference.

It is being done in Egypt is it not ?—I do not know what is being done in Egypt.

There, apparently, the Government own the pool of sterling in London and they sell that to importers at par irrespective of the fact that they have issued more money in Egypt for the cotton that is the basis of their money ?—Then, to the extent that they have issued money for any purpose whatever, some day, if they are going to keep faith, they have got to redeem it.

Keep faith with whom ?—With the person to whom they have issued it. If you issue a bank-note and it goes on a journey between twenty persons, you have ultimately got to redeem it in the form of goods some day or other. There is a certain limit you can go to, of course, but they have got to be able, some day, to get goods for the note that you issue or else it is of no value.

But that note might be a promise to pay in goods that have not yet been produced ?—It often is.

That is credit ?—Yes, that is right ; because there is a limit that you can go to with regard to that ; but when you go to a certain limit you have so encroached upon what already has been produced that the face value of the note has automatically exceeded the prices of the goods that are already here.

If you had that situation that you suggest might happen, that would be indicated by a general increase in the price-level ?—Yes, I should think so.

The point is worth following up ?—Yes ; I think all these things should be worked out.

You say, "The present method is to produce a commodity and then try and sell it at a price that will leave a margin after all costs have been paid." How would you describe that margin—is that what you mean by profit ?—Unless that is done, then automatically the producer goes bankrupt.

But when commodities are sold, they are sold for the financial cost, everything is included in that, is it not ?—Profit has had to be included.

I want a definition of "profit" ?—Profit normally is the sum received by a party or an individual or a company in excess of the price that they have paid out for all the services required to produce and distribute that commodity.

A little retailer buying goods from the wholesaler at a certain price and selling them at an increased price—the difference—is that profit ?—That is a wrong term. It is gross profit, of course. If a retailer buys an article for £1 and sells it for £1 10s., and out of the 10s. he pays 5s. in rent, 1s. in advertising, 3s. 6d. for other charges and retains 6d. for himself, he has made no profit ; he is entitled to payment for the service he renders.

Does not the same thing apply to the wholesaler ?—A lot of the operations in connection with distribution are carried out by companies. These companies follow a system under which all the charges are included in the price of an article, and something additional is added above the cost of all the operations and services, and that is not profit. For instance, all the cost of handling the Bank of New Zealand proportion of credit in New Zealand in 1930 were met, and then in addition they had £948,534 extra—that was the profit given to the shareholders for advancing some of their money which was used to make the profit.

I think that is clear, but the term "profit" is very loosely used?—You can get an example of that if you like. Take a suit of clothes; a manufacturer is quite content if he gets 5s. to 10s. for handling it; that is gross profit. A retailer probably wants £1 10s. to £3 for handling the same suit, and while the manufacturer as far as the production or increase in value is concerned is ten times more useful than the retailer, the retailer gets more gross profit.

It is the risk of selling?—Not only the risk. Some years ago I used to represent some British publishing-houses; a retailer in Courtenay Place, Wellington, came to me talking about books he wanted to buy. Under his arm he had a bundle of Auckland weeklies. He told me that his turnover was £50 a week, and that the landlord was putting up the rent by £1 per week, and he decided he could not pay it. He said he paid 6½d. for the Auckland weeklies and sold them for 9d. I knew his rental was £7 10s. on a turnover of £50. I said, the landlord gets 1½d. and you get 1d. for every Auckland Weekly that is sold, but the inference of the general public in regard to profit is that he made 2½d. per copy. That is entirely wrong. Profit does not come into being until the full payment for all the services is taken into account.

No payment can be regarded as profit if services are rendered for it?—No payment can be regarded as profit if it includes only a legitimate payment for services rendered.

In regard to No. 4 of your summary; a course such as you suggest has often been suggested here and elsewhere, but one of the difficulties apparently is this, that a Board indicating that a certain investment is all right carries with it a sort of guarantee. What happens if something goes wrong and that investment fails?—I think that they should issue a report on all projected companies or investments. I personally think that all investments ought to be under the control of the Investment Board, but presuming they do allow companies to be formed, they should report on them and issue the reports with all the facts at their disposal, together with their opinion, and without any liability on the Board.

It would carry no form of guarantee?—No, unless you definitely gave the National Investment Board absolute and complete control of all investments and gave them the power to do all the investing.

Mr. J. N. Massey.] Regarding the policy of the State bank, when you establish the State bank you would set out with a different policy; you would purchase the goods and try and sell them at a profit?—I did not intend to give that impression. I meant you determined first what you want for the benefit of your own people and for exchange purposes overseas, and then tell the bank to organize their monetary policy to enable you to produce it. You tell the State bank that you want them to organize their monetary poilcy to facilitate that objective. My definite intention was a fundamental alteration in the starting—you start off by finding out what you have a market for in and out of New Zealand, and then tell the central credit authority to organize its monetary system so that you can produce the things you want.

In connection with guaranteed prices, you went into the question of wool and meat and other products?—Yes, the primary products.

Possibly you will remember that during the war period the Imperial Government took control of the whole of New Zealand's produce?—They gave a price for it.

Did that satisfy the farming community at that time?—I do not think so. No one under the present system is ever satisfied that he has enough.

You will remember that during the war period the primary produce was bought at what was then a reasonably high price?—Fifty-five per cent. in some cases over the 1914 rate.

At that particular stage you will remember also that the Imperial Government was buying butter from other countries at a very much higher price than what they were paying to the producers?—Presuming you are a member of a family and you have something that your brother must have, you would not charge him the same as you would charge some one else?

You believe, then, in the idea of planning of industry within the British Empire?—I think I would first organize a plan that would fit in with the countries inside the British Commonwealth, but I would afterwards extend its facilities to any other countries that wanted the products we can produce in surplus.

You would start with Britain?—Yes, with the British Commonwealth of Nations.

And therefore you are of the opinion that in New Zealand we should meet the wishes of the Imperial authorities at the present moment?—No. I would negotiate with the British authorities and do everything I could to help them to implement a policy that was beneficial to Britain, provided it was not disadvantageous to New Zealand.

I agree. There are one or two details I want to deal with. I do not want to open up the question of land-values too widely; can you tell me what unimproved value is?—The unimproved value of the land is the price that would be received for it in the open market assuming that no improvements had been made on it.

You said, I think, that you agree with the policy of the Valuation Department?—I said they were 75 per cent. to 90 per cent. right.

Do you not agree that the unimproved value of farm lands is made up very largely of the improvements effected by the occupier?—Some of it might be expressed there; it disappears over a period of years, but land is of value because you can get the product of it to people who want it, and that value is measured by harbours and roads and all sorts of facilities, and you cannot measure in terms of money the value of land fifty years ago with the value of land to-day, when fifty years ago the land itself was perhaps twenty or fifty miles out of reach of markets, over inaccessible roads.

In connection with production and how you would pay the farming community, you believe that the farming community should actually be paid on production?—Paid for the work it does, and if one farmer produces more butterfat than another with like facilities, I would give him more.

Have you any idea of the cost of producing a ton of wool, or butter?—I have, but I do not think it would enter into this case at all. You have to ascertain as far as you can what the cost is.

Supposing for the sake of argument we eliminate interest and land costs, what would be the cost of producing a ton of butter ?—I do not know ; you ought to know.

Supposing for the sake of argument you take butter to-day at 8d. per pound and say you find on investigation that in order to get a profit for the producer you would have to set the price at, say, 16d., how would you make up the difference ?—I do not think it is going to be insuperably difficult ; inside the guaranteed price I would pay the farmer for the time, energy, and skill he used up to produce that commodity.

Mr. Clinkard.] Would that vary ?—I think it might slightly, because the facilities for the production would vary, and the publicly created facilities might vary. He ought to be paid and not subject to possible losses after having given his time.

Mr. J. N. Massey.] You admit it would be most complicated ; take milk, cheese, and butter ?—It is very difficult to determine the cost of a pair of boots. It would be nothing like so difficult as some of the costs that have to be worked out ; for instance, if you go into Imperial Chemicals and find the methods they use to determine the various materials that enter into one of their compounds and their costing system. The job is difficult—yet they find the brains to do it—and brains of equal capacity would be available to determine the cost of a primary product.

Mr. Langstone.] With regard to the question of the New Zealander or the tourist going abroad, I do not think that point was clear to the Committee. We will assume that the local price-level that you paid the farmer for his exports was double what the London price-level was—that is, £1,000 would only be £500 in money value in England. Any person leaving New Zealand would deposit with the bank here the £1,000 and for that he would get exactly £500 in England ?—Yes.

That would be true value of the money as distinct between the different countries ?—That is correct.

That is done to-day ?—Yes. It is artificially fixed to-day. In normal circumstances it would operate in the way you suggest.

If we fix our internal price-level here so much higher than the external price-level, any one would get exactly the same value for his money as the country he was going to ?—Yes.

WELLINGTON, FRIDAY, 20TH APRIL, 1934.

Summary of monetary scheme submitted by Mr. J. TUCKER.

Mortgages should be transferred to the State to eliminate speculation and as a step to the necessary State ownership of land. As bankers have to look to shareholders' interest and " because the banking world is intellectually incapable of understanding its own problems " (Keynes), the State should control banking. Internal prices based on index figures should be controlled. A National Planning and Industrial Development Board to be set up with a credit fund to assist establishment of industries.

Witness : Mr. J. TUCKER, representing Wellington Warehouse Employees' Federation.

Mr. Tucker : I wish to express my appreciation of the fact that I am allowed to appear before this Board. It is not a privilege allowed in every other country to-day. Perhaps I might give some reason for submitting to you a socialistic programme of this description. I view the world as a whole, and its economic position, as one that is at the point of transition, and moral forces, which are carrying with them retribution, are forcing the world through a pass which it will have to go through to reach a higher plateau of life. It is to be hoped that in this transition common-sense will prevail and bloodshed be avoided as much as possible.

The Chairman : Is there fear of bloodshed ?

Mr. Tucker : The whole world I mean, not New Zealand particularly. I am dealing now with the whole situation as I see it. The nations of the world, by reason of the shrinkage of markets throughout the world, each nation having brought to itself the means by which it can produce the goods it requires for its own use and also developing the resources at its command by its own people for its own use, has made it imperative for every nation to resort to a certain measure of economic nationalism. Even America has had to do that. You will remember that when the American delegate to the Economic Conference withdrew, he said he was of the opinion that each nation must crank up its own industrial activities. This is undoubtedly a fact, which New Zealand cannot blink the eye at. England is forced out of the Empire. If you will just glance at the position we are now in, she is forced out of the Empire by her colonies. Every door is closed against her population. Forty-seven millions, with over one million new births annually, and thousands of men who have never done a stroke of work at twenty-four years of age, has compelled her to apply methods which she never thought she would have had reason to do or apply in the years that are gone, and has also compelled her to develop her agricultural resources, which, in fact, must force us back also to seek to develop our secondary industries, because our market must shrink in ratio to the development of the British agricultural schemes that are now in vogue and are in the process of being put into operation under the guidance of Mr. Elliott. Now, I view the orthodox economic way of looking at things as applicable to past days, but I think that we are now moved to a new age where a new economics will have to be applied and sound common-sense, from the circumstances we are pushed into. I view such things as exchange-rates, as the adjuster of currencies in the international exchange of commodities between nations, as only a palliative or something that acts as a regulator because in the transition that we are now in, when each nation will be forced to manufacture more of its goods than it does now, the exchange will then reach its proper balance and no manipulation will be required. Balancing of Budgets I again consider as the bulwarks of the usurers and international financiers, behind which the balancing affords protection to the securities in finance, because every balance-sheet must be

prepared to defend money that has been loaned and pay the interest upon moneys which have been borrowed. Now, you will understand how I look at things. I am a New-Zealander and I am looking to its future, and I am looking at it from the eyes of the future. I am looking at England, having lost her power to pay her men here or in Australia; Australia with an estimated capacity of two hundred million and New Zealand with an estimated capacity of thirty million, and we cannot take them. I ask, Why? What is the reason? They must be given a justifiable reason for the rising deflation and we that now live in this age will be made responsible for whatever may happen to the Empire as we are part of it, if we force the Mother out of it. There is no question, in my opinion, that financial policy and monetary policy has been at the root of all this, because no money could have been found to develop Australia with its two hundred million capacity that has only got five and a half million. There has been no money in New Zealand to develop New Zealand. We have been curbed down to a financial policy of past savings or bank reserves which are metallic, and we have forgotten that we have to deal with human souls, with men and women who have to live in this life and provide for this life and provide for the coming lives that will follow. From that standpoint I view that we in New Zealand, although probably we may have been higher than other nations, we have yet not reached out as far as we should and so far as we could. We are undoubtedly the richest of all nations in the world so far as soil, climate, and I would go so far as to say as far as the intelligence and physical capacity of the people are concerned. I would class New Zealand as in the foremost rank. I have only just been through the mineral deposits of Otago and I have before me here a piece of coal from a seam 100 ft. thick, the thickest seam in the world. Its carbon qualities are 28·9. Its hydro carbon or volatile capacity is 34. We import every year £1,000,000 worth of petroleum products. I have here a piece of clay, a valuable deposit that this country never uses. Had it been in any other country it would have been used. On this seam a hundred men could be working to-day, but there are reasons on the private enterprise side which blocks it, and we have so many unemployed.

Mr. Munro.] Is that pipe-clay?—White porcelain clay. There are other deposits which I would not go into to-day, but I am just showing you how our money is our resources, the natural resources that this country possesses, and I say that we have been unable to develop those resources because of lack of money, and that really is the only means by which we can develop them. The past history of our banking, as you are well aware, has been put before you. We have no reason whatsoever to revert to the gold standard. Our production of wealth has been of such a nature and such a volume that we have been able to hold our own probably equal to any other nation in the world; but we have now reached a point where I believe we shall have to take notice. I may say I am pleased to see the State bank has been put on the statute-book of the country. I believe that it will pool the resources of the country into one centre, so that we may know what we have at our disposal.

The Chairman.] And take more control?—And have the sole control of the credit at our disposal.

Captain Rushworth.] Do you think it is a good thing to have that control in the hands of a private corporation?—No. Although I believe, with Lord Macmillan, that, in the ultimate, the control of credit and currency should be in the hands of the State, all the directorate and control of the bank in normal times would be the same as the Bank of England and the same as ours here; but, in the ultimate result, there are periods when the State will have to take control. It has taken control in periods of depression before; in periods of war and crisis the Government has at all times had to come in and the Bank Act has been suspended, and provisions made by the Government to meet the emergencies.

Mr. Clinkard.] Would you say that the present central bank is a private concern, seeing that all the profits go to the State?—It is half and half. There are four private members on the directorate and three of the State.

It could not be said to be in every sense a private concern?—No. It would be more than half private.

Mr. Ashwin.] But it is there for a national purpose?—Yes.

Mr. Schramm.] They do not need private capital in that do they?—I would take it, as I understand it, that the control being four to three, the major controlling factor in the Board is private, not public.

Dr. Sutch.] The Secretary to the Treasury is there, and there is a Governor and Deputy Governor?—But they have no vote.

The Governor and Deputy Governor have?—Therefore the majority control would be five to four.

At the moment in favour of the State, but in seven years' time the State has three members and private shareholders four, and the Secretary to the Treasury is on without a vote, and the Governor and Deputy Governor are elected by the Board of Directors.

Mr. Ashwin: Subject to the concurrence of the State.

Dr. Sutch.] Yes. The Government have to concur in that?—It will revert back ultimately that private enterprise will have four to three. That is in some years' time.

That is on the directorate, but the Governor and Deputy Governor, having votes, can hold the balance?—There is a provision, of course, whereby the Minister can revoke or alter anything in spite of what the Board may do. But if we take Macmillan as being an authority (and I believe he is acknowledged to be a great authority) that no State bank should be left entirely to the control of even the most capable of directors.

The Chairman.] But you would say that this is a start in the right direction?—Yes. I do say so.

Mr. Ashwin.] And your point really amounts to this: You do not say that in a time of crisis they should take the direct control, but you really mean that the State policy would have to override that of the bank if they conflict?—That is the point. I believe that the State should at all times override the policy of the bank in cases where the State think that the directors were wrong in the interest of the country as a whole.

Captain Rushworth.] Only in times of crisis?—At all times when there is a difference of opinion as to the interests of the country.

Mr. Schramm.] If a State policy should always override, why not put the State in complete control all the time?—Probably that will be the ultimate result of this. I believe that as time proceeds the bank will be forced to be entirely under the control of the State.

Mr. Lye.] The power of the State is behind it at all times that it allows the bank to exercise its privileges under the supervision, as it were, of the State?—Yes. That is so. But, as we are aware, the State really is the greatest.

The State is the people?—That is so. They are the basis of credit. There can be no basis otherwise. That is, if the country is worth having a basis at all. Now, with regard to some of the points, after we admit that the bank is a step in the right direction—and I am of opinion that it will ultimately be of great value to the State of New Zealand—I would wish to point out that as to the reserves of this bank, the basis of reserves I quite see has been brought down to 25 per cent. of its liability on demand gold and notes in circulation. That, of course, is a very big step from the old system, but I believe that it is still, so far as the State bank is concerned, limited, and if I take the words of Macmillan again in the same Commission in Canada, in which he says that the State bank is a social function, and it is questionable whether a credit private organization should have its powers delegated to it. It may be said that 25 per cent. of reserve is loan, but there is little reason given as to why there should be any reserves at all, to a central bank. Undoubtedly, the argument there is that so far as the reserve bank he was visualizing, his idea was that at any period in the history of a State or a Government, the people are the basis of credit, and the Government can at any time take any credit that the country holds as a basis for its action in creating money. I believe that was in his mind when he said it was not necessary to have any reserves at all for the Reserve Bank of Canada. Now, I stated here in my remarks, that I believe the basis should be the production of goods or the total production of the State. I believe that that is quite sound, because all money really must be goods sometimes. There are only two things in business—goods-money, money-goods. They interchange one with the other. When there are no goods there is no use for money, and when there is no money you cannot sell or buy goods. Therefore, goods are the basis of money.

Mr. Clinkard.] Is not money the weights and scales by which you measure the goods?—That is all. And if you do not have the goods you might as well not have the scales.

Then is it necessary to multiply indefinitely the number of weights and scales?—No. You should always have your scales on a true measure to the amount of goods you have.

Is it necessary to indefinitely increase the number of weights and scales in order to measure the goods? Cannot the same weights and scales be used over and over again for the measurement of goods?—That is true. The speed of circulation determines, of course, the velocity of goods exchanged, and it is a greater volume to the use of the medium. That is quite true, but in fixing the basis by which credit shall be issued to a country, I do believe that it should not be limited to any kind of a basis at all. I do believe that the Board of the Reserve Bank and the Minister of Finance, or the Government should at all times decide. For instance, we are in a position to develop any of these resources and develop our secondary industries, and we must do so if we are to live. We cannot allow this country to be one-sided. We must have a balance of trade and our secondary industries must be developed if we are to live. Then, if we want to develop those we must have money, and how are you going to get it if we follow the old processes of the past by which we reach a limit that the reserves are depleting, and immediately an obstacle is put against further expenditure of money in development work, and a price is put upon money which was prohibited from being used in development and finding the resources of development. Then we are in the same place as we were. We cannot issue the credit to develop the country as quickly and as effectively as we should do inasmuch as we have the physical capacity, the intelligence, and the ability. It is nonsensical, I think, that the basis of our credit should not be as wide as the resources, as wide as the capacity of the people, because it is only a measure; that is all. Its value as a commodity to the nation is nothing, because that commodity is an interchange of the commerce of debts, and buying and selling of debts is the only thing that takes place; but our credit within the nation in developing it, I think there should be no restriction on it.

If these limits were found to be too narrow they could always be widened?—That is what I say. I believe the possibilities of development in a country like New Zealand with its unlimited resources are endless.

Every issue gives still further backing to the securities which are added in?—Yes; but the experience of the world is that they do not come in quickly enough. Money that has been consolidated into industries is not returning fast enough to create new ones and provide employment for the increase of population. The way I would do this is that the Government Statistician each year shall provide a set of figures showing the total production of the nation, and he shall also provide another set showing the total consumption of the nation during the same year. He shall also take the total population of the country at that period. He shall take into consideration the standard of living for that period for a family or for an individual, and upon a fixed value of what shall be the standard of living he shall then compute what has been used out of the total that will be required for the use of the country at the time. The remainder would be exported to pay our debts abroad to the money-lender, and those from whom we buy our goods, in exchange for which, of course, we would want all that we require here other than what we are producing. Now, by that method we would arrive at some semblance of equilibrium between the amount of goods we produce and the amount of goods that we consume within our country, which undoubtedly in the near future will be, and now is, one of our best markets, and we will have also those figures as to exactly where we stand in using our own goods and giving our own people a fair chance to live. That is the way I would determine the basis upon which credit should be fixed, and also the purchasing-power. You will notice that the amount of credit would be fixed on the total volume of value of production, and the standard of living would be based on the same basis, only that you would have to take into consideration the amount of people in the country and the standard of living they would require to consume the amount of goods they should

require and should use in the country itself. By this process I am of opinion that we would do away with a great evil that has existed in every country in the world, a margin of from 20 per cent. to 25 per cent. between the volume of production and the volume of consumption. The world is not consuming what it is producing, and has therefore reached a point of stagnation. To apply a policy of this description we would reach a point where we would not have this disparity, and in any case we would have this moral satisfaction that we are living to maintain our own people at a proper standard of living. In any case it is worth while aiming for. I would suggest that the Department of Labour, which is now in charge of all matters regarding labour in its various departments, should carry out this scheme and see that all have an equal standard of living that we can give our people, without any doubt about it. Now, planning. I know that that is irrelevant, but when I went through the Canadian report of the Commission that sat there, I found that what was considered irrelevant became most relevant, and planning, which to-day is a word used in every nation in the world, will have to be adopted. How can we develop our resources without? How can we reasonably reach any definite and successful objective unless we plan. We are in an age where intelligence is directed with the objective of raising the standard of the people and the nation, in which the Governments take charge of those countries. I am not referring to Russia alone. Even Egypt and Africa are spending £6,000,000 in doing away with Welsh coal. They are also spending something like another £15,000,000 to £20,000,000 in providing for the development of other regions of the country by irrigation.

Mr. Schramm.] The tendency of all modern countries is to become self-contained?—Yes. And you will find even in the most remote countries that is the case. I say that in connection with any form of banking, in the modern trend of events, planning must be added on to the money system. There is no use letting money loose as we have done in the past and let private enterprise do the best with it to their own interests and let the devil take the hindmost as far as speculation is concerned. We are past that day. We are now in an age when we will have to plan for the people as a whole, plan for the nation, a nation of sturdy young New Zealand men and women which we want to see in the future can stand up to their rights against the world. That is the men that we want to raise, not a nation of bowed heads and lazy people standing on the street corners, and we cannot get them unless we plan now. I say that in connection with the money business we must have planning. It is a part of money. As I state in my pamphlet, you could not think of credit given to a savage race, where there was no intelligence, no physical ability, no resources, in the burnt dried-up countries. It is impossible. It is the ability, the physical capacity of the man, applied to the resources which is the source of credit, and money in itself is only the means and the measure by which you create the values attached to those notes. Therefore, I say that we in New Zealand must have a planning system by which we can employ our own men and our own people instead of keeping seventy thousand of them standing at ease and not allowed to do anything for themselves.

Mr. Murdoch.] Who stopped them?—The system. I say the system that we should adopt in New Zealand is one of planning; we should plan for the development of our secondary industries to the fullest extent of our requirements to make ourself self-contained. As I see the future, I can see that every nation in the next twenty years will have resolved itself into economic nationalism and learning the way to live within itself, and they will then open free trade to the world, and free trade will come back again into its own, but until then the nations of the world have to produce what they can for themselves.

Captain Rushworth.] Will the overpopulated countries not have something to say to the under-populated countries?—They will have to find room in the empty spaces of the world. There are seventy-seven million souls in Japan without room to turn, and Australia with an empty colony; is it reasonable?

Mr. Langstone.] There might be some waste spaces in New Zealand, too?—There are fourteen square miles to every person in New Zealand. We should correct our finance and plan and develop our country in the interests of the people we have here in New Zealand and also provide for other people, so that our nation would grow and consume a large amount of the produce we are now producing and which we have to send overseas.

Captain Rushworth.] You were dealing with the question of economic nationalism carried to its logical conclusion, and I was wondering whether you had envisaged certain problems arising out of such a state—that is to say, the problems of the overpopulated countries who are short of foodstuffs?—That would force them into all the other nations to find room for their population. It would take a period—I would estimate twenty years, taking the countries of the world at the present time.

Mr. Ashwin.] Would you give free entry to Asiatics?—We have 2,700,000-odd Englishmen unemployed at the present time, in addition to 89,000 increase in the poor relief in the same period. We talk about the increase of the butter trade in England. I believe that the other night an address was given by Mr. T. A. Muntz in which he warned us that we have no need to be too optimistic as to the state of affairs. He tells us that the bankers of England are not so optimistic as to the continuance of the present state. We were dealing with this matter of planning which I believe will be necessary, and I would really desire that while this Board is dealing with money, it must also deal with what money deals with, and that is the resources of the country. I think it would be a recommendation that that gap that has existed throughout the years between money as a medium and as an institution for buying and selling debt shall no longer be a part, as far as New Zealand is concerned, in its goods and services to the people of New Zealand and the world. I find that it is said in the latest report of the Bank of England that during the last year there has been closer co-operation between the British Government and the Directors of the Bank of England than in any period hitherto, and that, in fact, an office has been fitted inside the Bank of England by the Treasury, a thing not known before, so that you can see that what I am telling you now is taking place quietly in England itself. They are planning for agriculture particularly at the present time. Elliot's plan is: We must produce milk. I believe

it would be well for this Board to give some recommendation as to some form of planning that should be attached to the monetary system to develop this country. I think we are as slow in increasing our population as any country in the world. The people only stay here for a while, because they cannot make a living. We should open up and prevent the Empire from being forced out of existence and make homes for her forty-seven million crowded people who are giving birth to two million and a half more; we must give them room here; otherwise we shall be independent nations in a short time. With regard to land, I have no need to state here the state the country is in because of the trafficking in land for money for money's sake, and not for the land's sake. The land has been brought to usury and as such has no value for production at all. I was in the Waikato some years ago and saw a farm sold three times before the deeds were changed. I thought, "What a wonderful, God-given land delivered over to the worship of Mammon, bought and sold for nothing but money, instead of properly used in the interests of the State and the men that live in the State."

Captain Rushworth.] That is not happening now?—No, but the reason is that we are being forced by the result of such a position—probably the best thing is that the dairy-farmers should walk off their land and make it useless to the usurer. I would not wish it to be done, but that is the only way you could pay back those who have been paid so well already.

Mr. Schramm.] It would not naturally make it useless, but its asset is no good as far as New Zealand is concerned?—In some States of America the farmers bought it back at a lower rate.

In some cases it is lost as an asset?—The State would then have to take it up, and see that the land is kept for the use of the people and not for the usurer. £200,000,000 is the amount of usury already hanging over the land. I hope that in the future the land will be delivered from the tyranny of usury.

Mr. Lye.] How can that be done?—By preventing speculation on land any further.

Mr. Schramm.] So long as a man is the owner under the present system, if another man comes along and wants to buy, you cannot prohibit him, unless you have a different system. How would you stop the sale of land? What do you suggest?—By legal enactment by which the land shall be owned by the State and let by lease in perpetuity. If the land was nationalized, taken over by the State, taken over by bonds covering a period of years, and by paying all the mortgagees off the State would be owner of the fee-simple. Legislation should be passed to enable that to be done.

Mr. Lye.] Do you make it a condition that the State should pay off the mortgagees and own the land and the people have the right to use the land?—Yes, by lease in perpetuity.

Mr. Langstone.] Would you allow the farmer to sell the improvements he puts on the land?—What use would it be to him under a socialistic State?

Supposing a farmer wanted to go away somewhere else, and he had improved the land, could you stop him from selling those improvements?—There will be nothing to prevent the State from meeting those requirements, but so far as the land is concerned, the land is the Lord's and the fullness thereof. The Jewish people recognized that, and made it impossible to buy and sell land.

You would have a new land system alongside a new money system?—I hold that both must go together. Money, without having a national control of land, must fail. Through the two together, you will establish a solid money system and also a system of land holding and higher production from that land than it is possible to get under a speculative system where a man buys a farm and sells it for profit. The land reaches a point where it is unprofitable.

Under the system whereby the land belongs to the State, the State would buy the improvements?—Yes, but the man could not sell the land. The land must be used and used in a scientific way. As I find the land system here in New Zealand, I believe that the burden of mortgages hanging over the head of the nation is too heavy.

Mr. Clinkard.] Is not what you are advocating the old perpetual Crown lease system, the lease in perpetuity?—Yes, that is the thing. No man should have land if he cannot use it. I put a scheme before the Government some time ago that the unemployed should be trained in the cultivation of land, in scientific farming, with 2,000 or 3,000 acres. They could at least grow wheat and wool for the unemployed.

Mr. Ashwin.] And would you have trained boot and clothing operators?—I would use all the labour you have now. It would be putting unemployed to maintain themselves. I admit that it would be socialistic, but its aim is control in the interests of the nation.

Mr. Langstone.] There has been very little gambling in land this last year or so?—On the other hand, there has been little reduction in the values. I say that the values should be written down by the State, in the interests of the State.

Mr. Ashwin.] And who is to stand the loss involved if the land is written down?—If you are in business and you have stock bought in at a higher rate, and the price goes down, you write it down as a loss.

The farmer cannot carry the loss, he has lost his equity already?—Certainly he has, but the State is a mortgagee as well. The State has borrowed money and lent it again.

In general, are you going to throw the loss on to the mortgagee or ask the State to carry it?—I would not ask the State to take it; the mortgagee should bear his share of the depression that has struck the country.

Mr. Langstone.] If he is getting no interest, he is certainly bearing his share now?—Would it not be better for him to fix the thing on its proper basis and write it down? I think that drastic changes will have to take place here, and I believe that that policy should be part of the plan. I mentioned about the unemployment-tax—I believe that in any planning for production or development, better use of that fund could be made by placing it at the disposal of any Planning Board, maybe to put it in production work of a permanent nature if this should be started by the State.

Mr. Ashwin.] The point there is this: If you divert the whole of your Unemployment Fund, what are you going to do until you get going?—I would not take it all at once; a scheme would

gradually be evolved; you plan it out and take that money out gradually as you would develop the industries. Take the coal industry—you could place one hundred men there right away.

The difficulty I see is that while you say that will employ one hundred men, to start that industry, if you are going to draw the funds from the Unemployment Fund, it would cost a lot more money than to provide for them merely for labour. You would want enormous plant?—The mine I have in mind is already developed by a man himself. In the development of a mine, there is plenty of shale oil untouched.

Mr. Clinkard.] Would that not require a costly plant to convert into oil?—On a large scale it would, but we are importing £1,000,000 worth annually, and it would pay for itself.

It would take a big outlay in the first instance?—This lump of coal (exhibited) contains carbon, benzol, benzine, oil, many dyes, tar, and explosives.

All those different things take a more or less costly method to extract?—We are importing £1,000,000 of products, and we burn it up in smoke. We should convert that £1,000,000 into employing labour to develop these resources.

Mr. Ashwin.] Some of those things can only be handled profitably in such a large way that it is just a question whether it would pay?—You have very valuable clays in New Zealand, pipe-clay, round about Stirling and Benhar; valuable clays are also attached to the coal, blue pipe-clay 18 ft. thick; pottery and crockery clay is also close there.

If there is profit to be made out of that, why has it not been utilized already?—So far as New Zealand is concerned, we burn it up in smoke. I read with interest a report by Mr. Marsden, the geologist, who went into the question of cost, but as I look at it, and I have twenty-five years in mind, and also went far in taking my first-class ticket, I have seen the process of hydrogenation, but I cannot see where the cost comes in and where it is not going to pay.

It is generally assumed that if there is a chance of making a good profit out of a thing like that, private enterprise would have got on to it. I was wondering why that has not happened in regard to this?

The Chairman: I think we should allow Mr. Tucker to get on with his statement, and an opportunity to ask questions will be afforded later.

Mr. Tucker: I think I have put most of the main points before you. I might state, with regard to the minimum of reserves, that you will notice a provision in the Act that the pound-note is legal tender, and I think now it will not be necessary for any reserves at all to be held by the Board or the Government. I think that, with that, more flexibility would be attached to the operation of the bank. It was found by the British Commission which sat in 1921 that immediately trade improved and development began, the reserves in the banks went down and they had to stop. I would not desire that this obstacle should be brought in in New Zealand, but that we should be free to develop New Zealand in the interests of the people.

Mr. Langstone.] You were talking about the question of us becoming nationalized; I suppose that internationalism is only the sum total of nationalism, is it not?—Nationalism really becomes internationalism if they agree to nationalize.

You have got to have nationalism first?—The more you conserve of your own nationality, the less you involve yourself in another nation.

A nation is the sum total of the individuals that make up a nation?—Yes.

If we carry that a little further, then an internationalism is the sum total of nationalism?—Yes.

You were talking about being overpopulated and looking for open spaces: Is there such an urge and a desire for people to go away from the land of their nativity?—Yes. In England at the present time emigrants are prepared to leave the dole and come out to a country where they can make a living, and the British Government is looking for room to put them out.

Is the treatment of the unemployed in England inferior to the treatment of the unemployed in New Zealand so far as the dole or contributions or help is concerned?—No, I do not think it is. I believe there is a greater advantage given in England, in that if the dole is not sufficient they can go on poor relief.

Have not they got a transitionary benefit there?—If the dole is not sufficient, they apply to the overseers of the poor.

In England they are allowed to earn up to the standard rate of wages before they start to reduce their dole?—There is a certain amount of allowance for earnings beside the dole.

And they make allowances for rent?—Yes, that is allowed to the poor.

And for coal in the winter?—Yes.

When you said that the total would be fixed on the total production of the country, you were dealing with the production of the people of the country; what would be your basis of fixing your values?—Fixing the credit, you mean?

The wealth, yes?—The Statistician would annually provide figures showing the total volume and value of wealth on a fixed basis in relation to our present basis or sterling.

What would you say would be the value of wealth?—The basis of the standard fixed by New Zealand; we are now 25 per cent. below sterling.

You mean the price-level?—That would be the basis of value, of the total national value of things on the volume of value.

At a price. If you altered the price you would alter the value. You would not alter the volume?—That is so.

The price is the unit of the position that we have got to deal with, and the trouble as you see it and state in your letter, is that there has been a process of demonetization of wealth. Prices have fallen. We have demonetized them. We have not altered the physical properties of wealth at all. We have altered the money factor in relation to wealth?—We have not, in other words, allowed sufficient purchasing-power to buy the goods we are producing.

Purchasing-power is money ?—Yes. And the goods therefore increase in relation to the failure to consume.

Have you studied what they are doing in Japan ?—No. I have not given any other study than to the tremendous development that has taken place in secondary industries.

I noticed a letter we received from one witness that the Japanese are selling a good worsted cloth at 1s. a yard in Lancashire and they are selling good shirts for £1 12s. per dozen and they are selling bathing-costumes at 2d. each. Have you tried to study out the reason why they are doing that ?—The standard of living of the Japanese, although it might be considered high for the Jap, would be impossible for the Britisher, and in their factory system, if looser, they have longer hours and greater scientific management. There is great scientific management of industry in Japan in spite of their being a backward nation is some ways.

Writing in the *Times* of November, 1929, Sir Herbert Austin quotes a letter from a friend in Japan to the effect that the idea that the Japanese workers live at a low standard of living is without foundation. Their standard is admittedly below European standards, but there is not that difference between the standards that suffices to account for more than a fraction of the difference in the prices at which the respective products can be sold, so that does not account for it ?—But the home comforts that we have and the mode of living accounts very much, as well as the standard of living. They live upon rice more particularly. They use very little meat. Rice and fish is most of their diet. Their clothing is another thing. They do not use so much clothing as we do. They are beginning to use wool in the winter now, which they have not done hitherto. They are buying our wool and patterns of our rugs have gone there already.

If they are able to buy more and get more clothing, wages must be going up in Japan ?—They do not use much of the goods in Japan actually. They use the cotton goods, but very little of the wool.

Mr. Ashwin.] But Mr. Langstone's point is that they must take something in return ?—Yes. There is an exchange of trade by Japan. There is no doubt about that, because any nation that trades with another must have a return trade.

Mr. Langstone.] But if they are only getting 2d. for a bathing-suit they can only get 2d. back again from England ?—Yes. That is the position.

I am not dealing with that point. Even in Japan they could not possibly live if they were producing bathing-suits for 2d. each, could they ?—No.

Then they must have some supplementary method of getting an increased income. Do you know what they are doing there ?—I have no idea.

That is important, because we understand that in Japan, through a form of national subsidy or a question of utilizing the national credit, they are paying an internal price-level to the manufacturers distinct and separate altogether from any overseas price-level ?—So they are using the credit of the nation to let export be done at a cheap rate.

No. They are using the credit and then allowing the exports to be done ?—Subsidizing the exports ?

Yes. By a national credit ?—Allowing the credit to be used in the manufacture, and then subsidizing the exports.

Yes. They pay in Japan, evidently, from what we can gather, and then they sell on the British market for what they can get and they are prepared to sell at a very low price.

Mr. Clinkard: We have had no very complete evidence on that.

Mr. Schramm.] There was some contradictory evidence on that ?—A Japanese who passed through here recently said that in Japan the amount of money did not matter. It was the amount it would buy; the value of the yen in purchasing-power was the thing that mattered to the Japanese. If he could buy a suit of clothes for one yen or whatever it might be, that was the thing that they were aiming at.

Did you see it was stated that Japan was going to put a cheap car on the market, especially on the British market, for £50. Do you know anything about that ?—Of course, they are undercutting the British market, and they are also beating her in India. They are selling cotton to India now as against Lancashire.

Mr. Langstone.] Suppose you were a banker to-day operating a private bank. Do you think you could do other than what the banks are doing ?—No. The present system compels the banks to do what they are doing.

That is so. The banks under the present system, the way they are organized, are doing the best they possibly can under the circumstances. You have no fault to find with the banks ?—No. Their system is what it is and they are confined to it.

Therefore, if there is any radical change to be made it means a change in the policy of banking ?—That is so.

Would you be in favour of taking the banks out of the hands of private control and placing them in the hands of the State, the Treasury, say, or setting up a Board under the State completely ?—I believe that there should be only one centre by which credit should be issued. The many small institutions that are giving credit now besides the bank; I do not think that that is conducive to the highest interests of the State, that so many of these little ones should be issuing credit upon stock and land and chattels. I think they should be discouraged.

We will assume that you have got some national form of issuing credit. How would you issue that credit ?—It would be quite easy for the State to fix a Department, the same as they have now in the Lands Department, or any other State Department, by which the whole of the transactions could be carried out, the same as the private ones are doing.

Supposing I was a dairy-farmer milking a hundred cows and sending my milk or cream to the factory, and it is being manufactured into butter, how would I get paid ?—In dealing with your own butter, the credit that you would require there would be a genuine deal between a buyer and a seller, but the credit I am referring to would be credit on stock or on land. Mortgages I was referring to, though I did not refer to it in that way.

The farmer to-day, with the price of butter, simply cannot meet his commitments. He is insolvent. We want to make him solvent. If you have your National Credit Board and it is operating, and I am the farmer, I am the victim of the system. I want my wealth monetized into something. How would you do it ? Have you got any clear idea of the mechanism through which it would be done ?—First of all, you would find out what is the cause of the difficulty.

I know that. Prices have fallen. If the price had remained at 1s. 6d. a pound I would not have been in any trouble ?—Have other factors fallen equally ? Has the price of land fallen proportionately ? The men who are on freeholds in New Zealand to-day are in no difficulty.

Yes they are. If you talk that way you know nothing about farming ?—The men who own their own farms, who are not tied down to the usurer, are in difficulties perhaps, but not to the extent that the other farmers are.

If you had a farm given to you to-day for nothing and had your cows given to you for nothing and you started to operate that farm, do you think you could make it pay—because you would have rates and insurance and so on ?—At the present time, with the quotas against him, he cannot sell at all, so he is out of business.

But even the freeholder—who has got the freehold—with the price of butter he is not able to make ends meet, so the position is serious is it not ?—I can see the seriousness of the situation there, inasmuch as prices have fallen to the point they have, and the farmers' commitments have not been reduced correspondingly. He is in a very bad way.

I just thought that we would accept that position without going into the detail of it, and that you would be able to explain in some definite form just how your credit would be distributed among the people that needed it, and what would be the basis of your distribution ?—The Rural Credits Board, now in operation, I suppose, would be some guide in that direction.

The Rural Credits Board only lends money ?—Well, that is the only thing you can do under the present system.

If I am producing butter I sell butter. I am selling butter for revenue. I do not borrow revenue ?—That is the exchange you have for your product, when you sell your butter, but I thought you were talking about borrowing money for the cows.

The individual farmer does not sell butter. He produces milk and butterfat which is taken to the dairy-factory, manufactured into butter, and there is another selling organization completely separate from himself, but he has got to get income. I, as a dairy-farmer, am not a seller of butter. I produce butterfat but I do not sell butter; but I have got to be paid, and I want to know how I am going to be paid for my butterfat ?—He will be paid from the factory, at the price that is ruling at the time.

Who is going to fix the price ?—The market at present fixes the price. England fixes the price.

If prices do not rise, then it does not matter what form of Credit Board you have I am no better off ?—But in your own country, here in your own market, if you have fixed the purchasing-power at a higher rate, then in New Zealand your prices would be raised.

That is what you would do ?—In your local market. But you could not do it in the British market. You have no control.

How it it, then, that the price for local goods is higher than world parity ?—I suppose because the people in New Zealand have a higher purchasing-power or else they would not be able to pay for it.

Is it not because there are all sorts of charges added on to it, Customs duties, sales taxes, and exchange-rates and all sorts of other charges added on to the goods when they come into New Zealand. Therefore, the price has got to be higher. You could not buy goods for £100 in England and sell them in New Zealand for £100 could you ?—No. But with reference to butter, the point I was making is this: That if the purchasing-power within New Zealand was high enough to pay 1s. 2d. a pound for the butter you could do it within New Zealand if money is to be a measure of value for what we are producing, but, on the other hand, whatever we sell to England would have to be sold on the basis of the price in England, and we would have the same amount back for the amount we send over.

Mr. Massey.] With reference to the land and mortgages on land, are you aware of the amount of money that the State has actually lent out on land ?—If the figures given by the banks here are correct, there would be three-fifths of £200,000,000.

Then, according to your ideas, the State actually has a greater control over land than any private lending institution ?—That is so.

You are aware also of the fact that the Government of the country, or rather the State lending Departments, have actually borrowed huge sums of money overseas at high rates of interest ?—That is so.

Are you in favour of the State reducing the mortgages of this country and protecting the interests of the occupier of the land ?—Sure. Of course, I understand that the money loaned by the Government was borrowed from abroad and the commitments of the Government for money borrowed abroad holds good, and the contracts must be held good unless the Government repudiates its obligations as far as the money borrowed to lend to the farmers is concerned.

You said you were in favour of reducing the mortgages on land down to such an extent that the farmer would be able to make a profit on present prices ?—It would be easier for the money borrowed in New Zealand to do that. I quite appreciate that, but the money-lender abroad is in this position, that if his farm becomes empty he is losing the whole thing.

But the State is responsible for the money that has been lent through State lending institutions. The State has to find the interest. You are prepared at this stage to advocate that the Government should write down mortgages to a proper basis ?—I say that this is the only remedy. I believe that it will have to be done otherwise some settlers will have to walk off—that is, as far as the dairy-farmers are concerned.

But you do not think that on the present world's price-level, if there is such a thing as a world's price-level for commodities, or the present price-level in Great Britain is going to remain at the present low level all the time do you ?—It will remain in the same place as it is now and probably go lower. Unless the purchasing-power of the British people is raised equal to the progress and development of scientific invention in production of goods, it must go down, because the price-level must be in line with the purchasing-power of the people, and what I can see now is that the purchasing-power is not rising as it should rise to consume the goods. Take margarine in relation to butter. With margarine at 4d. and 6d. a pound, once butter goes to 1s. the consumption of margarine goes up. I have a table here and as the price of butter goes down the consumption of margarine goes down. Therefore, *vice versa*, the purchasing-power of the people rises to butter at a certain point and goes back to margarine at the other point. The same may be said of all other commodities. While the purchasing-power of the British people to buy our goods is low, the price-levels will be low, and until that happens I cannot see that our oversea prices in Britain have any hope of rising, until the British price-level or purchasing-power has been raised.

You have stated that you are in favour of writing down mortgages on land to a proper basis according to the export price of the commodity. Supposing export prices were to suddenly rise, the occupiers of land or the mortgagees would be placed in a very favourable position ?—I think I made another proposition. The trafficking in land and the buying and selling of it should be taken over altogether from private enterprise and be made the property of the State, so that such a thing as the crisis that we are now in as a one-sided producing nation, should be avoided. Instead of having to meet the usurer on the ground that he is now, we would not have to meet him at all. We would have the whole of the land under the control of the State where it should be.

If you were a money-lender would you expect to get interest on the money ?—Undoubtedly, if I were a money-lender I would do the same as a money-lender, but inasmuch as God never intended me to have money, but gave me brains, I am very pleased for the latter.

If you wrote down all these mortgages on land on the proper basis according to the present export price-level somebody would have to pay the difference in interest ?—That is the morality of money, but it is not the immorality of human life.

But still you would be prepared to pay ?—That is a contractual obligation and a legal obligation, and it is the morality of money.

Then you would tax the whole community in order to find the difference ?—We have to do so in more than one way now. We have to subsidize and we have to alter exchange-rates to do the same thing now.

But you still have your exchange-rates have you not ?—Yes.

I thought, judging by your comments, that you were in favour of keeping the exchange on a fairly high level ?—I have never objected to the exchange-rates at all. They do not worry me in face of the international changes that are now taking place. They will adjust themselves in the long-run.

A sort of governor of trade ?—A governor on the value of currencies and trade balances between nations.

Mr. Clinkard.] Is not the exchange of goods the main object of the world, rather than an interchange of money ?—No. It is the exchange of money, and therefore goods is a secondary consideration, although goods is the exchange.

Is not that the ultimate ?—That is the exchange, goods; but money is the sole objective of the transaction.

But supposing we indefinitely decreased the volume of money we have at present, if we divided the community into two sections, there is the section who are producing commodities that they can exchange, and there is a section on the other side who have no commodities and have no labour which is saleable for the time being, which they are unable to exchange across the road as it were. Now would the increase in the quantity of money put anything in the way of exchange into the hands of those who to-day have nothing ?—No. The issue of money for money alone would make no difference other than to push up the price of the goods, but if you put the same quantity of money and the same quantity of goods into circulation at the same time, you would not have any inflation at all.

But you do not in that case make any more commodities in the hands of those that have them for exchange. Supposing there are four of us constituting a community. One man is producing butter in abundant supply. Another one is producing clothing, and the other two are not producing anything. When would the increase in butter or the increase in clothing improve the position or the increase of money ?—In calculating national assets, butter, cheese, iron, and everything else come into the calculation, and the volume of your wealth is calculated more upon the volume of your goods than of your money, but the relationship between money and goods at any time should be equal.

But you have referred to the nationalism which is established the world over ?—No. I am not speaking nationally now.

But I was going to another phase of the position. At the present time, instead of the exchange of commodities the world over to the extent that it was, each nationalized community is trying to carry on exchange of commodities limited to that number of commodities which they themselves can produce ?—That is so.

And consequently the interchange of goods is not as free or as large in volume as it was before that national method was adopted ?—That is so. There is a shrinkage in international trade.

We were able to exchange produce of the frigid zone with the torrid zone and now that is limited to a great extent ?—That is so.

The question has been raised as to the possibility of nationalizing banking ; do you think that would be altogether good, if there was just one source of supply ?—I could not see anything wrong with it.

Let us take the position ; we have the State Fire Insurance of which I have been an advocate from its inception, but we do not find every one going to the State Fire Insurance, and yet it is the State Fire Insurance that has kept the price at a reasonable level, and we have forty-two companies operating fire insurance in New Zealand, and the people of New Zealand go to these forty-two companies and do not all go to the State ; why ?—The State Insurance has served a very good purpose ; it has kept down the price of premiums.

And yet the community do not patronize it solely. If we had a banking institution, would all the people go to that one institution ? Would they not still want their privilege of going to some private institution ?—I question that, because the functions of money are so important in the life of a man from before he is cradled until after he is coffined, that he could not very well move outside the confines of the ordinary lines of banking.

If we are going to confine credit to one source, we have had for a lifetime all sorts of credit; credit from one to the other ; credit from the storekeeper and the auctioneer, and so the whole thing goes round. Supposing you are the manager of the bank and I happen to quarrel with you ; if there is no other source for me to go to, what is my position ?—That is the case under private banking.

It could be the case under any other ; the human factor always comes in ?—I believe that under credit and currency controlled by the State, they know exactly what the State is doing ; why should any one be allowed to profit at all in the commerce of debts ?

I have been in favour of a State bank, but I would not be in favour of eliminating forcibly all other competitors ?—I might prophesy here that the day is not far distant when we will see a Government bank.

With regard to the price of butter, you said you thought that was a question of increasing purchasing-power ; do you really think that that is the case ?—I could show you an article where a table is given, and the price of butter determines the consumption of margarine.

It has a very great power as a factor ; abundance of supply is also a factor. The amount of butter that has been going into Great Britain from all sides has been far and away in excess of her normal price and consequently prices have been becoming less and less ?—Ireland and England are producing as well.

You will find that their consumption of butter during the last few years has doubled in spite of margarine, though it is even now only about half of what New Zealand butter consumption is, but whereas we consume about 3 lb. of margarine per head, in Great Britain they consume over 50 lb. of margarine per head. If there was a suitable increase in purchasing-power in Great Britain, would that go into the purchase of butter ?—Butter would benefit by it.

I will grant that ?—It is said that if all the working-families in England could get 1 lb. of butter a week, the price would increase to over 1s. or 1s. 2d. per pound, but there are so many families who do not see butter.

The manufacture of margarine from whale oil has been a tremendous factor. The people of Denmark consume a very large quantity of margarine, while they are butter-producers. They put all their butter into Great Britain. I do not think we should assume that it is entirely a question of the purchasing-power of the people of Great Britain : it is very largely a question of the flooding of the one open market. The nationalization of the different countries. France has restricted all imports of butter, and consequently their butter is at a very high level ?—If we had the purchasing-power to consume more of the goods, the price would go up. The fact that we cannot consume that has an effect.

I was confining this to the question of the sale of our butter in the British market.

Captain Rushworth.] You mentioned the necessity or desirability for planning. That is a suggestion that is being put in various countries at the present time, is it not ?—Yes.

It is a trifle ambiguous. In many cases where planning is being advised it is that production should be cut down to fit the money system. That is not what you had in mind ?—No. I meant that the credit of the country should be used for the use of a Board of Planning for development purposes.

Not the procrastean methods of making your people fit your bedsteads ?—I do not know whether the Russian system would be all right, either.

Your conception of planning is to make the money system fit the legitimate requirements of trade, industries, and commerce ?—That is the plan I have in mind.

You mentioned the word "gap." There is apparently a gap between the financial cost of commodities and the total purchasing-power ; that is apparent, is it not ?—Yes.

If you tried to close that gap by increasing wages, the increased wages would have to be carried into the financial costs, would they not ?—It would be a part of the national expenditure.

Could you close the gap by increasing wages ?—Increasing wages in itself would not do it, because in issuing credit into developmental work and industry it would come through wages back into circulation and create a greater equilibrium. The relationship would have to be connected between the issue of credit into development work and the finding of work, and through that, wages.

If you increase the wages that way, you would increase the total costs by at least the same amount ?—That is so.

You still have that gap ?—The gap I referred to was the gap where there was no connection between production, only through the operating of private enterprise for funds, and development. All the resources of New Zealand now in the secondary industry stage requiring to be developed under private

enterprise might be there, but there is no credit facilities, no money to develop them. The reserves of the State at the present time are £70,000,000; that £70,000,000 deposits cannot go into developmental work because private enterprise believes it is not profitable.

Why is it not profitable?—That is the gap, because of the prices and there is too much goods on the market, we are told. They are not sure of the avenues in which investment can be made, but with planning and fixing the amount of interest on a sound basis these works could be developed on a sound basis. Credit would be issued at the direction of this Board for the development work of the various interests of the State and not left to private enterprise.

The State would go in for the construction of capital works?—Yes.

Where would the State get the money from?—It would create the credit. We have got a distance of 75 per cent. now.

At present the State borrows the money from the banks?—Under the system of planning it would have to be fixed on the ability of the land to produce and the value of the resources.

Would that money used by the State be regarded as borrowed money?—It would be regarded in each industry as borrowed money, the same as under any social system.

That involves additional taxation?—To a certain extent, but the rate of interest would be low for development work.

We are dealing not with the question of interest, but the paying back?—It would be paid back to the State.

If the State has to recover the money, it would do so by taxation?—Taxation in the first instance; in the latter stages the industry itself would pay back the whole of it.

When the State levies the taxation to recover the amounts that have been lent for the purpose of capital works, when any additional taxation is levied, surely the people who pay the taxes will have to include that as an extra charge for the goods turned out?—Yes.

So, again, we come to the point where you cannot close the gap?—A redemption fund would have to be created by which the money would be paid back to the State and the money cancelled once it is paid back.

Mr. Lye.] You say there are numerous reasons why New Zealand should adopt a monetary policy of her own. Have we not got a monetary policy of our own?—We have, and we have not; because we are tied to London to a certain extent as far as our monetary policy is concerned.

How do you mean "tied to London"?—Because our banking system is a bank exchanging between London; our money and funds are there, and we have no means within ourselves by which we provide for ourselves a separate system to suit New Zealand apart from our exports.

Seeing that our chief market for exports is Great Britain, does it not necessarily follow in the matter of exchange that we must be linked to sterling. Could you see any way of avoiding that?—No; only by a special Board of Export similar to what the Bank of England has now in regard to foreign trading.

You think it would be possible, then, to run a monetary system in New Zealand and not take into account our relationship with Great Britain and sterling, seeing we have to meet our debt obligations overseas?—You would meet them all the same through an Export Department by which you would provide for your imports and payment of debts.

There would always be a relationship between New Zealand currency or money with sterling, would there not?—There would be so far as your export values are concerned, and relationship between the value of your currency in New Zealand; but the amount of your credit and currency in New Zealand would be controlled by yourself.

Do you suggest there is a shortage of credit in New Zealand?—No, I have already said that that is the gap.

You say, "A monetary policy of creating and using New Zealand's own national credit on a basis of annual national production"?—That is so.

Do you suggest that as the volume of goods produced increased, it is necessary to materially increase the volume of money in New Zealand?—If you increase your volume of goods and the value as well, it is only right that your own country should have the fullest benefit of that by developing your own country and giving your own people the advantage.

Is it a condition of your scheme being put into operation that there should be what would amount to a capital levy by a compulsory writing-down of all mortgages?—It would amount to that.

Then is it a further condition that you would nationalize the land by State purchase of all the land?—Yes.

Can you give any explanation, although it has been repeatedly said, that the farmers of this Dominion are producing and have been for the last years, below cost, can you account for the fact that there has been a marked increase in the volume of production of dairy-produce, for instance?—Probably an effort was made to try and cover the reduced prices by volume.

Can that production, if it is agreed that we are producing below cost, be maintained below cost indefinitely?—Unless you can increase your home market, by consumption or by increasing the size of your population, in spite of your closing market at Home, I cannot see how you can.

If you continued to have the benefit of the English market and an increased demand locally, and were still producing below cost, would you continue indefinitely to produce below cost and increase your production?—That would not be a business proposition. You would be out of business.

By a process of adjustment, would the volume of production shrink until the producer was paid a price which was a payable price for his production?—Yes, and be up against this: As his production shrunk, other parts of the world would be milking more cows and making up for it.

They could not produce unless the price warranted?—As far as the other nations of the world are concerned, they are increasing their herds.

Are they producing below cost ?—They have a market at the door, and that might assist them. I do not believe they could do it under cost, but probably they could sell it at a lower cost than New Zealand can.

You say, " The development of necessary secondary industries by the use of your own resources " : Can you suggest any reason why these industries, which you say are subject to development, have not been developing, having regard to the fact that there is a substantial tariff protection and additional protection of 25 per cent. exchange, and we have low wages costs, recently subject to two 10-per-cent. cuts ? What are the reasons why, with the very substantial amount of protection given, these secondary industries have not been developed to meet our own needs ?—There might be various reasons, (1) the price of credit might be too high, (2) knowledge of how and where to invest that money to develop the resources. Here planning would be of use in directing capital into investments. Why, if there was £70,000,000 of money that could be lent out even with the present system, was that not done ? It is apparent to me that the reason is that the information that the Planning Board could have given would have put that money into use and been employed in producing what we want.

Is the reason why these secondary industries have not been developed, therefore, a want of confidence, or limited market, or the incapacity of these industries to be worked profitably ? Is it one or all of those points ?—Lack of confidence would play a great part, inasmuch as the purchasing-power of the goods we now have produced is so low that they cannot be bought and are piling up in stacks and that would create no confidence in further development of any industry. Furthermore, the banker being very timid himself, it might be phenomenal in that instance. The same might be said of many more cases.

You suggest, then, that the associated banks have £70,000,000 available, and that they sit tight and refuse to give necesary credit ?—The banker naturally is in charge of other people's money and has shareholders as well. He would require a very safe investment before he would invest credit.

If there are ample funds available in the banks, much of it on fixed deposit on which the banks have to pay a certain rate of interest, is it not the function of the bank to lend its resources for the purpose of making profit for themselves ?—They make profit for themselves, but undoubtedly one of the chief troubles the world has experienced is that the self-preservation of the banks has been the cause of lack of development of industries.

If a group of individuals come along and are able to show they they have a market and that their costs of production will show a definite profit, can you understand the banks refusing them the credit necessary to development ?—When an indvidual approaches a bank-mamager, he is very cautious ; but if he had a recommendation from an accredited group of men who could say that here was a profitable industry, that bank would accommodate him.

There is a lack of purchasing-power ; how are you going to overcome that ?—You would have the liberated wages and salaries, and a greater amount of money ; until that is effected, the price-level is no use.

You would liberate larger amounts by way of wages and salaries ?—Yes.

In New Zealand, in spite of protective tariffs and the exchange-rate, which is added protection, we are still not supplying our own things ; goods are coming from various countries overseas and are entering into competition with the locally produced goods protected as I have stated ; if you immediately by an increase in wages and salaries increase the cost of production, instead of promoting your secondary industries, it might possibly happen that you would close some of them down, which would create distress and further unemployment. Is that not a fact ?—The fact of the matter is, if you have sixty thousand men who are not buying the commodities, if you consume more at a lower rate, you are quite as well off.

If you increase the cost of your own local production, is it not encouraging people to buy in the cheapest markets, and seeing that our own local manufacturers are in competition with the manufacturers from other countries, if you increase materially the cost of production by increasing the wages and salaries paid, is it not possible you would close some of your own industries and make it impossible for them to compete ?—No, I could not say that ; because I am of the people and I have every confidence that the wages can be paid. Even in the manufacturers' report for last month, they say that greater purchasing-power must be liberated.

You say, then, that increased costs could be loaded on to New Zealand industries without doing them any material harm. How are we so dependent, then, for certain goods and requirements which are imported from overseas ? Why should not our own workmen be encouraged in local industries if those industries can survive ?—People should be taught to buy their own goods, but still that is no reason why the industries in New Zealand should not be developed. I believe there are new industries in New Zealand that should be developed, and I believe those in existence can stand a higher rate of purchasing-power distributed, and even on a self-contained system all money within our own country and the control of all our resources, the amount distributed could be possibly reduced—for instance, the rent of a shop which was £21 a week at a certain period : How can a man sell at a certain price ?

Mr. Lye.] Can you give any reasonable explanation why, with the protection that New Zealand industries enjoy by tariff and exchange-rate, many of our industries are working only part-time and many of our operatives are out of employment, yet you say that it would be still possible to increase the production costs of these local industries and still meet competition ?—It seems to me that if they cannot buy the goods and they have not got the money to buy the goods, the goods will remain in the factory and the men will be unemployed so many days a week until they are sold.

But they are buying overseas goods in competition with New Zealand goods ?—Some might be doing that and that is giving the sales to the overseas, but there are a lot of them that cannot.

But you have practically told me that our New Zealand industries are making a profit and that they can still further increase the wages and still remain in business. Why are they not employing the people and supplying our own needs ?—Because they are making a profit within the limit of production, and cannot go any further.

But there is a market there because we are supplying the needs of the people by imports ?—But the number of people unemployed that are not buying is a social problem. If you increase the cost you at the same time increase the purchasing-power, and therefore the whole thing will advance.

Mr. Ashwin.] Is it part of your proposal to control prices ?—Yes.

How do you propose to do it ?—We have controlled prices in New Zealand. We did it in 1917, through the Government Departments.

But not comprehensively. In other words, your idea is to have a sort of Price-fixation Board, who would fix the prices for everything ?—Yes. That is not impossible. The injection into the currency of more money than there is of goods at any period is an inflation, and if you want to prevent inflation I hold that a Price-fixation Board at that period would prevent inflation and give the money to be used at its proper value.

But does not fixing the price of given commodities largely fix their value of production. For instance, if I am producing rat-traps and you fix a price for rat-traps, there is a limit to the number I can sell at that price ?—Yes.

Do you not think it would be very difficult for anybody to fix definite prices for every commodity that we use, having regard to the effect of either a shortage or surplus of supply in various quantities ?—The prices as a rule adjust themselves by the law of supply and demand, and currency at all times is a reflection of the amount of money from hand to hand passing in the country at any given period.

But the quantity of money only has relation to the volume of goods in general. It does not have relation to particular commodities, and thereby it seems to me would lie the crux of your difficulty in fixing prices ?—If at any time there was a fear of inflation by an overinjection of money, I do not suppose under any kind of planning that I have suggested that would happen, because any money that gets into circulation other than through legitimate either productive or consumptive channels can never be anything but inflation.

But the whole thing turns to some extent on misdirected efforts. Come back to my example. If I go and produce two million rat-traps it is no use your fixing a price for them. I cannot sell them ?—Not in an isolated case of that kind ; but say that, at any given period, there was a boom and prices went up as they did in 1917 indiscriminately, and there was no corresponding rise in wages, the Government would have to take in hand the fixing of prices and the protecting of prices. What I mean here is that the Government should provide that there should be a relationship between the stability or the medium at all times to the commodities.

That is a different matter altogether ?—And it could be fixed by a price-level, a general price-level of goods, say, at certain periods, by the Government.

But your idea is attempting to regulate the value of money so as to maintain the uniform general level of prices, and with prices of commodities in particular ?—No. The general level of prices, that is what I mean.

I also gathered that you propose to control exports and imports ?—I think that I did suggest that and Import and Export Board should control imports and exports and take charge of the payments of our debts abroad. I had that in mind, but I see the Bank Act provides, in dealing with the national debts, that the State Bank does that. But so far as the actual commodities are concerned a Board that would handle those commodities was what I had in view.

Would you go so far that you were only going to allow exports and imports practically under license or something like that. I want to know how far you are going ?—With regard to industries that we are developing, industries of imports that would conflict with our industries that we are manufacturing ourselves, we should have control of those things, and not jeopardize our industries. That is what I had particularly in mind at that time.

And then you also provide for fixing the standard of living. How would you do that ?—If we take the Australian Judge, in his report in Australia last week, he states that it can be put on the total production. When the 10 per cent. was returned this week in the Federal Court of Australia, he said that wages should be related to production rather than to cost of living, and that the awards should be more substantial—that is, they should be more directly related to the national production.

That is true. Any standard of living really must be based on the productivity of the labour, but that in itself means that you cannot fix it arbitrarily ?—No. But I suggest that it could be put by calculating what are the requirements of one and a half million population per head per year.

You could say that every family ought to have all sorts of things. You could put the standard as high as you like. They should all have ten-roomed houses and grand pianos and wireless sets and a dozen servants. Where are you going to place the limit ?—You would fix the standard of living on the standard value of your production. If you can afford these things get them. Let the worker have them as well as anybody else ; but if your production and your volume do not allow of them, then you can come to that standard. The idea is that, with the increase of production and value of production within your country, the whole nation should benefit by a higher standard of living. It should rise with its prosperity and go down with its prosperity. Each year these figures would be produced and the standard of living would rise accordingly and go down accordingly.

Mr. Clinkard.] In operation it is always ready to rise and never ready to go down ?—My experience of it is that 25 per cent. or more are below.

Mr. Ashwin.] Having a bearing on that question of the standard of living, you would provide, I gathered, for the issue of money to the State for developmental purposes ?—That is so.

The difficulty I saw was that if you attempt to fix prices and other things and then issue additional money and yet hope to fix the standard of living, are you not really trying to defeat the underlying

theory of the value of money—namely, the value of money is fixed, in the long-run at any rate, by its quantity and the rate it circulates. If you increase its quantity for other purposes will that not upset your endeavours to fix prices ?—No. I look at it this way: If we increase our production by the co-operation and determination and will to work of our people, they will be entitled to the fullest extent of a standard of living, and it would be quite safe, because you would be creating on a social basis. The profit element would be entirely out of it, so far as the State is concerned. You are providing for your own people by a social standard, and the profit and other items belonging to it would be dismissed.

But you are working independently to some extent in your control efforts on one side and your developmental efforts on the other, and to attain your chief object, which I consider is the maintenance of a standard of living all round, would depend upon your being able to keep them in step ?—That is, the issue of credit and prices ?

Yes ?—Naturally, the unit of prices would have to be in relation. There is no doubt about that. But they would find them in the production.

Mr. Munro.] You say a fund of credit money shall be established for this purpose (National Planning Production and Development Fund). Now what would that money be composed of ? Figures entered in the books of the bank ?—No. You have at present a tax on unemployment amounting to close on £4,000,000 a year. I believe that that Planning Board should take charge of that.

That is where this credit money would come from ?—That would be the nucleus of a State Fund by which this Board could operate in the development of new industries.

Would that be all the money you would have in that particular account ?—No. They could take money from the Reserve Bank upon approved plans of development.

Have you thought out what other money the central bank or the State Bank would have available for this particular purpose ?—So far as I can see, if the power of demand is very wide, and that is the reason why I wanted to remove any limit as to the 25 per cent. inasmuch as the pound-note is also sterling. it is legal tender.

You mean that it would be real money—that is, money that flows into the State to the extent of £4,000,000 a year from the unemployment-tax, and any other moneys that could be obtained, real moneys, I mean, from the State or central bank ?—I understand credit money to be an issue in confidence that it would be returned in real goods and real money at a future date. It may be based on past savings or on past holdings as we now operate, but the system I would recommend would be that the State could issue against the credit of the State to any amount they liked for the development of the country on the security of the production of the goods.

That is what I wanted to get at. In other words, it would be simply a book entry for the time being of so many millions according to what you determined. It would not be real money, but simply a book entry ?—That is so. Credit till the goods are created. The goods will pay for the credit.

You say, "My financial plan is that credit shall be a national instrument based upon the total value and volume of production." I want to emphasize that for a moment. "Credit shall be a national instrument." Does that mean that all credits will be issued by the State through this State Bank ?—Yes; I think I explained that. I am of the belief that too many institutions issuing credit does not conduce to a thorough knowledge of to what extent credit is abused or rightly used. Under the sole control of the nation they would know exactly what they are doing.

That is what the banks and the lending institutions really claim to-day, that they only lend based upon the total value and volume of production. Would you lend this credit and eliminate the banks and any of the lending companies and private individuals and so on ? Would you eliminate them ?—They could not live if the whole of the instruments were nationalized. They would go out of existence.

That is the point I want. You want to nationalize ?—Yes.

Does this imply, then, that all the people, primary and secondary, that are producing to-day in New Zealand would be financed by the State ?—It would resolve itself into that eventually.

I take it that there would be no possible method of approximating what production was done at the present time without a huge system of stocktaking of the whole country ?—Each year it would have to be taken.

By this Board that you would set up. Now, No. 3 of your financial plan, "Purchasing-power shall at all times be equal to productive power, or, in other words, the money paid for services, wages, salaries, &c., shall be sufficient to consume that share that the people are entitled to, and to give a more abundant life." That is what we are told to-day by our political economists and by financiers and so on, that what the people are getting to-day is only what they are entitled to. You would not agree with that, would you ?—Getting what they are entitled to ?

That the claim to-day by economists under the present system that they are getting just what they are entitled to through wages and salaries and so on ?—But they are not getting what they are entitled to, to the value of the production in any country.

I do not think so either ?—They might be getting to the value or financial basis of calculating money according to metallic or note or security, but not to national production of goods.

Who would be the judge to say what the people are entitled to for their services ?—I have said that the Department of Labour should be in charge. It would be the Minister of Labour; the Government really would have to be in charge or should determine. The figures would be produced by the Statistician and then the Department in charge of those figures would issue the amount or the standard of living for the issuing on the figures of the past.

Does your plan assume that eventually all production will be carried on by the State, or will it be left as it is in the hands of innumerable producers of every kind ?—It eventually goes to the State.

In connection with land, you say, "Land shall not be subject to speculation and no credit shall be given to any person or institution whose operations tend to drive up the monetary value of land." That assumes, I take it, that the State now is lending all credits to farmers and so on. Is that the method by which you would regulate this particular part of your plan?—I do not get the question.

The land to-day is owned and occupied by thousands and thousands of individuals. Following up Mr. Langstone's question, take the dairy-farmer to-day. He is practically in a state of bankruptcy because of the low price that he gets for his products overseas. How are you going to help that farmer to-day. How would your plan immediately help that farmer?—The plan is a long shot. It would not immediately affect them.

In your plan there would be no immediate relief for the dairy-farmer?—No. It is a long period of relief by which the land would be freed from usury.

Your plan does not definitely propose to give any immediate relief to the farmer?—It cannot do that, inasmuch as it would be freeing it. I said here that the writing-down of the land-values would assist him.

But that has got to be done. You do not propose to do that?—My plan is that the land shall be released, so far as the plan is concerned, entirely from land speculation. That is the plan that I have here. It does not go so far as that, but in reply to questions I have stated that I would suggest that they would be written down to half.

But who is going to be the loser? Will you say the mortgagee should lose or the farmer or both? They are both losing at the present time?—That is what I am looking at. They will lose in any case.

And according to some statements I have heard, and even before this Committee, I take the meaning that the farmer, the dairy-farmer especially, has got no equity and neither has the mortgagee. Your plan does not propose to give credit in any way to the farmer at the present time, to help him through this period of depression?—No. That is a different plan altogether.

It does not provide for that?—No.

Does it provide for the unemployed? You mention the unemployed here. Your plan would, of course, to that extent be working on your national credit through the State Bank or the central bank. Your plan would be to start new industries to absorb them?—Yes. And absorb them into permanent industries which would produce economic goods to the country instead of digging holes as they are now.

That would take some time to do?—Yes. Whatever we do so far as development and finding room for our men, it will have to be upon a policy of time. You could not rush them into it in one minute or one day or one week.

You are taking the present £4,500,000 of unemployment-tax and you are going to use that through your planning organization, and turn it into that particular channel for the bank to develop. What are you going to do with the unemployed at the present time?—With planning you would not take them over until you are prepared, or use the money until such time as you have your plans ready. At the present time there is room now for a large number of those men who could be put into industries which are at present existing and any new development that would be decided on, say, the hydrogenation of coal, development of clays oils, and many more that are within the resources of this country and which are for our benefit; the making of petroleum goods from petroleum in coal and otherwise—these things if planned out would immediately within one year consume all the unemployed men we have and more.

To develop that clay, for instance, would take time and a lot of money to bring the machinery into being to develop these particular things in New Zealand?—Thousands of men would be required immediately, and there would be very little unemployment left after you have opened up the various avenues for the new industries, and very few men would be unemployed almost immediately.

You do not think there is any scheme of subsidizing the farmer that could be operated?—What would be the use of subsidizing the dairy industry at the present, as there is no hope of selling at a profit, and the industry at the present time, we are told, is working at a loss. We must convert the dairy-farmer into something else, or let him go on to the unemployed.

AUCKLAND, FRIDAY, 16TH MARCH, 1934.

Summary of scheme submitted by Dr. J. C. FINLAY.

The scientific internal price-level policy should be pursued rather than continue to follow the policy of exchange-rate stability. Economic equilibrium, when investment and saving are equal and the current rate of interest is equal to the true or natural rate, is the fundamental concept. Economic equilibrium must be sharply distinguished from both prosperity and social equilibrium. The English deflation has been forced upon New Zealand by our policy of a fixed rate of exchange. Credit should be nationalized so that all mortgages will be part of the central reservoir of credit. A State banking monopoly should be ensured, the cost of banking to be a charge on the taxpayer. Thus deposit rate could equal advances rate, bringing supply and demand into perfect relationship. The internal price-level should be kept stable by reference to a composite index number weighted according to consumption rather than production. The suggestion of consumer credits is absurd. If the value of money changes during the period of a debt, a definite quantity of the "composite commodity" will be the basis for repayment of money units which will not necessarily be definite. If the rate of interest is the correct rate, all the factors of production must be employed, but elasticity is necessary—*e.g.*, wages must be allowed to adjust themselves to the economic level.

Witness: Dr. J. C. Finlay.

Dr. Finlay: Mr. Chairman and gentlemen, I thank you for the opportunity you have given me of presenting my statement to you on this occasion. It is not necessary for me to make preliminary remarks of any great length. I may say, however, that I have no academic qualifications for addressing you; such knowledge as I have arises from the fact that I have devoted considerable time and study to this subject. In the first place, I would make my point of view clear in this respect, that I regard myself as a Conservative. I am a progressive Conservative, and a Conservative none the less because I recognize the pivotal position of profit in our present economic system, and I am a Conservative because I seek to conserve and regulate that important position of profit in our present economic system. That is to say, that I believe in regulating and amending the private competitive system of production rather than its total abolition and substitution by some more or less possibly chaotic form of production. I would just like to make that point; I am a Conservative and my appeal is more particularly to Conservatives. I am not a die-hard, however. My theory of monetary reconstruction in brief boils down to this: That I seek to devise a machinery or a piece of mechanism for seeking out and grasping hold of the rate of interest, or of the terms of credit, and of moving those terms of credit into their equilibrium position and maintaining them there by the monetary system which I have devised. To say that I have devised the system is hardly correct; it is rather merely the logical development of our present monetary system. It is our present monetary system shorn of all its complications and stupidities; that is how I regard the matter. I seek to secure the nationalization of the mechanism of exchange in order that the reaction from a refusal to endorse this policy may not be a growing cry for the nationalization of industry in general, and that is why I am a Conservative. I seek to nationalize that which should be nationalized in order that extremists in the community may not arise and demand the nationalization of those things which have no economic warrant for their nationalization. The first part of my proposal relates to the problem of whether New Zealand should stabilize the exchange-rate or stabilize the internal price-level. That is to say it is a problem of preference for internal economic equilibrium versus stability of the rate of exchange. I might say that I strongly maintain that our objective should be internal economic equilibrium, and, in seeking for a simile for this attitude, I have found it, in my judgment, in the mechanism in the back axle of a motor-car—the differential. Originally motor-cars were designed without a differential, and the consequence was that, as they took the curves, the individual wheels developed tremendous frictional contact with the road. Eventually the differential was invented and applied, with the result that the two driving-wheels maintained contact with the road with the minimum of friction and loss of energy. Cars without a differential are obsolete, and auto-engineers to-day would regard the proposal to abolish the differential as a retrograde step. In social science we still cling to a system of international trade which does not recognize the principle of the differential. We should strive for internal economic equilibrium, with our price-levels related to price-levels abroad by means of a differential. I do not suggest that when those two sliding surfaces of the differential move on each other there is no friction or loss of energy, but there is very much less friction than if we abolish the differential. Passing on to the second part of my proposal, that concerns the technique of the nationalization of credit. It is not necessary for me to elaborate that at the moment. I might just mention in passing, however, that I regard the existing economic chaos in New Zealand as the product of deflation; New Zealand has suffered from terrific deflation. That deflation cannot be measured by reference to an index of prices. The measure of the deflation on the one hand consist of the oscillation of the terms of credit from their equilibrium position. That is not merely a phrase; it means the whole thing, and it is because the terms of credit have oscillated from what should be their equilibrium position, and have oscillated so tremendously, that we have the extraordinary degree of economic disequilibrium that we have to-day. I am aware, of course, as is every intelligent member of the community, that New Zealand has suffered an economic loss in the fact that the value of her exports has declined in comparison with the value of her imports, due to external and uncontrollable factors. Our national income has suffered also by reason of the fact that at the same time we have varied our rate of overseas borrowing. I am not in favour of overseas borrowing, but the fact is that a cessation of overseas borrowing is in a sense a contraction of the national income, and to have this sudden contraction of the national income, superimposed upon a sudden variation of the value of our exports compared with our imports and have those factors transferred to New Zealand through a fixed rate of exchange has been a tragedy for New Zealand, the reaction from which it is hard to predict. I may mention that there have been eminent men in New Zealand who have even had the audacity and ignorance to argue that New Zealand has not experienced deflation. The Christchurch Chamber of Commerce some short time ago published a memorable bulletin prepared by the Faculty of Canterbury College, professional economists, in which it was argued that New Zealand had not experienced deflation, because at that time the rate of exchange had not varied. That was a most extraordinary statement. It is a reflection upon the academic standing of the people who prepared it. It shows no knowledge whatsoever of the true position. It was made as a piece of propaganda which had to a certain extent a laudable object, and that was that during the time when our national income was diminishing by reason of the external and uncontrollable factors the wage system showed a regrettable degree of rigidity, but the case for a reduction of wages is hardly strengthened by going to extremes and saying New Zealand had not experienced deflation, and then proceeding to invent a definition of inflation or deflation which made the basis of inflation and deflation not internal economic equilibrium, but stability of the rate of exchange. I might say that the objective of my scheme of monetary reconstruction in the first place is economic equilibrium; that is incidental and preliminary to a condition of social equilibrium which it will be possible to attain by means of this system. I might say, in concluding, my scheme involves no principle of confiscation, if it is possible to speak of a principle of confiscation. I believe it is a sound principle that the present society should recognize the legislative acts of a precedent society, but that does not mean to say that in our system of government we should continue to allow an outworn theory of distribution to vitiate our

economic and social life. I think those few remarks cover the ground. There are one or two slight inaccuracies in my proposal as it stands, but they are not, as it were, inherent defects which cannot be removed without altering the nature of the scheme, but it is just rather a careless presentation in certain places. Those places may develop in cross-examination.

Dr. Finlay, there is just one thing I would like to mention before I ask any questions. If a theorist adopts a definition of deflation or inflation, then he is justified in drawing any logical conclusions that he makes from those definitions. You would agree with that?—I would reply that I would not let thought be under the tyranny of definition.

In short, you agree with me. The fact that one thing is away up in the air and not related to human factors was beside the point at the moment, but I think we ought to remember that, because that is one of the parts of your scheme that appeals to me, that it is a scheme which has thought and logic, but the social and the human element do not come into it unless the results of this scheme are such that our standard of living is going to be raised. You would agree with that too, would you not?—I would agree that, unless my monetary scheme leads to social improvement and the clarification of economic issues, it has no place.

The reason I say that is that here you say, "Economic equilibrium must be sharply distinguished from both prosperity and social equilibrium." That is the point I am making. Yours is an absolutely economic scheme, not related to social conditions at all?—I would not agree with that.

Perhaps we could go through one or two of the points. I find that in general I feel much the same as you do about it, and I have only pencilled in my comments, and quite often I find later that you have explained something that has caught my eye, so that you will forgive me if the question appears too simple occasionally. You think, of course, we should have a New Zealand currency?—That is so.

You think we have always had one, despite the fact that we have at times had parity with sterling?—In a sense, yes. I presume that is more or less obvious.

The House of Lords thought differently?—I am not concerned with the House of Lords.

Then you talk of Keynes. That is the "Treatise on Money," is it?—Yes.

Keynes in Volume 2 works out a theoretical rate for internal and external economic equilibrium, but admits it does not work. Do you think you can have an internal economic equilibrium. This whole paper, of course, is a justification of that idea?—Yes. I would say this: That the factors of production and distribution are located in New Zealand, the people whose welfare and happiness we are concerned with are located in New Zealand, and I seek to regulate the economic activities between these people in a proper and a just economic manner, and in so far as these people live in New Zealand I think that we can in a sense have economic equilibrium in New Zealand.

Despite the fact that our exchange-rate will fluctuate under your scheme. But even so, the fact that it fluctuates does not protect our country from the adverse effects of a fall in our sterling balances?—No. I am not arguing anything so absurd as that.

But you think we could have equilibrium despite that. With fluctuating exchange and your scheme we can have economic equilibrium?—Yes.

And you mention the terms "savings" and "investment" here. Are those used in the sense that Keynes uses them?—Yes, I think so.

I do not want to open that up here because it is a very difficult subject, but he used investment largely in the sense that we use savings in ordinary conversation, and he misses the word "profits" out of savings. He does not include profits in savings?—I subscribe to the Keynes theory.

You would agree with that?—Yes. I used the word in the sense that Keynes uses it. I am more or less a humble student of Keynes.

I think one must be if one studies Keynes. The difficulty is to work from your definitions through the rest of it. Yet Keynes's definitions are not stated here. You say that costs are costs in terms of New Zealand currency. What about our Government costs, overseas costs, local-body debts, and debts of our industries that are held in sterling or dollars?—Yes, that is so.

Despite the factors I mention?—Yes. As regards costs the above contention is valid, even in the case of Government and local-body commitments.

That means that the costs can vary from time to time?—The costs expressed in New Zealand currency.

You appreciate the fact I am just getting at details, not the general principle of it?—Quite.

Do you think we can eliminate social considerations from any economic scheme we undertake?—Unless we do the argument is no longer economic.

Yes. I agree with you, too. Your scheme appeals to me, as I told you before, as one that is economic only. No social considerations whatever. But you will not agree with that?—No.

It is a minor point, really. I notice you mention also, assuming an even rate of overseas borrowing, we would be forced to deflate. That leads me to this: Our exchange-rate has been kept at parity because of borrowing in sterling payments. Would you say that?—I would say that it was kept at parity by virtue of the price-level fixing and credit policy in New Zealand varying according to the London balances.

Yes. You have made the point that the borrowing stopped and overseas prices fell tremendously. The natural reaction should have been, what, in New Zealand?—Depression.

Should it naturally have been that?—No. There is a fall in the national income.

True. What effect would it have had on the exchange-rate if the exchange-rate had been operated under your scheme?—The exchange-rate would have gone up.

It would have gone up very high?—Yes.

Much higher than 110 or 125 ?—Undoubtedly.

That would have happened. And you contend that the depreciated exchange stopped part of this deflationary process ?—The deflationary process would not have occurred if the terms of credit remained in their equilibrium position in New Zealand.

Yes ; according to your definitions here. You also speak of exports falling in value relatively to imports, and use the term "terms of trade." You mean "terms of trade" to be balance of payments ? I just want to get at the definitions ?—No. It is rather used there in the sense of the relative values of what we import and what we export.

Do securities shipped to or from New Zealand come into it ? Expenditure, and tourists' shipping expenses ?—Those would be imports or exports as the case may be.

They are included in this ?—Yes.

And you take a year as your period of time ?—I have no definite period of time. I have developed the conception of continuous economic equilibrium.

You say we will be forced to deflate if the terms of trade go against New Zealand. It is difficult to know when the terms of trade do start going against New Zealand. If you look at our foreign balances they pile up for years and then they go down for years. It is difficult to take a period and say, "Now the terms of trade are going against us." I mean, a year is an artificial period. I was just wondering if you were taking any period ?—No, not at all.

You talk of the disturbing effect on the New Zealand price-level of a variation in the sterling price-level. Is that a wholesale-price level in England, the sterling price-level ? — It does not matter. I have not thought of it either way. I am thinking of the purchasing-power of money in England.

I would suggest that it would be better to take the price-level of our exports to England as it affects New Zealand conditions. Or would that upset your plan ?—I am afraid I do not quite get the point.

The things that affect our price-level are not the price of commodities which the Englishman buys. They are the prices of the things we sell. Now, the wholesale price level in England is made up of many things, but the index of the things we sell is made up of butter and wool and meat ?—Our price-level in New Zealand I would suggest is governed by the volume of money relatively to the goods and services in New Zealand.

I am talking about the British price-level ?—No. I have reference here to the general price-level in Great Britain.

And you think if the price-level in Great Britain comes down that that is going to have a definite effect in New Zealand ?—Yes. If we maintain parity of exchange, other things being equal.

But could we not have a rise in the price of the products we get overseas and at the same time a falling price-level in England ?—True. But I have covered that in my next sentence where I say, "The disturbing effect on the New Zealand price-level of a variation in the sterling price-level will be aggravated or mitigated, as the case may be, depending upon whether the variation in the sterling price-level synchronizes with a change for the better or the worse in our 'terms of trade.'"

What I am trying to get at is that the general price-level in England is not the relevant factor, but the price-level we get for commodities multiplied by the volume of commodities ?—I think we are talking at cross purposes.

Quite probably. In the next paragraph you are quoting Gregory. Is this the purchasing-power-parity theory you are quoting ?—This is the book, "The Gold Standard and its Future."

I know the book. It is similar to Cassel's idea ?—Yes. But he develops other ideas as well. I think it is perhaps more fundamental and sound than Cassel.

I think so too. He says, "What the international gold standard does is to force prices and money incomes in different trading-areas into such a relationship that the balance of payments can be adjusted without gold-flows in either direction." Do you think he means by trading-areas, countries ?—Yes. I should say so.

Do you not think that the price-levels that are altered are only the levels of those commodities that enter into international trade ?—What is the point, again ?

If we assume that we are on a gold standard and we have a local industry here, the butcher, the candlestick-maker, and so on, they are a sheltered industry. We do not suffer competition in the baking of bread from England, but in goods that enter into international trade there is competition, and is not the tendency for equilibrium to come about only in those things that enter into international trade ?—No. The point I am making here is that with deflation in England, and superimposed upon that deflation in England an actual fall in the value of our exports relatively to the value of our imports, we must experience greater deflation than England in order to maintain a fixed rate of exchange.

I agree with you, but that is different from the question I was asking you there. I will bring this question up again later. Do you think that the English deflation affected the prices of our products to the same extent as the deflation in the general price-level ?—The question of elasticity of demand comes in probably there. We know that the prices of our exports fell relatively to the prices of our imports.

This is the recent slump. But from 1920 to 1925 England was deliberately deflating to get on the gold standard. Now, in New Zealand we were not necessarily doing that. We were getting fairly good prices for some of our products ?—Quite. And that is covered in the preceding paragraph.

The one you referred to before. "The unemployment existing in New Zealand is not due to the fall in the prices of our exports relatively to imports, but is the inevitable and practicable result of deflation." Even assuming that we have your scheme and the fluctuating price-level, do you think we would have had unemployment in this last period ?—That would depend upon whether wages remained upon their true economic level or not.

Yes. Now, you see, the point of rigidity of wage-rates comes in there. Without our Arbitration Court you are going to drive wages down. You are not going to, but your scheme will. You operate that to make the adjustment. We have got to have free competition such that all costs will fall and all the capital, labour, and other factors entering into industry will adjust themselves, so that they will all be employed, but the return to each will fall considerably ?—As a matter of fact, this particular part of the argument is the part that I said I treated in a rather sloppy manner, and I am inclined to think that, during a slump, wages, under my scheme, could remain above their economic level.

But later on you contradict that ?—That is the part that is not well worked out.

I notice you have rigidity in one part as a favourable attribute of your scheme, yet later on you say that rigidity must be removed ?—Mere carelessness is not a fault that is inherent in the scheme.

Have you shown this scheme to Keynes ? I think it is worth while when we have squared up some of those things. You say that even Gregory admits that we could have forward exchange. That is rather an admission from a man like Gregory ?—Well, Gregory I regard as more of a propagandist than an economist.

For the gold standard, yes. So that our central bank here could have forward exchange functioning to help the importer, the cost being borne under the present system by the central bank, under your system by the Government ?—Yes. I would not say to help the importer, but to allow the importer to contract himself out of risks which he does not wish to assume.

Well, I think it would help the importer somewhat ?—Yes.

Now, I notice you quote Fisher's " Purchasing Power of Money," Do you attach great importance to Irving Fisher ?—Well, at the time that this book was written, and for some years subsequently, it was a classical work on the subject.

That was about 1912 ?—No, 1920 or so, I think.

That is the " Purchasing Power of Money " is it ?—Yes.

Because Fisher is becoming known, as you name Gregory, as a propagandist, and is not being accepted now either in England or the United States ?—Well, I have got past Fisher myself.

I wanted to follow this further, because you use Fisher in his index numbers as a basis. That is why I mentioned him. In your banking system would you have separate departments for intermediate credit, long-term credit, short-term stuff, Treasury bills ?—That question hardly arises because, in my conception of credit, the question of repayment does not arise provided security is maintained.

Captain Rushworth.] No sinking fund ?—I said, provided security was maintained. Would not that cover that point ?

Well, that means that no sinking fund would be required ?—But I do not think it does. I think a sinking fund would be required.

Dr. Sutch.] If the scheme is functioning perfectly it is not a problem—the problem of repayment. I take it that is what you mean ?—If I might be allowed to say so, this business of the banks requiring repayment of loans, making their loans short-term loans in a general way, is related to the problem of maintaining a proper ratio between cash in reserve and liabilities.

True. But is not it also related to the period of production which goods go through ?—No. That is covered by my point of maintaining security.

You disagree with Keynes on that ?—I would not say that I disagree with him at all. I would certainly say that it is covered by my qualification.

But Keynes brings that consideration in ?—I am quite familiar with the idea of the production period, but it does not really arise.

Not under your scheme, but, under Keynes's treatment of it, it arises ?—I am concerned with the pure theory of money, not merely Keynes's treatment of it.

I just wondered how far you were based on Keyes. On page 3 you talk about central banks being an attempt to co-ordinate competition. Would you say that the Federal Reserve System in America was a competitive system of extending credit ?—No. As a matter of fact, I regard the American banking system as so clumsy and decentralized as to be hardly worth studying.

That is not my question. It arises out of your remark that central-banking systems are just superimposed on competitive banking. I asked, in theory, is the Federal Reserve System of America one of competition ?—No. I am not suggesting that a proper central bank is a competitive unit.

That is just the point I am making, that you can eliminate competition under your system. I mean, the Federal Reserve System, in theory anyway, is a system that the element of competition does not come into as far as banking is concerned ?—No. By the addition of a reserve bank to a banking system.

I was talking about the Federal Reserve System, not the one here. I agree with you about the one here. I think we will leave it. It does not affect your scheme really. Banking business in New Zealand is done by six banks. What about our stock and station agents ?—They are merely there as intermediaries, I take it.

No ; they are not only that. Only a few of them. Some of them are banks—deposits, advances, capital—same as a trading bank ?—You argue, then, that stock and station agents can create money ?

Yes, include the stock and station agents ?—Yes.

Well, that is all right. I am quite happy to do that.

Mr. Langstone.] It is agreed then, that the banks create money ?—Yes. That is agreed. That is elementary.

Dr. Sutch.] You are going to compensate the banks fully when you take them over ?—Yes.

That is because you are a Conservative progressive, I suppose ?—Yes.

You are not going to bring banking charges into your system ? They would be paid by the Government ?—Yes.

You would not determine any special rate on Treasury bills ?—No. I would allow the rate of interest to find itself—to find its own level.

You contend that there is a rate of interest for everything, long term, short term, Treasury bills ?—Yes.

That the system they have in England is artificial ?—It is primitive.

They are willing to take a very low interest because they can get that money back within a day or two. You would eliminate that from your system ?—Under my system they would be able to get it back in a year or two.

You know that Keynes said he would have written his book differently if he started on it now ?—I am quite sure he would.

I am just wondering how much he would go in your direction. On page 4 you say, " If, however, at that time, the economic system was not in equilibrium and unemployment existed, then this problem of disequilibrium would require to be solved forthwith." How would that be done, or is that explained further on ?—Yes. That is explained further on.

Why does your banking system aim at equality between deposits and advances ?—Because that is essential. If deposits are in excess of advances the money is dead. It has been temporarily destroyed.

But you get a position where you have more advances than deposits, and some of the advances are still out. You can still put it away in the old sock, you know, and that kind of thing ?—No. I say there would be a principal objective of a proper banking system to exactly equate deposits with advances. That would be the objective.

Could it be achieved ?—I do not say that a continuous and exact equality could be maintained between advances and deposits, but that should be the objective.

It must be self-adjusting ?—Yes. Obviously they could not be arithmetically equal at all times.

And here you say your scheme would do away with the question about the proper ratio of notes to liabilities. Do you think that is a question in New Zealand ?—No. I probably agree that it is not.

Yes. It is not a question in New Zealand what proportion of notes they have to advances. It is only a question in America or England, say ?—Yes. It is a little bit tricky.

I want to get on to your index price. Your index is a composite commodity index. Why do you talk of consumption index ?—Because consumption is the objective of production, I take it.

Consumption in the sense of commodities we consume. Not the commodities industry consumes, not steel rails, for instance ?—There is no conflict between the two. I would weight them. I explain that point.

I know that, but in some places they have indexes on car-loadings, electricity charges, steel-production, and the difficulty is to arrive at some index number which they can use ?—Yes, I quite recognize the technical difficulty, but I would make the index number spread over as large an area as possible. It would consist of standardized commodities. For instance, we could not include a motor-car.

That brings you up against this difficulty: Are you going to change the commodities that compose your index from time to time ?—Well, yes, that is so.

You see the difficulty ?—In America from 1929–30 they left out of their index number electric washing-machines and radios, and that upset the whole of their calculations because those were new commodities coming into consumption. How are you going to get over that difficulty ?—That is contained in my technique of regulating the matter by the rate of interest.

I do not follow that. I do not understand how the regulation of the rate of interest can affect the new commodities ?—The use of a washing-machine is an increase in consumption.

It is not included in the index number as one of the commodities ?—I do not think it matters because it is made of commodities which are included in the index number. That covers your point.

You do not think it matters what commodities are included under the index number ?—I would make it as wide as possible.

But they change from time to time ?—I realize that.

The Government's index number this year is based on the same position as last year, but it should not be ?—That is true, but that does not enter into it very largely, because we have a washing-machine and it is made of commodities which do enter into the index number.

My previous question was would you include steel ?—Yes.

And you call that a consumable commodity ?—Yes.

You come to this question then: Would you include wheat ?—Yes.

In America over the last ten or twenty years the consumption of wheat has gone off ?—Quite so. You would allow for that fact year by year and include things like lettuce and cereals that are coming in ? That is the problem ?—I have thought that matter out. It may be a little difficult to explain, but it is there; I have thought it all out.

And you would not include electrical units consumed ?—Yes, they are capable of standardization.

How would you include the factor of elasticity of demand for a commodity which varies with the amount of the commodity that is available ? If you have a bad harvest you have so much less, say, wheat for consumption, you would have to have a different weight to put against that wheat. How would you allow for factors like that ?—I do not think it would enter into it. I do not propose to allow for it, but if the theory of money warrants it I would.

You say on page 5, " It is a necessary deduction from the quantity theory of money that, in the non-progressive state, banks are unable to create additional money without causing inflation." That involves a definition of inflation, but apart from that you can have changes in the number of transactions and volume of business deposits and income deposits and have your non-progressive state and still not have inflation, but you could have an additional creation of money ?—Is your point that an increase in the efficiency of money is equal to an increase in money ?

Not necessarily. It is in the volume of money. The volume of money can alter but other factors can offset that. Then you can have this situation: A non-progressive state, no inflation and an increased quantity of money?—I merely try to set out in a bald form the quantity theory of money.

That is the trouble with the quantity theory of money: it is too bald. Now, in two or three places you use the term "support the price-level, stable price-level," and then in another part you say you are going to aim at a slightly falling price-level?—That may be carelessness. The context supplies the interpretation of that.

You use the term "to support the price-level"?—That is the price of the composite commodity.

But you have not explained, at this stage, the working of your scheme?—Apparently not.

That is a point that struck me; it is probably all right. Have you read Hayek?—I have had him interpreted to me by a friend of mine, more or less.

D. H. Robertson does not necessarily aim at a falling price-level?—I think so.

In "Purchasing Power and the Price-level" he has a stable one, an advancing one, and a falling one, and discusses the possibilities of each. His opinion goes on the side of a falling price-level in the end, but he has not necessarily advocated it?—I do not advocate either a rising or falling price-level. I advocate maintaining continuous economic equilibrium and keeping the price-level stable.

You say "The nationalized banking system belongs to the community, and the additional money, the creation of which has been necessary, belongs to the community, and there is no reason why it should be given as a free gift to a section. A more plausible case can be made for giving the money to consumers, but here the question arises, which consumers?" How under your system can money arise which has to be given to consumers?—I do not suggest that money should be given directly to consumers.

I know that, but how does this money arise in your system?—How is money injected into it?

No. You apparently have a surplus of money that has been created under your system. The tendency of that, I gather, is to lower the rate of interest until it is absorbed in industry?—The rate would equate supply and demand.

It seems to be quite clear that your system works as a whole, but this mass of purchasing-power that you mention is the thing that worries me?—My reference to injecting credit via the consumer is an oblique reference to the Douglas Credit theory.

You consider you cannot do that?—I consider that it should not be done when economic equilibrium is attained. During a period such as the present—a period of economic disequilibrium—it could be done, perhaps advantageously.

And the question of security?—The question of security does not arise.

You mention that, but only in your equilibrium, not your disequilibrium?—The question of security does not arise if the banking system is creating money for the sole purpose of maintaining economic equilibrium.

And further on you state that that money is all paid to the State and destroyed?—It is a pity that is there because it really has a reference to a decaying civilization, and that should not arise.

It is possible that it might arise?—Yes.

If the price of butter keeps slipping it might occur in New Zealand?—No, it would not occur then, because even if the price of butter falls the physical quantities of butter and wool and actual exchange of services will be on the increase.

But if wool and meat and butter all went that way, then you would have that situation?—No. The fall in the value of our exports would not be an excuse for idleness—for a diminished production—but would rather be an incentive to increased production. I put that in as an afterthought to explain the mechanism for the creation and distribution of money.

I can see in a disequilibrium where you might have this spare money, but I am not sure how that is going to bring about the equilibrium you desire by giving it to the State?—The extra money must be injected into the system at some point, and I do not suggest that is should be given to the State. I suggest alternatively that it be loaned to entrepreneurs, and the interest to go to the Government.

In reduction of taxation?—Yes.

Why do you choose a stable price-level and an alteration in the number of currency units, rather than a falling price-level and a definite quantity of the composite commodity?—I chose that in order to bring the banking system into harmony with the real wealth of business—with capital values. We know that as the rate of interest goes down capital values rise; we know that as the rate of interest rises capital values go down; and we know that as a result of banking policy, as a result of interest-rates, thousands of people have lost equities in farms and thousands of bankruptcies have occurred.

Then you just abandon that function of money as a store of value?—I think I said before I would not be a slave to definitions.

I am not defining it at all; it is one of the functions of money; it has been to store value?—I mentioned two functions of money.

But there are three or four?—I have mentioned two in so far as it is necessary to define them for the devising of a scientific money system.

So you do want definitions?—As a scientific technique.

Anything I might attach to money and which does not fit into your system, you would disagree with? If I wanted a function of money to be a store of value it would upset your system?—It is a store of value. Function No. 2 is "To facilitate the exchange between goods and services here and now for goods and services in the future." That covers your point.

Yes, but you have secured that by alteration of the interest-rate. If I have £100 in the bank it may go up to £105 or come down to £95, and you say the function of the store of value is still maintained ?—Yes, scientifically maintained.

And you have not altered your index number ?—No.

You envisage this happening within forty days ?—Yes.

Well, your index number is not changing in that time ?—It is not affected at all. It is the objective of the banking system to maintain the index figure constant.

Would the number of units available change ?—That only refers to the second function of money ; it only refers to those monetary units which are injected into the credit system. A monetary unit may go into the credit system or keep out of it.

So that money that is circulating around us and does not go into the credit system stays put, and that is a store of value ?—Yes.

But they cannot both be stores of value—the ones that alter and the ones that remain the same ?—Yes.

If I keep my £100 out of the credit system it does not alter. If that £100 is deposited it may alter to £95 under your system ?—Yes.

So if I put it in my pocket I would have £100, and if not I would only have £95 ?—If you put £100 into the bank, there is a contract between you and the banking system. The bank would agree to pay you continuously that amount which was the rate of interest at the time. If the rate of interest was 5 per cent. at the time you deposited the money you would continue to receive 5 per cent. ; you would continue to receive five definite amounts of the composite commodity, and in that sense it is definitely a store of value.

That £100 of mine is not ?—Yes, it is.

If I withdraw it it is not ?—No, that is so.

That is the point ?—That is so. Then you are changing your position.

I know you are changing your position ; that is only a point I wanted to make. One other point I wanted to make was about rigidity of wage-rates, but you have already explained that. You say sheep-farmers may need more relief than dairy-farmers. Is that not a complication in your system ?—Not at all.

How would you give a dairy-farmer more assistance than a sheep-farmer under your system ?—I would postpone a larger proportion of his interest liability.

And payment back of interest does not come into the question ?—Yes, the arrears of interest would still be an obligation.

Yes, but the fact that that has been held up, does that not affect the working of the system ?—No, I do not think it does, but it is a complication.

You say, "The function of price is to equate supply and demand, and the rate of wages has this economic function." Is that not the iron-law theory ?—I would say that there is an economic level of wages.

Just as the iron-law theory envisages ?—I would put it this way : Either there is an economic level of wages or there is no such thing as economic science.

I agree with you that there is an economic level of wages, but that may be such that you could not sustain your standard of living ?—True, then a raising of the level of wages would be justified on ethical or social grounds but not on economic grounds.

I think you should make that much more definite than you do ?—At present there is a conflict between ethics and economics. The objective of the whole scheme is to reconcile that conflict.

If you are going to use an economic rate of wages as one of the factors in your scheme you are introducing a complication the public would not allow ?—No. I am rather glad that I thought about that problem only a few hours ago, otherwise I would have been caught. The point is simply this : That the maintenance of economic equilibrium under my scheme might be compatible with the rising of wages above their true economic level, but in that case it would involve certain definite economic steps, more particularly a shift in the rate of interest from what might be termed its true position.

And other factors would vary too ?—What other factors ?

On other things than wages. I have tried to find out the answer to this question myself. Shall we postpone it till later ? You are nationalizing land. You would not make the money that you have advanced to the farmer, and which is returned as rent, available for purchasing-power ?—Yes.

So that in New Zealand if the unimproved value of land was £300,000,000 you would put that into the system ?—I do not want to misunderstand the question. I have explained that very definitely and very carefully.

You say "inflation would not arise because deposits and advances are already in equilibrium at the existing and correct price-level." Are they though ? The land has not come into the market ?—The point is this : That the bank is under the obligation of bringing any additional deposits into relationship with the demand for money, and, if it is necessary to lower the rate of interest to do that, it will do so.

Your rate of interest would fall below zero ?—No. When this takes place deposits and advances are equated, therefore there is no necessity to lower the rate of interest.

But you have on one side a huge accumulation of advances ?—Yes.

How are you going to adjust that ?—It needs no adjustment. I take it that they would be perhaps what Keynes calls savings deposits.

Yes, but would they ? I think they quite well might be used as income deposits or purchasing-power and that is a complication that you have not included in your scheme ?—No. They would not necessarily do that because you are assuming that as a result of the mere nationalization of land there will be an increased demand for the services of wealth. You are making an illegitimate assumption.

Captain Rushworth.] You are using the price-index figure as your monetary unit ?—My monetary unit has two aspects. I have said that the monetary system has two main functions—(1) to facilitate exchange between goods and services here and now, and (2) to facilitate the exchange between goods and services here and now for goods and services in the future. I use the index figure to facilitate those transactions.

But you have a unit of money ?—Yes.

As distinct from the definition of money ?—Yes.

What is the unit ?—This unit of money we can get at much better if we assume that the rate of interest does not change. If the rate of interest does not change then the unit of money is simply the pound which buys a constant quantity of the composite commodity.

The pound is the monetary unit ?—In that case, yes.

And the pound is the monetary unit and you arrive at that pound by the index figures ?—Yes.

Would you leave the manufacture and the issue of that pound in the hands of a private corporation ?—No, certainly not. That is part of the policy of the nationalization of credit. I believe that the issue and distribution of money should be in the public interest ; that it should be a monopoly function of the State.

So that our central Reserve Bank which has just been established as a private corporation would not be a fit body for creating and issuing the money which you require ?—I would not leave the administration of justice in private hands.

After this money has been created by the State, how can the State put it into circulation ?—That would depend upon whether a condition of economic chaos, such as we have at the present time, existed or not, or whether a condition of economic equilibrium was in existence.

Supposing we started it to-morrow, how would the State put the money into circulation ?—I have suggested that the point of injection should be a public-works policy ; that the money should be created and used for building bridges, and so on. The bridge contractors and their employees, in turn, would in due course deposit that money in the bank, and then it would be the policy of the bank to equate these additional deposits to additional advances, which would, if necessary, be done by lowering the rate of interest, and normally would be done by lowering the rate of interest, thereby distributing capital throughout the country and restoring the equity of the farmer.

Just follow that through. The State manufactures the money necessary for the carrying-out of certain public works, and it uses that money to pay the men week by week for the work that they do. Does that money remain in circulation permanently ?—Yes, I should certainly say so.

Hon. Mr. Downie Stewart.] There are one or two questions which I would like to ask. From our point of view your proposals have two aspects, one is the theoretical administration that you give, and the other is the practical administration or application of it which is not on all fours. All considerations are not the same economic considerations in actual practice ?—I consider that there is an urgent necessity to bring brains and science together to solve this problem.

I am not questioning that at all, but put it this way : Assuming you were made Dictator of New Zealand to-morrow, what practical steps would you take to bring your scheme into operation ? There is a saying which I have quoted before that " the true test of every reformer is make him reduce his proposals to the clauses of the Bill." How would you do that ?—I would take my scheme and go ahead as it is printed.

But it is not in the terms of actual administrative possibility ?—I am not a lawyer, but I would call in a lawyer and get him to draft a Bill.

You would take it on the basis as it is there ?—Yes.

Then you say at one point that the steps that you would take would depend upon whether we had a state of economic equilibrium when you initiated the scheme ?—Yes.

What would be the variation in your scheme to meet the existing circumstances ?—The State banking system would be in operation, and then I would proceed to inject additional currency or purchasing-power, as I have explained to Captain Rushworth, by a public-works policy that would tend to gradually raise the level of prices and to lower the rate of interest, or, as I have put it here, to restore the terms of credit to the equilibrium position and thus restore capital values.

What I am not clear about is, putting aside the exchange altogether, I do not understand why you leave that without qualification. I suggest that the exchange might rise very high ? Is there a limit ?—No limit whatsoever. I would go for internal economic equilibrium.

Where is it going to stop ?—Where do I cease injecting new currency ? Broadly, I would continue injecting new currency until unemployment disappeared or almost disappeared.

Would that involve any control of your imports in this respect ? If your internal price-level rose very high without any alteration of the tariff, would not your local manufacturers get shut down by imports ?—No, I would continuously maintain the equality between the equilibrium rate and the actual exchange-rate, and there would be no dislocation of international trade resulting.

To me, as a layman, what I understood would happen was that the price of some goods, through the internal control of the price-level, rose so high that the tariff was no protection to the manufacturer : that is my difficulty ?—I might quote authority if I would be permitted, on that point. I do not know whether what I can quote entirely fills the bill. The quotation is from " Money and Foreign Exchange after 1914," by Professor Gustav Cassel, p. 143 :—

> However, it is evident that the exchange-rate between two countries must always fix itself in accordance with the price-level in either country and that a certain amount of trade between them becomes possible. That sentence in itself is quite useful. It makes it clear that trade between two countries cannot, as is frequently imagined, be nullified or even hindered through the level of prices in one of the countries being high. This disadvantage is indeed invariably adjusted by the exchange of that country falling in proportion in international value. Conversely, it follows from this that a country cannot increase its power of competition in other countries by lowering its general price-level. For this lowering of the price-level simply means increasing the value of money

in the country, and that will be followed by a corresponding increase in the international value of the currency in question. This implies a fall in the value of foreign currencies as expressed in the currency of the country concerned. Thus it is evident that the lowering of the general price-level in the country will not have produced any increased power of competition in foreign markets. Of course, an alteration of the price-level can hinder exports (or stimulate them, as the case may be) during the interval that may elapse before the exchange-rate has had time to adapt itself to the new level of prices. But then it is a question of lack of adjustment between exchange-rate and purchasing-power parity—a subject to which we will revert later on.

That is answering your question by way of quoting authority.

If there is no limit as to the amount of depreciation that might take place ?—There is a limit.

Only in so far as you indicated just now. There may be a very large depreciation under your scheme ?—It may be necessary to inject a very considerable quantity of money in order to restore economic equilibrium in New Zealand : that is the imperative necessity at the present time.

Assuming it was done, would justice be done to all classes in regard to fixed contracts and everything, if there is a large variation to-day of money ?—That point can be answered in this way : Our economic system at the present time is operating under the profit system ; the productive resources of our country are in the hands of entrepreneurs, and we have got to see that it is to the interests of the entrepreneurs to employ the factors of production. We are rapidly drifting to a state of State socialism ; we have an extra fifty thousand or sixty thousand State employees. To that extent we have departed from the central feature of our economic system which you as a Conservative should be anxious to uphold. I would sacrifice the interest receiver if necessary in the interests of the entrepreneur.

I am not quite clear about this fluctuating rate of interest. The capital obligations of the bank vary according to the rate of interest ; that is frequent, is it not ?—That is so. That is, as I have explained, to bring the practice of banking into harmony with the real world of business. We have at the present time capital values contracting and expanding according to a variation in the rate of interest, and I desire to bring monetary theory and practice into harmony with the real world of business.

What would be the main factors making it fluctuate after your scheme was in operation ?—The rate of interest would not fluctuate widely or rapidly, but it would fluctuate solely in respect to deep-seated economic causes, mainly increased technical efficiency and alteration of the distribution of the national income.

Would it fluctuate far enough to make gamblers and speculators watch it ?—No ; never.

On the last page of your statement dealing with land nationalization, assuming the State gradually bought the whole of this land and paid for it in this money-issue, there would be an enormous volume of money in circulation if they purchased the whole land of New Zealand ?—No ; the question of whether it is in circulation or not does not enter into it. The question is whether economic equilibrium is maintained.

But would there be no connection at all between that idea and the experience of the assignats ?—None whatever.

If you have money represented by the land of the Dominion, would you not have a violent inflation ?—No.

Why is that ?—I say here,—

To nationalize the land it will only be necessary to assess the equity of the owner and to award this as compensation. The money required would be created specially for this purpose and would appear as a deposit to the credit of the vendor. The interest liability incurred by the bank in respect of this deposit would be already provided for, because the State has acquired the vendor's equity and the deposit arises from and is equal to this equity. The corresponding advance would be to the State, which would pay the interest thereon, and which would in its turn collect the rent from the tenant. Thus inflation would not arise because deposits and advances are already in equilibrium at the existing and correct price-level.

At the present time, or at the time of nationalization, the vendor is not using that capital equity in the purchase of consumption goods and there is nothing in the fact of nationalization to induce him to radically alter his style of living.

What would he do with the money ?—The money is there in the bank and the bank would pay interest on it. He already receives interest on it in the capacity of owner, but would in future receive interest in the capacity of depositor.

The net effect of this proposal under Part III would be that the owners of the land would be State tenants ?—That is so.

You may remember our efforts to create a State tenantry in New Zealand, and that they proved unsuccessful. There may be political difficulties and the tenants might seek to avoid their obligations ?—No ; I would not admit that, because under this scheme the justice of continuing to pay the economic rent would be so apparent that no section of the community would be so unreasonable as to violate that principle.

As between the two groups, from the State's point of view, if you want to stand up to difficulties of both the former owners and tenants, which would you sacrifice ?—That question is answered by the fact that, if the tenants default on their loan, the depositors will be defrauded of their interest.

That will not worry the tenants ?—But it will worry the depositors, who will see that they are not defrauded of their just rights.

That has not been our experience ?—Perhaps they could not see the problem as simply as they could see it under these altered circumstances.

You know that in Australia where the tenants became numerous the same problem arose as that which we were up against, and they got apprehensive that in good times the rent for their land would be raised and in bad times they would not be able to pay it ?—But I would suggest that we are going miles ahead ; I am not suggesting nationalizing the land in advance of public opinion.

It would be a gradual process ?—It would occur when, but not till, public opinion demanded.

That might alter it ?—Yes, certainly.

On this question of the index number—this number of items you indicate—what actually happens ? They are weighted according to consumption, are they not ?—Yes.

What would happen in this case : Assuming that in making up your index number you had allowed butter a certain place and it falls in value abroad. Butter would occupy a certain place. How ?—It would not occupy a place proportionately to its importance in production.

But consumption ?—Yes.

But consumption is overseas for the most part ?—That would not affect it. The consumption I refer to is internal consumption.

You make up your number, and I presume you go on last year or last quarter or last half-year or some period to make up your figure. Assuming that for the previous year Great Britain had a quota or an embargo on butter, when your consumption is practically nil with regard to the great volume of butter, and the next year there might be an opening of the markets again and your butter goes straight up in price, the butter man would complain that he was too held down, would he not ?—No, but the consumption I have in mind is internal consumption, not external consumption.

But you would not weight an item like butter or wool by internal consumption ?—Oh, yes.

But that is a mere fraction of the production ?—That does not matter.

It matters in this sense : That if you make up your index number on that it may have no real relation to the facts of the consumption ?—Yes ; it would not get away from the fact that if the value of butter falls in the world's market the income of the dairy-farmer would fall here.

Only as the index falls ?—It would fall according to the fall in the value of butter, because the dairy-farmer is an entrepreneur ; there is no reason why he should not assume the risk.

Where is your equilibrium ? I thought the net result of your scheme was to get over the present difficulties ?—We are not in equilibrium at the present time.

But assuming that we were ?—Well, then, that would hurt the butter-farmer, naturally.

Would your scheme mitigate his difficulties ?—Yes, it would permit of the postponement of his interest.

But he has that now ?—He got it too late, and only in a very clumsy fashion.

With regard to the operation of this index number, the main object of it is to stabilize prices as far as you can ?—The index number serves a necessary part of the mechanism for maintaining internal economic equilibrium.

I would like to ask this question, which may be a very elementary one : With this composite number that is made up with all these items like wool and butter, assuming that there was a very heavy drop in butter, and at the same time a very heavy rise in wool, does the wool man have to forgo the rise in wool because there has been a drop in butter ?—Certainly not.

How does the index number help the butter man ? I thought it was to equalize the thing so that these violent fluctuations were found out by the index number ?—I do not propose to remove from the entrepreneur those risks which are his by virtue of the fact that he is an entrepreneur.

What actually happens, assuming that as now butter is at a low level and wool rising ? Under your scheme would the wool man get the full benefit of the rise ?—Under my scheme at the present time the dairy-farmer would benefit considerably because his income expressed in terms of money would increase substantially owing to the introduction of a defined currency, and through the transitional period the index figure expressing the commodity would rise considerably and therefore the farmer would pay his interest liabilities in terms of money or of less purchasing-power.

If your index number is 100 ?—During the transitional period of restoration of economic equilibrium, the index figure would rise and would be stabilized when equilibrium was attained—when we are down to a position——

Assuming that we have, as I understand, an index number of 100, which is made up by taking in whatever commodity is imported and weighting it according to its consumption ?—Yes.

Assuming what I have predicted happens—a heavy rise in wool and a drop in butter : Do you not reduce the wool man's price in order to compensate for the butter man's price ?—No.

What is the benefit of the index ?—You are, I think, confusing the question of economic equilibrium with the idea of the elimination of all risks from the particular industry.

I do not know that I am confusing it, but I assume that your idea is to try and stabilize prices ?—Not individual prices.

What benefit is gained by the index number if every one still follows the fortunes of war ?—He gains those advantages which are incidental to the functioning of the community in economic equilibrium, but he is not spared those penalties which are incidental to the fluctuations in the value of his particular commodity. It is against economics that he should be.

Under your scheme it will be possible for the same disparity to occur as occurs now between farmers' costs and prices ?—No.

How is that avoided ?—The present disparity between the farmers' costs and his prices is due to the fact that he is paying his interest liability in money that is intrinsically too valuable.

His interest liability is only one factor of his expenditure ?—Quite.

And not a major factor ?—No. I would not say that. I do not quite get your question.

You say the difficulty arises from paying out interest in money which is more valuable than it should be for paying interest ; I understood that was your point ?—I would say that we have got a clear distinction between the fall in our national income and economic disequilibrium. We are suffering from a fall in our national income at the present time ; we have superimposed upon that a wrong monetary policy. That is the point.

I still do not see how you do not take into account the effect of world forces on the prices operating. You are recording your index number on internal consumption, and 90 per cent. of the products go overseas. How do you save the farmer from his present difficulties?—I do not save him from his present difficulties in so far as his present difficulties arise from the undue development of our present credit system relatively to the international trade cycle. I think that in New Zealand we are suffering at the present time from an overdevelopment of the credit system.

In New Zealand?—Yes; that is in relation to the international trade cycle. If there w s no international trade cycle, I would not say that.

By giving full effect to your scheme, would not most of the evils that at present afflict us still operate?—No, we would have full economic activity due to the fact that the rate of interest would be at its true or equilibrium rate; that would be very much lower than it is to-day, and because of that fact that it would be much lower, savings would be brought into relationship with advances at a very much lower rate. The effect of this very much lower rate would be that it would coincide with the true and equilibrium rate. It would also result in this fact: That capital values instead of being down right out of sight would be maintained, and no farmer would be robbed of his equity.

I do not apprehend the full importance of this interest factor of which you make so much, because in point of fact the farmers are free from all interest and are still "shot to pieces"?—If the dairy-farmer is all "shot to pieces" that is incidental to the effect of the international trade cycle upon prices of his products.

But not the internal rate of interest?—Yes, in so far as costs were fixed.

Assuming that cost was eliminated altogether?—My point is this: That, with the very much lower rate of interest which should exist at the present time in New Zealand, we would have an enormous industrial activity in other lines. At the present time the farmer is being taxed to support in unproductive work thousands and thousands of men. In other words the credit system has broken down; the private system has broken down.

Could I put it this way: That assuming your scheme was in full operation, would it still be possible for butter to be at 6d. and wool at 1s. 6d. or 2s.?—The butter would have its market value in New Zealand, the same as it has its market value elsewhere.

The market value in New Zealand is of very little importance to the farmer?—That is true, but the external credits would be transmitted to the farmer at a higher level of money incomes. That would have been incidental to the maintenance of the scheme.

That is being done now?—To a very limited extent, until of late.

Do you think that when it is said that the farmer is getting another 1½d. by virtue of the exchange, that it is possible that he has already lost that in the fierce competition in currency appreciation in the world's market?—No, I would not say that at all.

Quite a number of prominent economists at Home say that agricultural prices are being kept down from recovery by the fact that the producing countries are competing in appreciating currency. I do not know whether you will agree with that?—Some of these questions require more thought than I am able to give them on the spur of the moment.

Yes. What is the implication of saying that Gregory is a propagandist? Is that a term of reproach or a term of description? Would you call Keynes a propagandist?—Possibly.

Well, it is not intended as a term of reproach?—Except in so far as his propaganda has an unworthy objective.

Why do you suggest that it is an unworthy objective. He may have quite a worthy objective and yet disagree with you?—Quite.

You do not suggest that his writings in certain directions have not a worthy object?—But I would suggest that Professor Gregory is Professor of Economics in the University of London, which has a certain significance.

You mean he has an unconscious bias?—Yes.

We all have that, have we not?—Possibly.

Mr. Schramm.] You would nationalize the whole of the banking system straightaway?—Yes.

Do you not think you would produce a first-class donnybrook?—Well, we have a first-class donnybrook at the present time.

Exactly. Not that I disagree with you at all; I thoroughly agree with you, but I am looking at it from that point of view. Do you not think that all sorts of things would be done to prevent such a wholesale reversion of policy?—Not if the Conservatives are wise.

You think they will accept that and be very glad to get off with it?—I think they would be well advised to do so.

You, of course, as a progressive Conservative, would advise them accordingly?—Yes.

Mr. J. N. Massey.] I am very interested in your remarks regarding the prosperity of New Zealand being mainly the product of factors, one internal and controllable and the second external and uncontrollable. I presume you mean that we export most of the primary produce and sell it on the world's markets?—Yes. That is so.

I was also very interested in your replies to the Hon. Mr. Downie Stewart regarding this vexed question of exchange. During recent years we have stopped borrowing overseas. Do you consider that the exchange being pegged at the rate of 125 is a fair basis?—The existing rate of 125 per cent. does not express the true relationship between the internal purchasing-power in New Zealand and the internal purchasing-power in England. It is an artificial rate at the present time, but it is an artificial rate due very largely to the Bank Indemnity Act, and also to the statements which have been made which lead importers to anticipate a fall in the rate of exchange.

Hon. Mr. Downie Stewart.] How do you compare the purchasing-power in New Zealand with the purchasing-power in England?—I would base it on relative expenditures on consumption. I think

I may be being tripped up by answering hurriedly. I am not really prepared for the question. I should be, in my theory, but I have not really had very much time. As a matter of fact, I might explain that I got so thoroughly disgusted with the study of money that I more or less gave it up. I did not know that this Commission was going to sit or I would have had more for you.

Mr. J. N. Massey.] Do you not consider that the exchange-rate should go still higher ?—Yes, I do.

And you are of the opinion that by lifting the exchange rate 15 points and pegging it at 125 per cent. we have provided additional credits within New Zealand ?—To some extent, but the additional credits have not been provided to the full extent which they should have been provided for judged by the increase in the rate of exchange, but possibly some additional credits have been provided accordingly.

Why ?—Well, if they have not it would mean an increase in the disparity between the actual rate and the equilibrium rate. We are piling up balances in London.

But I think you will agree you have made one or two statements this afternoon that I presume that you now believe money should play a different part in industry to what it has done ?—Quite.

And I think you will agree that as far as the Government is concerned it has reduced the rate of interest to a very slight extent ?—I understand they recently floated a loan at 5 per cent. Is that right ?

Dr. Sutch.] Who is that ?—The new bank.

Here ?—Yes.

Oh, no. That was not a loan. It was shareholding, the dividend to be limited to 5 per cent. cumulative. That is only a minor thing.

Mr. J. N. Massey.] But you will admit that the Government has, to a slight extent, reduced the value of money by reducing interest ?—Yes. In so far as it has worked in that direction, it has done so.

And at the same time, by lifting the exchange by 15 points, they actually reduced the value of money, or rather turned British sterling into New Zealand currency ?—The degree of deflation has not been as severe as it would have been if the rise in the exchange-rate had not taken place.

And you would go still further. You would lift the exchange still higher in order to meet the position ?—If necessary, but I would not work it that way. I would let the exchange follow on as a result and not precede the cause.

I quite agree with that. Regarding the velocity of money, I have not stated the figures, but I put the question here one day and probably you were in the room when I put it. In 1928 the bank returns showed that there was considerably less money on deposit in New Zealand in 1928 as compared with, say, last year. Does not that show that the people simply cannot find the investments ?—It is a matter rather of finding investments at a good rate of interest, but my money scheme would force savings into a relationship with investment, and if necessary lower the rate of interest.

Under your scheme you would suggest that the banks should not be allowed to pay interest on deposits ?—No. They will pay interest on deposits, certainly.

But your main idea is to get more money into circulation ?—My main idea is to so manipulate the monetary system that we have internal economic equilibrium—that is, the effective utilization of our productive resources.

In other words, you say that the interest-rates are now too high ?—I do.

I quite agree with you. Just one other point. I do not know whether you have ever had anything to do with local authorities or not, but in Part 3 you say that you would nationalize the land. I think you will agree that at the moment the local authorities right thoughout New Zealand, County Councils, City Councils, Borough Councils, are having considerable difficulty in collecting rates, and I think you will agree also that the most difficult to collect from are people who are Crown tenants of land which is mortgaged to the Crown. Is that correct ?—Possibly so.

Well, also, as far as the Government is concerned, it has considerable difficulty in collecting interest or rent from Crown tenants. If you nationalize all the land, would not you increase that difficulty ?—You would if land were nationalized in advance of public opinion, but I am not suggesting anything in advance of public opinion.

Mr. Langstone.] In following up that last question, you would be prepared to nationalize the banks in advance of public opinion ?—You cannot do it in advance of public opinion.

I mean to say, if you cannot do anything in advance of public opinion the reply to Mr. Massey is all right. Everything is going to be done according to public opinion. Now, what do you mean when you talk of the true economic levels. I want to find out what basis you are working from. You call it true economic equilibrium. What do you mean ?—I would suggest that you consult authorities on that. I do not know that it is quite fair to ask me to describe in detail the condition of economic equilibrium, but I can say this: That it is a condition where it is characterized by several features. One is that savings are brought into relationship with investment in such a way that savings and investments are equal, continuously equal, and it also implies that the rate of interest is a true rate of interest, but, broadly speaking, it means that the productive mechanism of the country is maintained at efficient levels.

I presume we are talking nationally, not individually, now. Do we save nationally ?—We surely save nationally if we increase our national income.

Now you are talking about the money part of it. If you get money and you are not going to use it, or you are going to deny yourself things you want, then you put it somewhere where somebody else is using it. It is not saved in the national sense. If you are not using your claim on goods and you hand that claim on goods to somebody else living in New Zealand to utilize it, then it is not saving. You call it saving because you say, " I am going to get a rate of interest on it ? "—I distinguish between saving and consumption. You are suggesting that I do not distinguish between saving and consumption.

No. You are going to get interest on money ?—Yes. Most emphatically. Certainly, as things are.

No. I mean to say under your scheme ?—Yes, certainly.

Your idea is to get interest for money. Now, if nobody wants your money, if the State, under this nationalized banking system, can create free money to do all the public works that it wants, and do everything, who is going to borrow your money ?—But I am not suggesting anything so preposterous.

What is preposterous about it ?—There is this : There would be such a tremendous injection of money that money would lose value.

It would not be any more money. It would be the same money, but no rate of interest. It would not be as much money as under your nationalized land scheme ?—I am suggesting that in order to restore prosperity we should inject additional currency at the point of the public works, but I am further suggesting that when once we have attained to a state of economic equilibrium, the principal feature of it would be the abolition of unemployment, the State would then cease to create additional money and use it free of interest.

But who would be the adjudicator of when we had reached economic equilibrium ?—Intelligent people.

You are wanting to get interest for your money, and I am a wage-earner. You are going to get more out of the national wealth in the form of income from your investment of money than I am going to get from my labour. Is that economic equilibrium ?—It may not be just, or it may be just.

But I thought you wanted to bring ethics and economics into line, parallel with one another ?—Ultimately, but not at one step.

No. Gradually ?—Not too gradually either. It would depend upon public opinion, which is a matter of intelligence and education.

The question of putting it in by way of public works. We have got not only the question of the able-bodied person who is in need of wages, income, but we have got thousands of people in the country who want income, elderly people. I do not know whether you have ever read Foster and Catchings's "Road to Plenty," and "Business without a Bar," and "Profits," and all those things ?—No. I have not read them all, but I have seen them.

Would you be in favour of paying some form of income to the pensioners and widows and old people, who are consumers but not producers ?—I should say it would be quite sound policy. I see no objection to it. Probably quite a desirable policy. But if we did that I would point out that that would merely act as an incentive towards reduction of taxation.

Now, the question of profits : I suppose that it is quite reasonable to assume that if somebody is making a profit there is somebody else making a loss ?—Well, if you understand or keep a grip of the modern doctrine that the normal rate of profit is at zero, that is the modern idea. The term profit is, I think, used in a fair and ordinary sense, and that is the modern and rapidly becoming the orthodox doctrine ; that contention that the normal rate of profit is zero is quite compatible with the fact that individuals may be making a profit or a loss.

I notice in this, and you rightly point out that the interest for money or the hire price of money determines the value of money. That is, if you have got money that is earning 6 per cent. interest, it is much more valuable on the open market than money that is earning, we will say, 4 per cent. interest ?—No. The other way about. If you have got an annual rate of from 4 per cent. to 5 per cent. the capital value of that rate is more if the rate of interest is low than it is if the rate of interest is high.

That is under your system ?—No. That is under orthodox economics. That is accepted orthodox economics, accepted common-sense.

Now, you have got shares in a concern that is paying a 10-per-cent. dividend, and I have got shares in a concern that is paying a 5-per-cent. dividend. Who gets the biggest price ?—If I have got shares in a concern that is paying a 10-per-cent. dividend I have not got a fixed right to £10 per annum. I have a possibility of getting £10.

Yes. But we have people that have contracted with the Government to accept 5 per cent. in January and in February they had to have 4 per cent. There is nothing fixed about it even under the law, superannuation, and everything. You get to a state where you have got to cut down and it is cut down, willy-nilly ?—I am suggesting that the capital value of a right to an annual definite income increases with the fall in the rate of interest and falls with the rise in the rate of interest.

You mean you would index all money so that as goods rose or fell the value of money would be measured in goods. The same quantity of goods would be supplied, whether the price was high or low. It would be the same quantity of goods ?—I am suggesting that we should bring banking practice into harmony with the real world of business values, and if you deny what I have stated to be ordinary orthodox doctrine, then I am afraid I cannot get any further.

The question of exchange was that inflation or deflation——. Let me put it to you this way : That if you have got a piece of string that will just go round that glass, and if I was to get something and extend the circumference of that glass, would the same length of string go round it ?—I suppose not.

Well, is not that what the exchange-rate does. Did you not just force up local prices but did not lengthen the string—the money ?—How ?

It is so obvious. If you are an importer and I am an exporter, and you want to buy my bill of exchange, and there is a 25-per-cent. levy on you to give to me, and we are both living in New Zealand, how am I taking it out of your pocket and putting it into mine ? How is it making it any more ?—The rise in the rate of exchange of a given percentage should normally be accompanied by an increase in the money income of the people proportionately.

How can that take place ? By what mechanism ?—It takes place by virtue of accepted banking practice. The banks in New Zealand can create more money at will.

They create the money ?—Yes, certainly.

Then we have this disadvantage : That the credit that is overseas, that is not coming back owing to the lack of the imports, accumulates in London. They get possibly 5s. or 6s. per cent. and our people

here are taxed 25 per cent. plus the discount on Treasury bills. We will say 5 per cent. are discounted again—make it 4 per cent. That is 29 per cent. Now there are the people here taxed 29 per cent. to supply credit to foreigners and competitors overseas. Is that inflation of deflation ?—I am afraid I do not get the question.

You cannot follow it ?—No, I cannot.

Have you any idea of the amount of deflation that has taken place since 1929. I mean, reduction in salaries, wages, and farmers' incomes and everything ?—I would say that there has been a tremendous amount of deflation.

You think that the reduction in the national income reflects the amount of deflation ?—It bears a relationship to it.

That is, that in 1929 the national income was £150,000,000 and to-day somewhere between £80,000,000 and £90,000,000 ?—Yes.

That has lessened the spending-power of the community and brought about that chaos and dislocation and misery which you are talking about. Now, when you were talking to Dr. Sutch I tried to follow the controversy. I understood Dr. Sutch was saying that the question of our goods going Home to London was just a very small fraction of the total amount of goods that were going Home to London, but seeing that that small portion that we send on reacted so enormously on our local income here, that naturally the fall in that price-level reacted much more against New Zealand than possibly over the whole range of prices in London ?—Yes. I agree with you there.

Against that, seeing that we only export about 40 per cent. of our wealth, that should not have had such a tremendous dislocation or deflation on our income, seeing that we only export 40 per cent. and our national income was being reduced by nearly 50 per cent. ?—Yes. You are really developing my argument that we should go for stability of the internal economic equilibrium.

Mr. Munro.] Your plan depends on nationalizing the banks ?—Yes.

You intend to purchase them ?—That is so.

Is that to be a compulsory purchase ?—Yes, certainly.

Not at the banks' figures ?—On fair valuations on sound scientific principles.

I am thinking of the shareholders. What about the future interests capitalized in the purchase ? You contend that you do not believe in confiscation of any kind, and I feel quite sure that the task would be so enormous and the price involved so stupendous that there would be an enormous sum required to buy out those banks ?—No, the State would incur an interest liability in respect of the purchase, and it would recoup itself from taxation.

I understand that. Supposing you brought in a law simply giving the State bank authority to carry out the functions that you want to take over from the associated banks, you would be against that because it would be confiscation ?—Indirectly it would be confiscation. I do not think it is fair to allow bank shareholders to develop a banking system and then sneak it underneath them and take it away.

Under present conditions, where we have so much unemployment, you would inject, through the Public Works Department, so much extra money into the monetary system ; you would put so much more money into circulation ?—Yes.

Would that money be raised by the banks or by Treasury bills ?—No. The words "fiduciary money" would no longer have any application or meaning.

What would this money be based on ?—Based on goods and services—based on my composite commodity.

That places your scheme in the same category as some of those which you have condemned, does it not ? They propose to issue money based on nothing but the public credit of the people ?—No. I have a definite limitation to the quantity of money which I would inject.

So do many of the other schemes ; they have definite control of the money. Would you keep control of that all the time to what you call economic equilibrium ?—Yes.

Then according to your plan it would not be necessary to create additional money if you had economic equilibrium ?—Yes, it would be necessary to create additional money from time to time as the volume of goods and services increases owing to the growth of the population or increased production.

And would the money that you inject into circulation, into the money blood stream of the nation, through the Public Works Department, bear a rate of interest ?—No. I am not suggesting injecting via the public-works system when once economic equilibrium is attained. It could be done that way, but I do not think it would matter much.

But it occurs to me that it would take a very large amount of new money injected into the system to bring about economic equilibrium. That is only a matter of time and practice ?—No, because this money which is injected into the system via the Public Works Department ultimately goes back as a deposit, and then goes out again, and goes on circulating indefinitely.

It would be essential from your point of view that the public works on which you are going to spend the money should be what we call economic works ?—Not from the point of view of my plan, but certainly they should be wisely selected.

For instance, we have a number of unfinished railways in New Zealand which possibly are about the best type of public works that can be carried on to pay wages, and so on. Those railways were stopped for the reason that they would not be economic propositions. You say that would not matter ?—No.

It would not essentially matter ?—I am not advocating prosecuting uneconomic public works.

WELLINGTON, FRIDAY, 13TH APRIL, 1934.

Witness: Mr. A. N. FIELD.

Mr. Field: Mr. Chairman and gentlemen, thank you very much for the opportunity you have given me of addressing you. I had copies typed of the proposal I wish to submit to you, and I think these have been passed around.

Proposal:—

That the basis upon which currency and credit are to be controlled be more clearly defined by amendment to section 12 of the Reserve Bank Act, 1933, by omitting the words after "New Zealand" and substituting the words set out below. Section 12, defining the general objects and purposes of the Reserve Bank, now reads—"It shall be the primary duty of the Reserve Bank to exercise control, within the limits of the powers conferred on it by this Act, over monetary circulation and credit in New Zealand—

"to the end that the economic welfare of the Dominion may be promoted and maintained."

The amendment submitted is as follows:—

"to the end that the bank-notes issued by it shall be maintained stable in purchasing-power at a level promoting stability and prosperity in agriculture, industry, commerce, and employment, and promoting the economic welfare of the Dominion generally:

"the said level to be, so far as is consistent with the foregoing objects, the average price-level ruling in New Zealand during the years 1921 to 1929 inclusive as ascertained by the Government Statistician, due weight being given to the export produce price-level."

That, to provide the means of giving effect to the foregoing objects, a new subsection be inserted in section 13 making it lawful for the Bank to—

"Buy and sell New Zealand Government securities as necessary to give effect to the objects of this Act."

That all words at present in sections 13 and 14 limiting the Bank's power to buy and sell New Zealand Government securities be struck out.

That amendment be made to section 17, making New Zealand Government securities eligible for inclusion in the Bank's reserve.

The following further amendments are also submitted:—

(1) That in subsection 2 of section 5 of the Reserve Bank Act—alteration of Rules—the words "excepting clause 2 of Rule 11" be inserted after the word "hereto." This would prevent any alteration of the rule forbidding transfers of shares to persons not British subjects ordinarily resident in New Zealand. At present this rule can be altered and foreign ownership permitted without reference to Parliament.

(2) That a new subsection be inserted in section 14—things unlawful for the Bank to do—as follows:—

"Export gold or silver coin or bullion from New Zealand without the consent of the Governor-General in Council."

Mr. Field: I have put together my ideas on the subject generally. First of all, there is the question of whether our troubles are monetary troubles, and then the next point I want to deal with is what should be the object of monetary control, if we find they are monetary troubles; and next after that whether New Zealand can act alone in this matter, and, if so, just exactly what should she do. Then I have a few general remarks I would like to make on the whole thing. With regard to the question of whether our troubles are due to monetary causes, it has been stated by some of the witnesses that have appeared that they are due to other causes (have originated in other causes altogether), and, of course, if you take any event at all you can find a lot of contributory causes. We have to look at them all and decide what is the chief thing, and the only way to decide as to whether our troubles are monetary is to use our own personal observation, and so on, to see what men who have studied this thing for a long time think, and what are the findings of Committees which have investigated it; also whether the monetary change came first and the trouble followed; and also whether predictions which have been made before any monetary change took place that these troubles must follow, have been borne out; and what has happened in the past when similar monetary changes were made, and the consequences that followed. On the first point I think every person individually knows that what is the matter is caused by lack of money. There are other circumstances, but they are very much as they used to be. Ask any business man the difference between now and five years ago, and he will tell you there is not so much money about. The quantity of products are going forth in the ordinary way; it is not as if the people had bought such a large stock of boots or clothing that they did not want any more, it is simply that they lack the purchasing-power. Then when you pick up that Macmillan report you find that they say that between 1913 and 1928 the population of the world increased by 10 per cent., whereas the production of foodstuffs and raw material together increased by 25 per cent. In paragraph 131, they say: "Taken all in all, however, the statistics so far adduced prove that the general conditions have been favourable to a growth of material welfare throughout the world." Then, of course, people say it is due to the war, and that you always must have these sort of troubles after a great war, because it has dislocated things so much. The opinion that Professor Cassel gave in 1932 gets to the heart of

it: "A real economic connection can hardly be established between a war supposed to have destroyed wealth to an enormous extent and a crisis supposed to be characterized essentially by overproduction of wealth." Then, on the general question as to whether it is the quantity of money that makes prosperity or depression, you go away back on the theoretical side to James Stuart Mill, who says, in his "Principles of Political Economy," published as far back as 1848, nearly a century ago: "That an increase in the quantity of money raises prices and a diminution lowers them is the most elementary proposition in the theory of currency, and without it we should have no key to the others." Professor Cassel says the general level of commodity prices is essentially a monetary phenomenon. Then you have Lord D'Abernon, a well-known financier, telling the British Empire Society in London in 1931 that "The currency arrangements of the world have gone wrong; the standard of value has been falsified." Mr. Reginald McKenna, Chairman of the Midland Bank (one of the greatest trading banks in Britain) in 1926, at the annual meeting of that bank, blamed the money system for the trouble, and you find the London Chamber of Commerce appointing a Monetary Committee, and in 1932 it passed resolutions in which it said, "In the opinion of this Council monetary reform is of outstanding importance. The arrest of progressive deflation is, in our view, the condition precedent to a return to prosperity, and no other measures which may be taken can prove effective substitutes." The Macmillan Committee, in their report, paragraph 208, which was quoted by a previous witness before the Committee, went over a number of contributory causes, and in paragraph 209 they put their conclusion: "Our view is, therefore, that the price-level is the outcome of interaction between monetary and non-monetary factors, and that the recent world-wide fall of prices is best described as a monetary phenomenon which has occurred as a result of the monetary system failing to solve successfully a problem of unprecedented difficulty and complexity set it by a conjunction of highly intractable non-monetary phenomena." They said the thing was a monetary phenomenon with these other contributory causes.

Mr. Lye: What was the last sentence?

Mr. Field: "A monetary phenomenon which has occurred as the result of the monetary system failing to solve successfully a problem of unprecedented difficulty and complexity set it by a conjunction of highly intractable non-monetary phenomena." They said, further, on the monetary side of it, "A failure by the central banks of the world to attempt to redress the fall of prices, in our judgment, would endanger the principles on which modern economic society is founded." It was to use monetary means to get prices up again; that was the cure according to that paragraph. In paragraph 275 they said—and Mr. Amery in writing an article summarizing their report in the *Nineteenth Century Review* said this was their one positive conclusion—"Thus our objective should be, so far as it lies within the power of this country to influence the international price-level, first of all to raise prices a long way above the present level and then to maintain them at the level thus reached with as much stability as possible." Six of the members of the Committee went further, and in an addendum they said that "the increase in the value of sterling was deliberately intended." That is to say, the lowering of prices was deliberately intended. In the same addendum they said, "Theoretically the most obvious and comprehensive method of effecting the desired object would be to leave money incomes alone but to change the monetary standard. . . . This would have the advantage of bringing the direct initial benefit to those industries which need it most—the foreign trade industries. It would involve no interference with contract. . . . It would affect every class of income without the necessity of any other special measures. For a country which was not an international banker and was not owed large sums from abroad fixed in terms of sterling, this would be the simplest solution." New Zealand is not an international banker and is not owed large sums of sterling. These six members, including Mr. McKenna and Mr. J. M. Keynes, were of the opinion that for a country in our circumstances to alter the monetary standards to readjust things would be the simplest solution and would involve no interference with contract, which latter would be a very desirable thing to avoid. In 1932 the Banking and Currency Committee of the United States House of Representatives went into the whole question as to whether the difficulties being encountered there were monetary, and I would like to quote what the Chairman of the Committee, Mr. H. B. Steagall, said in moving a Bill to direct the Federal Reserve Board to stabilize prices:—

> We saw this power [of control of currency] demonstrated in 1920 and 1921. I am not here to abuse anybody or to recite history, but, Mr. Speaker, we saw credit contraction and currency restriction in the United States during that period in the amount substantially of 2,000,000,000 dollars, and prices were cut in half as if by one stroke of the pen, and the country plunged into panic. Farmers were thrown into bankruptcy, merchants and bankers had their loans called, and commodity-values were crushed. . . . Later. . . . the policy was reversed, and expansion and liberal credit substituted for the practices that had obtained, and prices revived, and under the changed order prices were more or less stable, and we had a revival of normal activity and prosperity in the United States for a number of years. . . . In 1929 there was again a horrible contraction of currency and of credit in the United States and a decline in commodity prices that brought depression and panic to farmers, merchants, and all classes throughout the United States, largely as a result of that policy.

They investigated the whole situation very thoroughly; in fact, he said that the investigation they had made on this Bill had been the most thorough of any Bill since he had been Chairman of the Committee. A large number of other people—Sir Basil Blackett, formerly controller of Finance in Britain, Sir Josiah Stamp, a director of the Bank of England, Sir Charles Addis, the Council of the Manchester Chamber of Commerce, Mr. J. F. Darling, a director of the Midland Bank, Mr. Leopold Amery, formerly Secretary for the Dominions—all blame the money question as the cause of the difficulties. Then you have the fact that they made alterations to the currency and the trouble came afterwards. Before the war was over, in January, 1918, the Cunliffe Committee was set up in England, and they recommended that there should be a contraction of the currency and that the amount of currency in circulation should be brought down so that it would fit in with the average bank gold reserve of £150,000,000, and that was their report in December, 1918. The London *Times* in its Trade Supplement published a series of

articles by Mr. Arthur Kitson, who has been writing on the subject since 1896. Seven articles were published, one a month. He said in one article :—

No nation has ever been able to wage a great or prolonged war or to weather a great political crisis on a precious-metal basis. Our trade and industries for the past three and a half years have been and are being successfully carried on at the same time that we are waging the greatest war in the world's history. Nothing but an abundant supply of currency in the shape of legal-tender notes and bank credit could have enabled us to undertake such unprecedented burdens. For the first time in our industrial history unemployment has practically disappeared, whilst labour was never so well remunerated. Any attempt to destroy this paper currency after peace is declared will constitute an attack on the national welfare, and if accomplished will result in a repetition of the economic disasters that have always accompanied periods of currency contraction.

Mr. Kitson wrote that in June, 1918. The war was still being fought, and I do not think many people who heard that the Cunliffe Committee was being appointed in London looked ahead like that and saw the effect. Mr. Kitson's conclusion, in the final article of the series, in October, 1918, was—

In conclusion, the nation should be on its guard to see that the war debt is not enhanced by some jugglery with our legal tender after the war. . . . The reintroduction of a gold currency, accompanied by the gradual withdrawal of our Treasury notes, will by raising the purchasing-power of money and lowering prices, double if not treble the actual amount of the war debt in terms of the labour and commodities with which the public will have to pay both principal and interest. The method is so insidious and can be accomplished so easily that the public may be cheated before they are aware of it. The war debt has been incurred in cheap pounds and honest dealing requires repayment in pounds and in commodities of the same value as when the debt was incurred. To raise the value of money after the war is an old trick of the world's financiers. It was practised after the Napoleonic and American Civil Wars, and led to years of social disasters and untold misery. At all costs a repetition of such jugglery should be prevented.

I think that is what has happened ; they made this variation—deflated the currency, put the country back on the gold basis, and we have had exactly the same troubles. In the autumn of 1920, the international bankers had a conference at Brussels, and they decided to get to work to put the different countries back on the gold basis, and Professor Cassel, who was at that time Financial Advisor to the League of Nations, put in a memorandum——

Mr. Clinkard : You would say that private contractors who made contracts at this time were affected in the same way ?

Mr. Field : Yes. The burden of their debts would be doubled. In this extract, Professor Cassel mentions that point :—

Deflation is, shortly, a process by which the internal value of the monetary units is increased. This means a deliberate raising of the purchasing-power of this unit in regard to commodities and services—*i.e.*, a general and uniform reduction of prices, wages, and salaries as measured in terms of the monetary unit. . . . A considerable increase in the value of the monetary unit in which the debts of the State are contracted would in most cases make the State definitely insolvent. . . . It would, of course, also cause insuperable difficulties to private debtors.

That is what he told those bankers when they were pressing to do this in September, 1920. He went on to state how they would effect this—the means of doing it :—

There are two measures at our disposal, and, in present circumstances, both must be applied simultaneously. The first and foremost is a general restriction of credit, involving a curtailment of the amounts of loans, and a more stringent selection between the different demands for loans. But the principal instrument of such a policy is an abnormally high bank-rate calculated to raise other rates of interest correspondingly above what the real scarcity of capital would require.

Then the next year he reported to the League of Nations that the warnings enunciated had shown themselves during the past year to be only too well-founded. In 1922 further steps of deflation were decided on at the Genoa Conference. At that Conference the international bankers had their meetings, and the experts, though meeting separately, had a Committee which was presided over by Sir Basil Blackett, British Government representative, and they put in a similar report—that it must cause difficulties. Then, on the 18th May, 1920, in Washington, the United States Federal Reserve, held a Conference of the Reserve bankers, at which about fifty persons were present. This was a secret meeting. They decided on a policy of immediate credit contraction, particularly to restrict credit to the farmers and prevent them holding their crops. The minutes were subsequently made public and were published in American official documents. They showed that quite a number of the different heads of the Reserve Banks got up and said this was going to ruin the people, but they were overridden, and the policy was proceeded with.

Mr. Ashwin : You are talking of the American Reserve Banks, not the National Conference ?

Mr. Field : No, the American Reserve Banks. Another prediction that if credit was contracted and so on, you must have disaster, was made in 1929, on the 27th May, by ex-Senator Robert Owen, who was for twelve years the Chairman of the United States Senate Banking and Currency Committee. Mr. Owen, giving evidence before a sub-committee of the Banking and Currency Committee in 1932, read out a memorandum which he put in on this date, and, speaking of that memorandum, he said :—

I called the attention of the Administration on May 27th, 1929, to what was going on before that panic took place, five months before it took place, and pointed out ten different ways in which credit and currency were being contracted under the Reserve Board and the Reserve Banks. . . . All the evils which flowed to this country ensued immediately after the stock-market crash. That is a case of cause and effect, both as to time, place, and reason.

That was the opinion of a man who had been handling these things and watching them for many years—that it was the monetary action that caused the distress, and the distress was properly to be attributed to this contraction of the currency. Then you get the position in England in 1920. Mr. Austen Chamberlain, as Chancellor of the Exchequer, announced that the Government had set its heart on a

policy of deflation. Mr. Montagu Norman became Governor of the Bank of England in this year, and they put up the bank-rate right away. In 1923, Mr. McKenna, in reviewing the course of events, said :—

> The bank-rate, which had been raised to 7 per cent. in 1920, remained at that level for a year. . . . Already by the autumn of 1920 trade showed such a serious decline that we might have expected a lower rate, but the exigencies of the deflationary policy demanded a continuance of dear money. Unhappily employment decreased month by month as this policy was enforced. In April, 1920, the records of the exchanges showed that we had 348,000 unemployed; by March, 1921, the total of unemployed had risen to 1,506,000.

Now, 348,000 unemployed was about a normal thing in Britain before the war, and owing to this deflationary policy it went up to millions, and we are likely to have it as long as they carry on with this policy.

Dr. Sutch : But they have not a deflationary policy now ?

Mr. Field : You find that their price-level has stayed away down, and the amount they are doing has not sent prices up to any extent. Mr. McKenna this year, in January, at the annual meeting of the Midland Bank, reviewed the position, and said it has made money a good deal easier but there has been no lift in prices.

Mr. Ashwin : In other words, is it not the position that they are now making the money available, but for other reasons the people seem loath to get busy ?

Mr. Field : The money, I should say, has not got into the form of effective consumer demand at the present stage. It has gone so far in the system but has not got right through, and the money is not in the hands of the people who want to buy these consumption goods.

Mr. Ashwin : To get that, some one has to make use of the money. It is one thing to make the money available and another thing for somebody to make use of it ?

Mr. Field : It depends where you put the money out as to how much good you do. If you have 2,250,000 unemployed in Britain, if they manage to get the money out to them, they would use it, but if you put it in the hands of the people who want to use it for investment purposes they will simply wait till a suitable investment comes along, and until then the money will do no good. It is no use turning out manufactured articles if consumers cannot buy; there must first be that demand. The banks come here and say it is a lack of confidence that causes the whole trouble. They have the whole thing down here in the Macmillan report :—

> We repeat that it is the simultaneous reluctance of creditor countries either to lend or buy which is the cause of the crisis. . . . The main practical obstacle which we see in the way of a resumption of long-term investment is the shortage of acceptable and willing borrowers for the purpose of new enterprise, due to the general unprofitableness of industry—due, that is, to the fact that the common people cannot buy for lack of money. Then they go on to say that the decline of new enterprise has reacted adversely on profits and prices, and then, of course, that works back again and still further checks enterprise, and you get a vicious circle going on and on.

The Chairman : Would not new enterprise give work ?

Mr. Field : Yes. But you get the vicious circle going on. Mr. Keynes put it this way : If we went on with this, we would finish up with every one lying down starving to death through the refusal to accept one another's services. They say : "It is for this reason that some of us think that in the domestic field it may be necessary to invoke governmental enterprise to break the vicious circle." How can you break it ? You have to get money out to these people, and, in a quotation I have here, that is exactly what Lord D'Abernon said, in a letter to the London *Times* in 1930—that we must have inflation. It is the only way to get away from deflation. If the people suffer from lack of money you must give them money, you must get the money into the hands of the people—the consumers—as they did in paying for munition work during the war, only instead of having money spent on arms you have it spent on useful work in the country, and by creating that consumer demand you break this vicious circle. What is the position here ? You have the banks saying, "We have all this money, £40,000,000, on fixed deposit, and we would like to lend out this £20,000,000 that is unlent, but we cannot find any eligible borrowers." Naturally you cannot, until the borrowers can find some eligible customers, and you cannot have eligible customers until the ordinary run of people have some money in their pockets, and the only way to bring that about is for the Government to put public works in hand to break the vicious circle—the Government spends the money, this revives demand, and then the whole thing operates again. Unless you break that vicious circle you cannot get anywhere ; but we are told that it would be wrong to do this, to break the vicious circle, and the best thing, apparently, would be to stay as we are. They went back on to the gold standard in Britain in 1925, and you had a Committee there which reported that they ought to do this. It was a Treasury Committee (composed of Mr. Austen Chamberlain, Lord Bradbury, Sir Otto Niemeyer, Mr. Gaspard Farrar, and Professor A. C. Pigou), and they said,—

> We must still be prepared to face a fall in the final price-level here of a significant though not a very large amount. . . . British experience of the restoration of the gold standard after the expiration of the French wars of a hundred years ago and the recent experience of continental countries which have taken steps under far more difficult conditions to rehabilitate their currencies have shown that a courageous policy in currency matters surmounts apparently formidable obstacles with surprising ease. We believe that on this point history will repeat itself. . . . Any temporary disadvantages will be many times outweighed.

They were absolutely correct when they said that they believed that history would repeat itself. It has repeated itself, as I will show in a minute. In 1925 Professor Gregory said,—

> Experience has shown that the control of currency is liable to the gravest possible abuses, and that it is undesirable that the discretionary authority of the managers of the non-metallic standards should be allowed to continue. . . . Within a single decade the value of paper money has fluctuated sufficiently to ruin whole classes. Nothing of the sort is to be feared from gold. The gold standard, in addition to imparting stability to the price-level over time, necessarily involves stability in prices over the whole of the area in which the gold standard prevails.

And then you have Mr. McKenna pointing out that in the three years previous the managed paper currency in Britain was considerably more stable in purchasing-power than the gold currency in America. Then the Macmillan Committee in 1931 looks over the situation and states, "Unfortunately the anticipations of those who were responsible for our return to the gold standard in 1925 have to a large extent not been fulfilled. . . . It may be that the whole machine will crack before the reaction back to equilibrium can be brought about." Then you get the position that England went off sterling in September, 1931. The price-level Board of Trade index in 1928 was 100·6. It went down by 1931 to 74·6, and you find the Macmillan Committee saying, "We are emphatically of opinion that, even if a further fall of wholesale prices be avoided, their stabilization at approximately the present level would be a serious disaster for all countries, and that the avoidance of such an event should be a prime object in statesmanship." They said that in 1931 when the price-level stood at 74·6 and in December, 1933, the Board of Trade price index stood at 73·3—that is, 1·1 below where it had been when they made this report, that such a thing as stabilizing on this level would be the greatest possible disaster. Did they wish to have an expansion, to lift things up? You will find in a biography of Mr. Montagu Norman a little incident related there which was noted at the time by other writers, and that was that in 1928 the Midland Bank, when they were on the gold standard, wanted to ease the situation and brought in £6,000,000 of gold from America on its own initiative, and if you will read in the Macmillan report you will find that the £1,000,000 of cash in hand will support about £9,000,000 or £10,000,000 of credit expansion. They could then put this money out to ease the situation in England, and that was their idea, and it is written down here: "In 1928, when the Midland Bank imported some £6,000,000 of gold from New York with the object of creating a credit expansion, the Bank of England promptly counteracted this attempted interference with the official monetary policy by sterilizing the gold imported." The thing was blocked. They did not want the prices to go up. Then you go back to those Napoleonic Wars that were mentioned, and you will find they went off gold in 1797 and they went back on to it in the first few days of February, 1820. The original idea was that the return to gold was just postponed from day to day, from month to month, and then it was until six months after Waterloo, after the end of the war; but they extended it by temporary periods until they finally went back in 1820. The bankers had been getting ready after the end of the war for a return to gold by contracting their credit, and so on, and the note circulation. And when the final move was proposed you find that the great economist of the day got up in the House of Commons and he made exactly similar predictions to those of the great economists on this Treasury Committee in 1925. This was Mr. David Ricardo, speaking on the 24th May, 1819, in the House of Commons. He said, "The difficulty is only that of raising the currency 3 per cent. in value; and who can doubt, even in those States where the currency is wholly metallic, it often suffered a variation equal to this without inconvenience to the public." You will find if you turn up Alison's "History of Europe," from the beginning of the French Revolution up to 1852, that he gives the whole story in the greatest detail right through, and every step in this currency contraction was followed by disaster, and they had all those years of misery and wretchedness, and emigration that grew to 300,000 people every year from England, people who could not find anything to do there and had to get out, and that continued until they got the gold from Australia and California in the "fifties." What actually happened after they went back to gold was that the note circulation was £48,000,000 in 1818 and it went down to half in 1820. By 1822 it was down to £22,000,000. Prices sank to about half within six months and distress was universal, and the whole thing continued on with only two short spells of rising prices until they got this expansion of currency by the gold-mining.

Captain Rushworth: During that period, during the passage of the Bill through the House of Commons in 1819, the resumption of cash payments by the Bank of England, did not the merchants and traders of Bristol and London present petitions which accurately forecasted exactly what would happen?

Mr. Field: Yes, they did. I have them here. On the 3rd February, 1819, the merchants, bankers, and traders of Bristol protested in a petition presented to Parliament against "a premature return to measures which the petitioners are satisfied must cramp the commercial intercourse of England with foreign countries, contract its trade and manufactures, and be injurious to its best interests." Then, the Bank of England directors declared in a petition that "It is utterly impracticable and would be entirely inefficient, if not ruinous." But the thing was done over the heads even of the directors of the Bank of England at that date.

Captain Rushworth: Who was pushing it then?

Mr. Field: Sir Robert Peel was pushing it. The merchants and bankers of London put in a petition in which they said,—

> It must tend to a forced, precipitate, and highly injurious contraction of the currency. That the consequences of such contraction will be, as your petitioners humbly conceive, to add to the burden of the public debt, greatly to increase the pressure of the taxes, to lower the value of all land and commercial property, seriously to affect and embarrass both public and private credit, to embarrass and reduce all the operations of agriculture, manufactures, and commerce, and to throw out of employment (as in the calamitous year 1816) a great proportion of the industrious and labouring class of the community.

That is what they said, and all those things did happen, and Alison says,—

> The effect upon prices was not less immediate or appalling. They sunk in general within six months to half their former amounts, and remained at that low level for the next three years. Imports sunk from nearly £36,000,000 in 1818 to £29,769,000 in 1821; exports from £45,000,000 in the former year to £35,000,000 in the latter. Distress was universal in the latter months of the year 1819, and that distrust and discouragement was felt in all branches of industry which is at once the forerunner and cause of disaster. . . . It was the incessant fall in the price of commodities of every sort which had now gone on, with only two periods of intermission of two years each, for twenty years, which was the cause of this universal and unheard-of distress. With the

exception of the years 1824 and 1825, when the Small-Note Bill temporarily suspended the decline, and the years 1834 and 1835, when the Joint-stock Banks Bill and the Bill making the Bank of England notes a legal tender save at the Bank of England, produced the same effect, the whole period from 1819 to 1839 had been one of incessant fall of prices. The chief articles of commerce had declined in money-value during that time 50 per cent.; many, much more. Such a long-continued and prodigious fall of prices filled all classes with despair.

What Alison in his history has to say would make one big volume of about a thousand pages, and he follows it right out with the statistics of bank deposits and note circulation and prices, and so on, and it is proved right up to the hilt that what that British Treasury Committee said in 1925, that if we went back on to gold history would repeat itself, was absolutely true. It has repeated itself, and whether they wanted these things or not I do not know. Some of these people wanted these things to happen, and they said the gain would outweigh the disadvantages. I do not know where these advantages are. I think they are pretty difficult to see, and I submit that the whole evidence is that our trouble is a monetary trouble. They made these alterations and these disastrous consequences followed. The next thing I want to bring before you is, What object should we have in monetary policy? In that point you have had evidence by the banks that "the banks emphatically consider that prosperity cannot be achieved by monetary manipulation." They say that monetary manipulation is juggling with the currency, it is trickery with the currency, it is worthless paper money. Those are all coloured phrases. What are they doing themselves? What do you call their own operations? What do they amount to—the present methods of managing currency? What has been the basis of banking in this country ever since the banks opened their doors? If you go back and study the figures, you will find that the basis on which they have done their business has been to pretend to lend to the public money of the realm which they never at any stage possessed, and which they had no expectation of possessing; and by lending this imaginary money, which was not in existence, they have received their profits and had interest paid on it. And when the public come along and want to see this money, what happens? Of course, if one man goes in and says, "You have advanced me a hundred sovereigns, or a thousand. I would like to have these sovereigns." They say, "Yes"; and in the old days when they paid out in gold, they brought the whole bagful out, and he could take it out and look at it and hand it back to them. But if any number of their customers came along and asked to have the same thing done, all they can do is to send their clerks round to fill up the tellers' windows with the clerks drawing thousands of pounds out in sixpences and running round to the back door and paying it in, so that the public cannot get up to the counter to ask for their money. If they cannot do that they have to shut up their door. That is not monetary manipulation! That is the basis on which banking has been conducted in this country and every country.

Captain Rushworth: They show the same bag to every one?

Mr. Field: Yes. It is like a coal-dealer selling a ton of coal to three people at the same time. He cannot get away with it. He goes to gaol. The gold, of course, is no use to them, and all they can do is to hand it back to the man who gave it to them to look after it. But it is not there for the lot of them. Only about a tenth of them could get it. That is not monetary manipulation! Then you get to 1914, when the people are really nervous. The Great War has come and we do not know how things are, and so Parliament enables the banks to repudiate all these obligations they have entered into to give this gold to their customers—this tangible thing that these people were to get for this paper—and they are allowed to repudiate all these obligations. That is not monetary manipulation! Then, of course, a smaller event, you have the banks putting up the exchange-rate of their own accord to 10 per cent., and in the evidence that was given before the Economic Committee in 1931 it was stated in what was read out at different meetings that this was done with a view to discouraging imports. They had done a little manipulation there, but they do not call that monetary manipulation. It is all right as long as they do it, and when you boil the whole thing down we have never had anything else but monetary manipulation, and even this Macmillan Committee, which was largely composed of bankers, say in their report that the only thing automatic about the gold standard is that if you lose gold out of your banking system it is an automatic signal to you that you have to get busy and manipulate the currency to stop losing more gold. That is the whole thing.

Mr. Langstone: Put up the bank-rate to get it back?

Mr. Field: Yes. Start your manipulation or whatever you like to call it. Well, what is the basis you want for currency regulation? Before the war we had a commodity money. It was kept steady in respect of a commodity, but only one commodity, gold. The paper the banks issued had theoretically to be convertible into gold at a fixed rate. What it would be in anything else did not matter—no account was taken of that. There was a general belief among a lot of people who have never studied the thing very closely that gold always stayed stable in price, but when you take out the figures you find that gold does not. Gold fluctuates in value just as much as anything else; and, of course, if your money is gold money, it means that if gold fluctuates in value everything else must fluctuate in price in terms of gold money. For many years there has been a feeling that money ought to be kept steadier over a wider area than just this one commodity. You go back to Professor Stanley Jevons here, a well-known economist writing in the "seventies." He brought forward an idea for a tabular standard, and urged that they should look at more things than just keeping money convertible into gold. Then Professor Alfred Marshall in the "eighties" brings forward some stabilization ideas; and then, in America from about 1911 onwards, Professor Irving Fisher, Professor of Economics at Yale University, has written quite a long series of books and articles urging that something should be done to keep money stable over a wider area than just this one commodity; and in 1913 they brought in this Federal Reserve legislation. They had had a big panic in America in 1907, and they thought that a lot of speculators had put their heads together and had caused the enormous fluctuation in the Stock Exchange in New York for their own advantage. There was a great feeling that something ought to be done about this, and President Wilson, when the Democrats went in in 1912, proposed to put the Money Trust in its place. This Federal Reserve legislation was

introduced as a means of securing better control over the currency and stopping these fluctuations in value, and when that Bill was introduced it had an instruction in it that the discount-rate should be fixed with a view to accommodating business and to promote a stable price-level, and during the passage of that Bill through the House these words, "to promote a stable price-level" somehow was dropped out of it. Various efforts have been made to have them put back again and to give this direction to the controllers of the Federal Reserve to maintain a stable price-level, and the greatest exception has been taken by them to having any such direction written into the law. But in 1932 a Bill was introduced to direct them to restore commodity prices to the average level ruling from 1921 to 1929. It had the unanimous support of the Banking and Currency Committee, and it was passed by the House of Representatives by a very large majority, but it was shelved in the Senate. In 1932 the London Chamber of Commerce said that something should be done to take the currency in hand and keep it steady in buying-power, and then earlier than that there were a hundred British industrialists, headed by Sir Auckland Geddes and Lord Denbigh, who put in a memorandum to the Treasury urging that something should be done to stabilize prices, and you have these people all over the world considering that that is what we want, and I think even the Ottawa Report mentions stability in prices; but they say it must be done internationally—that we cannot do it locally. And the World Economic Conference said the same thing—that the British Government should work to stabilize prices. But when it comes down to getting practical steps taken you find them all trying to put it off and saying, "Leave it to somebody else." Nobody is willing to make a start.

Mr. Langstone: What about Mr. Roosevelt?

Mr. Field: Well, has he stabilized? He is making enormous variations in the value of their currency, but whether they are ever going to stabilize it remains to be seen. And when you look at the history of the Federal Reserve Bank, there have been more violent fluctuations in money since it had control; and it has had more control over the money of the world than any other institution. President Wilson was going to do all these wonderful things, and the Federal Reserve was the way he did it; and you see what it has done. And now you find exactly the same men around President Roosevelt. But when you see what the same groups of men did before, you begin to wonder whether it is going to work out.

Mr. Ashwin: But that is the object of all his extraordinary legislation or activities that he has undertaken.

Mr. Field: Yes. But if they wanted to get things steady why did they in 1932 make such determined resistance to having this Goldsborough Bill—just giving a simple direction to the Board to do something—put through?

Dr. Sutch: It was Hoover, not Roosevelt.

Mr. Field: Yes. Well, all these financial interests which are now co-operating with President Roosevelt were then giving the most determined resistance to having any direct instruction, even of the most moderate kind, put into the law.

Mr. Langstone: Do you think they have had a change of heart?

Mr. Field: They may have. We can only hope they have.

Mr. Ashwin: But in the meantime it would appear that the control of the Federal Reserve Bank has been shelved.

Mr. Field: Well. Let us hope the whole thing is going to work out all right.

Mr. Ashwin: That is the point.

Mr. Field: Yes. In our country here we have reached this position: At the beginning of last year our Government, as a matter of public policy, decided on a definite break with sterling, and we go our own way in money-control. We would not attempt to keep anywhere near parity with sterling, and we put the exchange up to 25 per cent. We have already made the break, and what benefit have we had out of it. I do not think we have got anything like the benefit we should have had out of it. As quickly as this high exchange has brought money in, the banks have bailed it out by contraction of advances, or the people have gone and paid their overdrafts off. I do not know whether they have done it voluntarily, but there has been this contraction of money, and it has meant that we have not got the benefit we should have got out of the high exchange, and the banks have been able to bring about this contraction of money. They were opposed to this high exchange, but Parliament wanted it, and the banks have had a contraction of their advances since it was brought in, which has exactly nullified the whole thing.

Mr. Langstone: I would not say Parliament wanted it. The Government wanted it.

Mr. Field: Well, it was passed.

The Chairman: The banks have settled down to it, have they not?

Mr. Field: Yes, they have. If the exchange was to rise in the ordinary way it could only go up in an ordinary natural manner through the importers having the money to bid it up. That is to say, if you have £50,000,000 of sterling in hand from the sale of our products in London, and you have a demand of £50,000,000 put up here to buy sterling with, the price of sterling will be just about £1 of New Zealand money for £1 of English. If you increase the amount of money in circulation in this country so that the people who want to buy sterling have got about £100,000,000 in hand or something like that, and there is only the ordinary £50,000,000 at the other end, they will start competing with one another. They cannot all go there and pay £1 down for £1 of English money because the banks would be sold out and the demand would be unsatisfied, and the banks cannot meet it. The exchange-rate would go up in consequence of the demand, and it would only go up because it was profitable to the importers to bid it up—because they had the money in hand and they could see a profit for themselves in paying more for sterling. In our case the Government raised the exchange-rate with the idea that the extra money would be paid out to the exporters, and that it would be spent by them and flow through the channels of trade to the importers, who would then have the extra money in hand to take up this sterling in London at the higher

price. But in the middle of this transaction you have the banks standing between the exporter who gets the high-exchange money and the importer who needs it if he is to import as usual. And what do you find? You find that as quickly as this money comes in it goes out of circulation again by contraction of bank advances: there has been no improvement in business turnover through 1933 worth talking about. Here we are with about eighty thousand men all told on this unemployed relief: if you allow only two dependants for each man, that makes about a quarter of a million of our people destitute but for this dole-money. And here you have something like £300,000 every week, week by week, for the last fourteen months, drawn out of circulation through the contraction of advances in the banking system. On top of that you have the banks coming into this Committee and talking about what they are doing to help the country. I say it does not fit together. In what they did they were on velvet, for they had that clause in the Exchange Indemnity Act by which all this sterling that is unsold in London as the result of these operations has to be taken up by the Government and interest paid on it at "best overdraft rates." It costs them nothing to call up advances while they have that in the law. As to whether what they have done is deliberately done, you have to form your own opinion. You have that statement made by the head of the biggest bank before that Special Economic Committee in 1931, that was quoted at public meetings: "Farmers! A jolly good thing if some of them did come to grief: the more severe the lesson now the better for the country in the future." That idea fits in with what you see in these figures. You have had nothing like these figures in our bank history since those war years. They have simply ladled this money out, and unless there is some other explanation put forward that cannot be seen on the surface, you naturally come to the conclusion that the Government and Parliament wanted the high-exchange policy, and that the banks did not approve of this policy, and they set out to defy it. The thing has not been the benefit it was to have been. It has not helped to reduce our unemployment to any extent; but had the extra money got into ordinary circulation right through the community we would have had our unemployment cut down. In Australia they have a high-exchange policy, and the banks wanted it and worked in with it. The money has got more into circulation and the unemployment has been going down steadily, whereas ours has been sticking up.

Mr. Langstone: Would there not be the possibility of the importers not wanting the money, thinking the exchange may go down and they would be left with goods at exchange premium, which would mean a loss of them?

Mr. Field: Yes. You must always have that uncertainty about things so long as you have your money on some undisclosed basis. Nobody knows what is going to be the next thing to happen. We have made this break with sterling now, and I wish to submit that we ought to put our money on a definite basis, and that the only basis is to have it kept as stable as it can be in its purchasing-power in this country.

Mr. Langstone: You would base it on commodities and services?

Mr. Field: Yes. When that Reserve Bank was first proposed, when Sir Otto Niemeyer came out here he told us we must have this institution, and when you looked through the proposal the money was to remain stable in value. It did not define what was meant by stability in value; but when you looked through the Bill you found it was to be kept within close limits of parity with sterling. The provisions as to the reserve to be held were put in so that the money would have to be kept stable on their basis—that is, in relation to sterling.

Hon. Mr. Downie Stewart: Are you going to put forward a scheme for keeping the internal price-level stable? We have had lots of witnesses who expressed the opinion that it is desirable, but nobody puts forward a plan for doing it. They stop there.

Mr. Field: I am going to put it in as specifically as I can. When you look through the Act as it was passed, the Government had gone in for the 25 per cent. exchange-rate, and originally, as the Bill first came in there was a proposal that this should continue for a little while until the Reserve Bank said that the exchange-rate must go back to parity. That was all knocked out and nothing else was put in its place. As the Reserve Bank Act went into law it says that money in New Zealand (credit and currency) is to be controlled so as "to promote and maintain the economic welfare of New Zealand"; and when you look to see what the Act says about this parity of exchange, you find the bank can vary the exchange-rate as often as it wishes and to any extent it likes; and then you look through the reserve section, and you find exactly the same provision as in the original Bill. The reserve is to be held in gold or sterling, or gold or sterling exchange paper. But the bank can vary its exchange-rate daily; and what is the effect on the reserve? If they find their reserve is falling down, and it is, say, 25 per cent. below what it ought to be, they only have to raise the exchange-rate in order to write up its value in their own notes to any point they like. They can do anything they like.

Hon. Mr. Downie Stewart: Would they not be forced to raise the exchange-rate if they want to keep it stable?

Mr. Field: Yes. My object is to recommend that a more specific definition of what is meant by "the economic welfare of the Dominion" should be written into that Act. Those words are the only direction that is now in that Reserve Bank Act as to how the currency is to be controlled. The reserve provisions do not control it now since they can alter the exchange-rate. This institution has been given the control over the currency of New Zealand with no other direction than those words "the economic welfare of New Zealand." You come down to this: What do those words mean? You go into Parliament and you find two totally different views as to what they mean, and even in the Cabinet we had Mr. Downie Stewart not seeing eye to eye with the other members as to what was the economic welfare of New Zealand; and Mr. Downie Stewart left the Cabinet. You hardly find two people in agreement as to what is meant by those words. If it came to a point under this law that any action of that bank was not taken to the economic welfare of New Zealand, and it had to go before the Judges of New Zealand, on what grounds are they going to arrive at a decision? If you are going to have your currency-control you have to give very wide powers to whoever controls it. You have to give them all

the elbow-room they need. Are you going to give them absolutely despotic powers ? It means that by altering the value of the money the Government immediately could be made absolutely insolvent—every local body and every business man could be made insolvent. By doing the thing the other way we could have a tremendous period of inflation. All these powers are there. All sorts of reasons could be brought forward. You could make a case out that a deflationary policy is a good policy, that we have been too extravagant, or you could make a case out for a high-inflation policy that it is a good thing, and you have nothing in the law that gives a good clear definition as to how you want your currency controlled. You have given it over to this corporation. Do we not want something more definite written into the law than what we have ? I think if the attention of Parliament had not been taken up so much during last session as to exactly what representation the Government should have on the Board of the Bank, probably more attention would have been given to a clearer definition being put into the law as to the way the currency was to be controlled. On this question of giving unrestricted power over currency this is what was said in 1834 by John C. Calhoun, then Chairman of the United States Senate Banking and Currency Committee. He said,—

> Place the money-power in the hands of a combination of a few individuals, and they, by expanding or contracting the currency, may sink or rise prices at pleasure, and by purchasing when at the greatest depression and selling when at the greatest elevation, may command the whole property and industry of the community and control its fiscal operation.

You have given power to the Reserve Bank to do all these things, and when you find a man like that pointing out how it is possible to misuse that power, it is a warning that great care is needed. You must make sure that power will not be misused for selfish ends. You must direct how it is to be used. You do not want temptation to selfish men to form groups to get shares into the hands of dummies and acquire control of the Bank, in spite of the limitation on the number of shares one person may hold, and use these powers for their own ends. You ought to have very specific directions there. They should be wide enough for the Bank to do anything that is necessary, but they should not be so wide as to put any temptation in the way of unscrupulous people.

Mr. Ashwin : But if a fluctuation price could not be said to be in the welfare of New Zealand ?

Mr. Field : They come forward and put up quite a good story. It all comes down to particular actions at particular times. They say they had meant such and such a thing and the result had not been quite what they thought it would be. They can side-step it very easily with only a vague direction like that. Then there is the question of whether we should write a direction in the law telling them to stabilize the internal price-level. Is it practical for New Zealand to act on its own ? Of course the ordinary run of people, if they are used to a piece of paper with £1 sterling printed on it, feel very largely that the only money that is any good is the money they have now, and that we owe a lot of money to England and that our money must be kept the same as the English money. But when you look round you find that Canada does a big trade with England and keeps her accounts in dollars, and the Argentine has hers in paper money and has bigger financial connections with England than we have. You find that various nations—Britain, France, Germany—have enormous transactions with one another, and all have their own currencies, but these things have never presented any insuperable difficulties. We could carry on our business with England to-morrow and have marks or francs here and do business just as well as with pounds. It would not stop us from borrowing : we would be in exactly the same position.

Captain Rushworth : Is there not a difficulty there in local body debt domiciled in London. If you have a fluctuating foreign-exchange rate or an exchange-rate fixed by the rate that was ruling when the debt was incurred a greater amount of local revenue would have to be raised to meet that ?

Mr. Field : Yes. The same applies to the Government. That is one of the disadvantages you have to put up with. If you stabilize your money on a commodity basis and sterling remains steady, perhaps at a different level, you are going to have a steady exchange, and as long as sterling remains steady you have a steady exchange ; but if sterling fluctuates you then have the disadvantage of a fluctuation in your exchange. You cannot possibly with a fluctuating external price-level have stability of the exchange and stability of the internal price-level at the same time. If it could be done it would be a very good thing to have the internal price-level stable. That Economic Committee in 1932 pointed out that 40 per cent. of our national income comes from external transactions, that leaves 60 per cent. from internal transactions. It points to the advantages of internal stability.

Hon. Mr. Downie Stewart.] Your two arguments appear to mutually conflict with one another. So far the main point of your argument has been the complaint that the Bank has power to widen or shorten the exchange-rate. Now you go on to argue that you want at all costs an internal stable price-level. How do you work them both out ?—What I am asking is that the Bank should have power to vary the exchange but that it should be given a direction in the law as to the method it should work on, and they will then vary the exchange-rate only as it is necessary to effect that object.

Mr. Ashwin.] Then you could not keep the exchange settled ?—I am not asking for a stable exchange. If we were working on a basis of internal stability and sterling prices remained steady our exchange would then remain steady for that period.

Your argument is that if all countries pursued the same policy and were all successful in maintaining steady price-levels that the exchanges would be steady themselves ?—Yes. I am arguing on the lines of what Basil Blackett last year stated : " Of late years stability of the price level has been sacrificed to stability of the external exchanges. The acceptance by both rulers and subjects of this defect in their monetary standard has arisen from profound and universal ignorance of the real meaning and working of a monetary standard." And he went on to suggest that " each national economic unit "—and I think New Zealand comes under that heading—should stabilize internally to keep its own price-level steady, and if they all did this there would be stability of exchanges.

Hon. Mr. Downie Stewart.] Sir Basil Blackett argued that it would be possible to stabilize exchanges. Your argument has been directed to the importance of allowing the exchange to fluctuate. You are not adopting Blackett's argument ?—I think so.

Mr. Langstone.] Would that not counteract itself ? If you had your internal price-level and you made your imported goods approximately on the price-level it would not matter whether prices overseas went up or down. When they were imported into this country they would approximate your price-level. If they were below you would get less goods for the same amount of money, if they were above you would get more goods ?—Yes. You would have to make a choice between a steady exchange and a steady internal price-level.

Hon. Mr. Downie Stewart.] You have quoted Blackett in the opposite direction ?—No. Blackett says we should make the object in monetary control to have the internal price-level steady, and that each economic unit should do this and they should work together to get the nations all to accept it as a common policy.

Until you do get that you are still with a fluctuating exchange, unless you get common action all round ?—Yes. You have to make the choice ; and my case is that as you have to make that choice the weight of evidence is in favour of internal stability.

Mr. Clinkard.] Supposing we put our price-levels internally at 30 per cent., what effect would that have on our exchange ?—If you started off and everything was on a normal basis you should in a normal way have a 30-per-cent. exchange.

Captain Rushworth.] Unless, Mr. Field, you had some scheme of an exchange equalization fund and power to ration your imports ?—If you could do something like that without interfering with internal stability you would greatly increase the benefits to be derived.

That would help your argument ?—Absolutely.

Mr. Langstone.] Is the nigger in the wood-pile not so much prices as the lack of money to pay the prices ?—Yes.

Mr. Ashwin.] I do not think it is possible to maintain a price-level and then ration your trade ; that amounts to letting people have the money and then stopping them using it.

Captain Rushworth.] It might not be necessary to stabilize it ?—Then on this question of what we could do ourselves. You have the opinions of these different people that a single country can start off. Now, I wrote to Professor Irving Fisher for his opinion. In 1919 our New Zealand Board of Trade went into his scheme for stabilizing money and recommended it to the serious consideration and earnest attention of the Government, but it does not seem to have ever been considered. I asked him what his opinion was of New Zealand taking action on its own. He said, " I think she could, but that it would be very much better if she could induce the nations of the British Empire to adopt the plan at the same time." Of course it would. In 1932 Professor Willford King, of the New York University, discussed the question as to whether the United States should act alone and he said, " We also have opponents of stabilization saying, ' Well, we do not want the United States to stabilize alone.' I should say that is the same as saying that we do not want the United States to stabilize at all ; because if you are going to go out and get an agreement with all of the nations of the world, you might just as well quit." Then you have the experience of Sweden—a small country. In September, 1931, Britain went off the gold standard and the people in Sweden and the Riksbank thought they were going to have an inflation, and they did not want it, and they decided they would keep their money stabilized on a commodity basis as far as they could. They made up a price index of their own, and for this purpose included a lot of unusual things in it. They carried on and kept on a very steady level. They were getting along quite successfully, and they thought in 1932 they would like to raise it up and go back to the 1929 level, but the Kreuger frauds had caused too many difficulties and they had to hold over the idea for the time being. They were not in such urgent need of having the price-level raised in Sweden as we are, as they had no load of war debts incurred in a high-price level. In this Bank of New South Wales chart, which I would like to put in, the Swedish price-level is shown from 1931–33, and the United States price-level, the French, the British, the German, and the Australian, and of all those price-levels the Swedish level is by far the steadiest.

Dr. Sutch.] Which one is sterling on that ?—Sterling is there [pointing to chart]. The United States has the biggest variation. The Swedes had in thirty-eight weeks $1\frac{3}{4}$ per cent. fluctuation.

Which index number is that ?—This is a wholesale commodity price. They got up a new index number of their own. They included various things. As a matter of fact, the United States fluctuated between 13 per cent. and 14 per cent. in thirty-seven weeks, 6 per cent. in twelve weeks, 4 per cent. in another six weeks, and in the same period Sweden had a fluctuation of only $1\frac{1}{3}$ per cent. and $\frac{46}{100}$ of 1 per cent., next to nothing compared with America.

Mr. Langstone.] Then they would be arranging that index, they would take possibly the average of those prices, and those groups of commodities, possibly for a period, and make them the base of the index ?—Yes, and then there is further evidence ; that is, in a little country. Take a big country : In America, the New York Federal Reserve Bank was under Governor Benjamin Strong from 1921 until 1928, and evidence was given on the Goldsborough Stabilization Bill that Governor Strong was strongly in favour of stabilization of prices, and formed a Committee consisting of himself and the Governors of the Boston, Philadelphia, and Chicago Reserve Banks to work for a stable price-level in what they did. They got Cleveland to come in later, and they carried on with that until 1928, when Governor Strong died, and during that period there was greater stability in the American price-level than before or after. I have here a chart in connection with the American price-level showing how it goes away up and down, and then along a bit of a plateau on a fairly steady level while this Committee was at work, and soon after Governor Strong died down it went again.

Hon. Mr. Downie Stewart.] Applying it to New Zealand, what do you do if you have your price-level fixed and there is a big drop in the price of butter : how do you correct it ?—That comes down to

the question as to what price-level we should aim it. First of all, I think if we are going to do anything at all, we want a lift in our internal price-level so that you get enough money into circulation to enable debtors to meet their obligations. We should not have to bring in legislation. The Committee on the Goldsborough Bill went into it very thoroughly; some said, "Bring it up half way to where it was before the slump." But Mr. Goldsborough said, "No, what is the use of doing that? Do the whole thing by one operation if you do it at all. If you bring it on to some half-way level you have to make another lot of readjustments, and it will take you twenty years to get to the end of those readjustments; if you are going to touch the monetary system at all, lift prices in one operation right up to the level which enables the great bulk of debts to be discharged on the same basis that both parties contemplated when they went into them." They went over the figures and came to the conclusion that they should put an instruction into the law that the Federal Reserve Boards should use all their powers to keep prices steady on the average level ruling in the wholesale commodity markets from 1921 till 1929, inclusive. They held that this would give maximum justice between debtors and creditors. I think that is what you have got to look at. In the proposition I have submitted to the Committee, I have suggested that instead of having the words in section 12, "to the end that the economic welfare of the Dominion may be promoted and maintained," the following words should be inserted: "to the end that the bank-notes issued by it shall be maintained stable in purchasing-power at a level promoting stability and prosperity in agriculture, industry, commerce, and employment, and promoting the economic welfare of the Dominion generally; the said level to be, so far as is consistent with the foregoing objects, the average price-level ruling in New Zealand during the years 1921 to 1929 inclusive as ascertained by the Government Statistician, due weight being given to the export-produce price-level." That falls into two sections; the first part gives just the general direction to control money—to keep it steady in purchasing-power—that should be the object—and that the level should be one promoting stability and prosperity in agriculture, industry, commerce, and employment, and promoting the economic welfare of the Dominion generally. You might leave it entirely to their discretion as to what level they should select; they would have all the necessary powers, and would have the general direction to select a level and get on to it, and then stay on it.

Mr. Clinkard.] Do you not think that is the most important question?—Yes. If you just put in that direction without any more to it than that, it means that the bank alone has power to decide where they are going to stop. If you are going to do anything about the thing you have to get more money out to maintain this 25-per-cent. exchange, to stop the Government buying up that money in London. That is the most urgent thing in front of the country. You have to get more money out to do it, and with no more in the law than the first part of what I have drafted they have no direction where to stop. Nobody would know but themselves when they were going to stop, and you have this inflationary period and all these speculators, and so on, are looking to get ahead of the other fellow. You want to get down all that speculation to the minimum, and the best way is to give a general indication of what is required, and where they are going to stop. I suggest that if you put in some words giving a general indication without tying them down too closely, it would be a good thing. They have to feel their way and look around and strike a mean between everything, but the people should have a general idea where they are going to finish up.

Mr. Ashwin.] They have a general one: you think it is too general?—Yes, that might be read as inflation or deflation. When the Government has gone so far as to decide on a 25-per-cent. exchange, and then it hands over the exchange to the bank, and the whole thing may be reversed to-morrow, as the case now stands. I think something more specific should be in the law than that. Throughout the whole past history of the British race the control of the currency has been a Royal prerogative, and has been most jealously guarded by the Crown; it is now handed over to this corporation, and when you hand over this tremendous power they should be told what to do with it.

In other words, the State should decide what is the economic welfare of the country?—Absolutely. Whoever controls the currency governs the country. The State must say how that power is to be used. It is just anarchist talk when you hear people condemning "political control." It is like using "manipulation of the currency." When you propose the Government should control the currency, it is "political control." Go round and ask the man in gaol whether the political control that caused the policeman to put him there was a good thing, and he would probably say "No." The Government must govern, and if by using the term "political control" it is meant that the present form of Government produces Governments not fit to govern, it is a case of putting right what is wrong. But the Government must govern the country, and any one who says that some private corporation should have all the power and the Government none, and that the main powers should be taken out of the hands of the Government, is simply talking anarchy. If you put in these other words here: "the said level to be, so far as is consistent with the foregoing objects, the average price-level ruling in New Zealand during the years 1921 to 1929 inclusive as ascertained by the Government Statistician, due weight being given to the export-produce price-level"——

The export price-level: that has a decided influence?—Perhaps I should have said "the export-produce price index": that might have been better. You want them to look around at the whole situation. And then they have got these three different price indexes they make up—retail, wholesale, and export—and they have all moved differently in the depression.

Generally in the same direction?—In these times of falling prices the supply of produce from the land goes on just the same as ever, animals breed and crops grow, and the agricultural prices always fall heaviest. The manufacturers close down, and the supply of manufactured goods is shut off more or less, and they do not come down so much in price, and you get different rates of fall in the different indexes. If you told them to take those three different price indexes and put them all simultaneously back to exactly where they were, you would never get it, or probably would not. You have got to take a general look at the whole situation, and I think the words I put in, "the average price-level ruling in New Zealand

from 1921 to 1929," get somewhere near the mark. You might express what you want as a percentage above the present price-level and leave them to look at the whole thing and work somewhere near to that. And then I put something in about "due weight being given to the export-produce price-level." The farming industry is the big industry here, and if you get money in circulation to the farmers and then going through the country, you get the whole country prosperous. If they are to watch these different indexes they should give particular weight to the produce-price index as compared with the others, because of its importance. The object of that second part is not to tie them down to any mathematical calculation. It is to give the bank a general idea of what you want, and the people a general idea of what to expect. You want the bank to watch the whole situation as it develops: to do what I have set out in the first part of what I have drafted—to work to promote stability and prosperity in agriculture, industry, commerce, and employment. One of the most important things to watch is employment—to see there is the money in circulation to have everybody at work.

Hon. Mr. Downie Stewart.] What do they actually do? Taking the export-price index level, if butter is falling and wool is rising there may be no alteration in your index price-level, although the dairy-farmer is shot to pieces?—When you get a movement like that caused by demand and supply in a particular industry, it becomes a question of assisting that industry, not through monetary control, but by some special method directed to help them.

The fixing of the price-level will not necessarily help them at all?—In most cases, where you have a big effect in one industry, it does influence the price-level as a whole.

Mr. Langstone.] If you had an internal price-level for wool and butter, and the price of wool went up overseas and the price of butter went down, they would compensate?—Yes.

That is no help to the dairy-farmer?—If you say to the people of New Zealand that we all have to stand together and help one another in these cases, then you will just impose some taxation which will perhaps take it off the wool man, if he is in clover, and give it to the dairy man.

Hon. Mr. Downie Stewart.] That may be very just, but I think you will get the wool man saying he has had six years of it, and he will not now come to the dairy-farmer's aid?—In practice, with the income-tax, and so on, the Government generally gets it out of the man who is doing well to help the man who has not been so successful, when such help is considered necessary.

Dr. Sutch.] The butter industry, perhaps, is uneconomic in New Zealand. By subsidizing it from wool you may be keeping alive an industry which should not be kept alive?—That is a question. You have to go into the question of whether it deserves help, or whether it is better to encourage the people to get out of that line of business. You deal with that thing on its own. I think our troubles arise principally when all prices start rising or falling together. We had them all rising together in 1919, when the Board of Trade suggested that something should be done on stabilization lines to meet that trouble. The case of when one industry or one commodity is on one price-level and the rest of the commodities are on some other price-level has to be dealt with separately, apart from the money end; and I think that, on the general principle of the whole thing, all the evidence is in favour of doing something to stabilize money. You have the fact that where they did try, both in Sweden and in America in 1922–28, according to the evidence given before this United States Committee in 1932, they did achieve a large measure of success and prosperity. Mr. James Strong, the Kansas Congressman, stated that the two Bills he had brought in to order the Federal Reserve to work to stabilize money in purchasing-power had been written at the direction of Governor Strong, of the New York Federal Reserve Bank, who was a strong believer in this stabilization. Professor Fisher said,—

> The only very definite stabilization that has been actually practised was that initiated by Governor Strong of the Federal Reserve Bank of New York, and it worked extremely well until he took sick and died.

Professor Fisher went on to say,—

> One reason why Govenor Strong's policy somewhat largely lapsed was, I think, that the small workable committee which he initiated for open-market operations was absorbed into a larger "conference." He added that Governor Strong "joined with the Governors of the Federal Reserve Banks of Boston, Philadelphia, and Chicago, making an orginal committee of four—afterwards five, including Cleveland—to buy and sell Government bonds in the open market, and to utilize that power which the Federal Reserve had to prevent inflation, and also to prevent deflation. . . . It may have been partly good luck, as has sometimes been claimed, but, at any rate, they did succeed in maintaining a fairly stable price-level for some nine years.

Then Professor Fisher said,—

> Another reason for the lapsing of this movement, as it apparently lapsed to some extent—a considerable extent—was that these purchases naturally influenced the bond-market, and the bankers who did not understand the supreme importance of stabilization at the cost of any upset in the bond-market or anything else, but who did see changes in the price of bonds, causing them sometimes to loose money. . . . felt that some other way should be found.

Hon. Mr. Downie Stewart.] What year was that?—The time he was speaking? March, 1932, and the operations continued from 1921 or 1922 until the time when Governor Strong died in October, 1928, and he was sick for some time previously. I understand they dropped it then.

After they stabilized the price-level in that way, what happened leading up to the Wall Street crash? If they succeeded in stabilizing price-levels, how did the Wall Street crash come on so suddenly?—The Federal Reserve went in for deflationary actions in 1929, and these reached their height in October. There was a tremendous lot of evidence in this report by Senator Owen on that point. He said they withdrew in one smack some enormous quantity of money from the short-term loan-market in New York in one week, the last week in October, and that precipitated the whole world crash.

Mr. Ashwin.] Was there not a considerable element in it that issues of money put out for other purposes were used for speculation on the Stock Exchange. The more money they were putting out the more it was aiding the Stock Exchange speculators?—What they were doing was this: Federal

Reserve witnesses told this Committee in 1932 that they had put out money in different directions under the Glass-Steagall Act to ease the situation, but in vain. Some witnesses said they had been putting much money out under it, but it had not had any effect. And the Committee found out subsequently that the action these people talked about had begun only seven days before they came and gave that evidence, and that they had taken out of circulation in other ways as much as they had put in in this way.

Did they not discover that, though you can increase the volume of money tremendously, you cannot command its destination ?—That is the point, and I say in this connection you have to work to increase consumer demand. Put the money in the hands of the ordinary small people, and that is where the bulk of the purchasing comes from, and in this country consumer demand can be influenced to a considerable extent by local-body and public-works expenditure.

Outside the monetary machine ?—The monetary machine has to supply them with the means of doing it.

But the co-ordinating action or direction of industry has got to be apart from the banking ?—If the currency-controllers want to affect the price-level in some direction, I should say they want to put out money which is not going into the hands of wealthy people—that is, if they want to send prices up a bit. Supposing you took £20,000,000 and went round to the people looking for investments and lent or even gave it to them, they would put it to-morrow where the other frozen £20,000,000 is now, on fixed deposit to wait until things looked up. Then the currency controllers would say, " We have tried to put out money, but it is not having any effect."

Captain Rushworth.] On that question of speculation there is rather an interesting idea. I would like to have your opinion on it. If people speculate and buy shares, presumably somebody sells shares ; it is only a transfer of the money from one individual to another ?—Yes. Of course there is an old instance of that : you read that some man has given £70,000 for a picture by Gainsborough, and people say, " What an utter waste of money." What does the whole particular transaction amount to ? One idiot had £70,000 and another idiot had a picture by Gainsborough, and now the position is reversed.

It is not the speculation, then, that causes the trouble ? You see, the suggestion is being made that the speculation on Wall Street caused the crash ; was it not the stopping of the speculation that caused the crash ?

Hon. Mr. Downie Stewart.] It stopped itself ?—They turned off the tap. Professor Fisher said that before the Federal Reserve Act was brought in he was dining with Paul Warburg who was a chief founder of it, and Mr. Warburg said, " What we want is this : we have all these banks now like a lot of houses in the country village, each with its own tank on the roof, and when a fire occurs, there is only one tank to put the fire out. We want a new reservoir." They gave them a central reservoir—the Federal Reserve system, and the fire occurred, and they turned the tap off at the reservoir. It depends how the thing is used. Prices have got to go up before it is worth while speculating, and they go up mainly by some credit expansion of some kind, and you get speculation occurring.

I understand from Captain Rushworth's question that he regarded the Wall Street boom, where every person was buying shares and raising the price to an incredible figure, as a good thing ?

Captain Rushworth.] No. I say it had no material effect because it merely transferred money from one to another.

Hon. Mr. Downie Stewart.] It has a very vast effect ?—What we want to aim at is to keep prices steady. Then people, instead of buying things to hold against a rise, will invest money to gain profits by producing something new and using their brains to see what they can do in that way. That is a far better thing for them to do than to spend their time thinking whether prices will go up or down, and trying to score off other people not so clever at guessing.

Captain Rushworth.] During an inflationary period, the price of commodities rises, the price of assets rises, the price of shares rises, and during an inflationary period it is only natural that people will buy shares for the rise that they anticipate, but the smash comes when you stop the inflation—stop the rise in the price-level—and if you set in a deflationary policy you cause a crash ?—I do not think a disaster comes when you stop the rise in the price-level, but when you bring the price-level down. All the people who have bought at these high prices, and perhaps in expectation of something higher, have to pay at the low level, and that is our trouble to-day. We simply cannot go on and pay at the low level.

Mr. Langstone.] Getting back to my first point, yesterday the bankers told us that they could not find any ways and means of giving money to people other then those who had assets and securities, so that the great bulk of the people, working-people, who have no assets and securities, are outside the sphere of the ordinary bank. They do not come within it, so that there must be some other authority that has got to take charge and put the money into the pockets of the people that need it and will spend it ?—Yes. What they say is quite true from their point of view. They cannot find anybody who has got an equity enough to borrow on, or the man who has any equity is not going to liquidate it and start a factory or some new enterprise at the present time, unless it is gold-mining or something like that. They have got nowhere to put that money out at a profit, and the more people put money in on fixed deposit the worse the situation grows.

Hon. Mr. Downie Stewart.] Do I understand that you agree with Captain Rushworth's contention that even although in Wall Street railway shares were selling at far beyond the earning-capacity of the railways, that that was quite a feasible and good thing to continue ?—No. I say that that speculation is the thing we want to get away from.

Captain Rushworth.] I did not suggest that was a good thing. I said for the purpose of our inquiry it was immaterial.

Mr. Clinkard.] I think it was very material. Was it not that the resources of finance were being taken away from their legitimate purposes and put to an illegitimate purpose ?—Yes. And I was

going to mention that I had an extract from a history I happened to pick up, a "World's History" by a Dr. Helmholtz, and I seem to have mislaid it. He had a large section about the economic development of Western Europe in the nineteenth century, and he said that when you looked over the economic development of Western Europe in the nineteenth century you found that it was dominated by the financial interests, the banks, and the stock exchanges working together, and it was largely the speculative element that was predominant in it, and that these financiers in control dominated all industry through rings and trusts, or were rapidly getting that way. They were the absolute power in industry, and their great power and wealth arose by maintaining continuous fluctuations in all values, and this has brought this speculative element in. And it is because this non-productive speculative element has grown so enormously powerful, that all the productive industry of the world has been put off the rails. I think this country depends absolutely on its production. We have got to the state now where we have to do something about it; and if you do not take hold of the money end of it, what are you going to do? You can scale down everything to the present level. That means you have to go and write down all these mortgages. The State has never got to the point of thinking seriously about that. All we are doing now is to make just partial remissions of arrears and postponements, and so on. All that uncertainty is tremendously demoralizing to everybody. You have a man on a farm. He does not know what is ahead. He cannot possibly carry on on the present basis indefinitely, and that is demoralizing. Places are going back all over the country. And even if you took that situation in hand and said, "We are going to readjust down to this price-level and break all these contracts, and write all these mortgages down to this present price-level," and all the rest of it, when you had done that you might have the price-level moving away to some new point, and everything would again be completely out of adjustment. Then you would have great complaint, if prices rise, from the holders of these mortgages and so forth, that they had been unfairly treated. And if you do not do that and do not do anything about the money, you just drag along without any policy; and that is very bad. I think the Macmillan Committee summed it up. They said, "The longer moderate and reasonable measures are deferred the greater social discontent you are going to have, and the more difficult it is going to be to do anything at all." And of all your alternatives, I think that to take this money situation in hand, and give this direction to this bank is very necessary. Now, it is a very vague direction in that law at the present time, just simply "the economic welfare of New Zealand" which can be interpreted in any way you like. We are told that political control is an extremely bad thing —that it must be kept right out of it altogether. There must be no political control of banking. I say that is a hypothetical question. The real and acute question in New Zealand in the past has been banking control of Parliament. You are starting a new bank. You had a bank in the past—you have it here still—which has had the Government account for many years, and it has had great power, but nothing like the power of this bank, because this bank has absolute control over the currency, and also a permanent monopoly of the Government Account. You are putting tremendous powers in the hands of this institution: and should you not be very careful about it? If you want to make up your mind about that, look back on the past and see if these powers have always been wisely used. You can get the opinion of men who have handled our public affairs, or been connected with this institution. I have looked into it a bit, and I found one book I was very interested in written by Mr. Falconer Larkworthy, who was the first manager of this bank, and was associated with it for thirty years, and he said that one man who founded it and was running it during that time exercised "a powerful influence on the policy of the Government in connection with political and financial questions so as to be publicly alluded to as the power behind the throne. His influence was not exercised unselfishly, nor to the public advantage, nor for the benefit exclusively of the shareholders." That was his opinion. Then you find Sir William Fox, who said in Parliament on the 21st August, 1868,—

> I only wish it was possible to exclude from this House a certain power behind the Treasury, or any other corporation which had proved so capable of making the Ministry work in a diametrically opposite direction from that in which they at first intended to work, and so manifestly opposed to the interests of the colony. I cannot blame the recognized agents of the Bank for any influence they have brought to bear upon this House or upon the Ministry. . . . I do not hesitate to say this influence which has been exercised is a most mischievous interference with the independence of this House, and, if it were possible to get hold of such an impalpable element, a Bill ought to be passed to exclude it from this House.

Then you find Sir George Grey speaking in Parliament in 1875. He said,—

> I believe, for reasons which I shall presently show, that it would be actually in the power of one wealthy establishment in New Zealand to have any person they chose sent out here as Governor who would be likely to support their interests.

Sir George Grey had been five times Governor of different parts of the British Empire, and of all the men who have ever been in our Parliament no one was more competent to express an opinion on such a point, or had greater insight into what occurred in these cases. Sir George Grey, speaking in 1883, said,—

> I conscientiously believe that two or three great establishments, all really under one directorate, do exercise in the Legislature of this country an undoubted and dangerous influence. I sincerely believe that the existing Government is maintained in its place by these bodies. . . . I appeal to many honourable gentlemen sitting here whether they do not feel helpless of fighting the great phalanx opposed to us now. . . . I say that even among the voters it will be a long time before that independence can come about which ought to prevail, because I fear many of them are in some manner entangled with engagements which will place them at the mercy of those persons who rule those different great bodies of which I speak. I go further, and say—and in saying this I know, of course, that I create, and must create, a great many enemies—I firmly believe that the same persons by monetary influence control a great portion of the press. . . . One great central power in New Zealand oppresses it from end to end. That central power is moved by the Premier, and the Premier is the solicitor of these great moneyed corporations. Is it just? Does it give the people of New Zealand a fair chance? Is it not hard for a man to know that if he cries for justice some debt upon his estate may be made the cause of his ruin instantly? Is it right for us to feel degraded by knowing that such is the case here? . . . As long as this continues I see no hope for ourselves or our country.

Twelve years after that Captain Russell, afterwards Sir William Russell, speaking of the reorganization of this particular institution that occurred in 1894 to 1896, said on the 16th August, 1895, "From first to last we were hoodwinked and deceived." Then Mr. F. H. D. Bell, now Sir Francis Bell, said on the 28th August, 1895, "The bank is repeating what it did last year. They are holding a pistol at the head of this House and the Government, and the Government is yielding as it yielded last year." Then you find the same speaker saying the next day, "The bank has spread its tentacles all over the colony, . . . I am not sure that it was not more powerful than Parliament itself, . . . Its power has disappeared, and we are going to set it up again. We are about to give it a power which it never had before. Is that for the benefit of the country? We are about to so mix it up with politics that its influence with Parliament will be greater than ever it was before. Do honourable members realize the power it is going to be?" Then Mr. Duthie, who was well known, said a year later on the 13th October, 1896, "I said at the end of last session that there has been a conspiracy, and I say so still . . . , and we have the result that these two banks have been landed on the colony." He also said, "A more diabolical scheme was surely never tried on in any Legislature." And Mr. Scobie Mackenzie spoke in equally strong terms. In 1923 you find that Mr. F. G. Dalziell, who was the solicitor to this institution for fourteen years, wrote about the legislation to divide the reserve fund up among the shareholders. He said, in his pamphlet that he wrote about it,—

> In 1920 the directors decided that the amount in the bank's reserve fund was more than sufficient for the purposes of a reserve. Instead, however, of easing the position of the customers, the directors have adopted a policy which, if the proposed new issue of shares is carried through, will mean that during the past three years there will have been placed upon the customers of the bank an additional capital burden of £2,250,000, upon which they will permanently have to pay interest, and from which they will receive no benefit whatever.

He also said—

> If the Prime Minister can find time to look into this matter for himself, he will realize both that the proposed new issue of capital at par is not justified, and that the profits being made by the bank shareholders are neither usual nor reasonable in the case of companies which have the control and investment of public money. He will also find that the remedy is simple and immediately available to Parliament. It is to provide by statute that for the future no Government director may have an interest in the share capital of the bank. . . . The dividends being free of income-tax, the shares form a much better investment for wealthy people who pay a high rate of tax than for people of small means who do not. The shares are largely held, therefore, by those of influence in the control of our national affairs.

On that point I may say we hear a lot about small shareholders in the banks, but many of these institutions run by these great rings in Wall Street and so on are made up entirely of small shareholders. All the little man cares about is getting a good fat dividend. A year or two ago a statement was made in one annual report as to the number of small shareholders, and I worked it all out and I did not find that what these small shareholders held was anywhere near a majority of the share capital. They do not tell us about the big shareholders. Summing up the effect of the 1920 legislation, Mr. Dalziell said,—

> The effect of these transactions has been to increase the market value of the private shareholders' interest in the bank to something over £2 15s. per £1 share, a total of £6,187,500, whereas the amount of capital contributed by those shareholders—including the £1,400,000 written off as lost, and the premiums of £250,000 paid on a former issue of shares—amounts to £3,150,000.

Mr. Field: The whole point I wanted to make in speaking to-day was that as the Reserve Bank Bill was originally drafted it contained very specific directions as to how currency and credit were to be controlled in New Zealand. First there was a general direction in the section controlling the exchange—that as soon as the machine got working fully the exchange was not to fall away from parity by more than 1½ per cent., and then in addition to that it was reinforced with the reserve provisions—that they must maintain this reserve in sterling and gold exchange, and that only in the most extreme occasions could they vary from it, and then only with the permission of the Minister of Finance, which had to be renewed from time to time. However, everything that controlled the situation was removed from the Bill. The removal of the requirements of parity of exchange made the reserve provisions inoperative, and nothing was put in their place. As the Bill was introduced, and as Sir Otto Niemeyer recommended, the Bank was kept on an extremely short chain as to what it could do in the way of controlling currency and credit. It was tied down most definitely to act in a certain way, and in that way only. The Government disagreed with the principles that were embodied in the original Bill, for the time being at any rate.

Dr. Sutch.] Do you think they were right?—I think they were absolutely right in disagreeing with them. We should manage our money, which is a purely internal concern, to suit ourselves.

If you were in charge of the Reserve Bank now, you would not need to alter the Bill, would you? You could carry out your policy without changing the clauses of the Bill at all?—Yes. They can do everything that is necessary under that Bill, but it is so important that they should be guided. Supposing they make mistakes. Supposing some people with purely selfish ideas managed to acquire control of that Bank. It is a private corporation. You put down your money and get your shares. You could go around and canvass the shareholders to get them to come round to your view—and the private shareholders do have a very big say in the thing—and you want to make quite certain when you are giving these very great powers not only that you have given them enough power, but that you are telling them to do what you want to have done. And what I think, and what I want very strongly to urge, is that when the Committee looks into all those facts that they should recommend to Parliament that the meaning of these words in the Act, "economic welfare of the Dominion" should be more explicitly defined; because they are so extremely vague. Anything could be represented as being to the economic welfare of the Dominion, and the definition I propose is what I put down on that sheet which was passed round this morning—that they should be directed to control currency and credit with a view to maintaining stability of the price-level inside the country, so that when people contract debts to pay money in future years they have a reasonable prospect of being able to meet those debts.

Mr. Clinkard.] And you suggest that that level would be higher than that existing at the present time?—Yes. That they should put it on a level which maintains prosperity and stability in the agriculture, commerce, industry, and employment of the country, and provides for the economic welfare of the Dominion generally; and then I propose that some general directions specifying round about where you want it to get to should be added to that. It is not sufficient by itself: you should also give them a general idea of approximately what point you wanted them to go to, so that the public would all know what was coming—that the level should be somewhere about the average level ruling in New Zealand from 1921 to 1929. Of course, that may be expressed in some other way, but the great point I wanted to make was that something more specific should be put in that Bill than is in it now. I have touched on the point that it is dangerous to give such very wide powers to any institution, and that our own history in the past showed that. I gave you the opinions of various men who have been in charge of the affairs of this country from time to time, that things have not been done as they should have been at various times in the past, and I could give you specific instances. If you go through the old parliamentary records they are full of them. From time to time Committees have inquired into things that have happened, and in most of those cases the charge is against the Government of the day, and it has appointed the Committee. The accusation has been made by a member of the Opposition, and the Government, which is the accused person, has appointed the jury to try the case. And when you look through the findings of those inquiries that have been made, a lot of them are on these lines: that what was done on this particular occasion was quite all right, but the same thing should never be done again. Well, when you find a packed jury like that bringing in a verdict like that, it shows that they have not been satisfied with what has been produced. There are plenty of those occasions that could be mentioned as, for instance, in 1875, when Mr. John Bridges, then acting general manager of the National Bank gave evidence before the Public Accounts Committee, that some years before, when the Weld Government went out of office, he was Wellington manager of the Bank of New Zealand, and that five members of Parliament who were directors of the bank had had a meeting at which they decided that £60,000 required by the Weld Government to pay interest on the public debt would be given by the Bank of New Zealand to a Government under Mr. Stafford but not to a Government under Mr. Weld; and in Mr. Bridges's opinion that had resulted in the fall of the Weld Government. That was a position where men who differed from the views of the Government in office and had power financially over the Government, had not hesitated to use that power.

The Chairman: Do you think that exists to-day? Would you like to say that it does exist to-day?—No. I do not say anything of the sort. I simply say this: that when you are giving powers to an institution of this kind you need to give them all the powers that they require, but when you look back over our own experiences in the past you find that it is necessary to see that the machine you are putting up is as fool-proof as possible.

You mean that there should be safeguards?—Yes. I do not want to elaborate on all this past stuff. I do not think it is necessary to go into it any further; but here we have the position that these experts who came out and advised us to have this Reserve Bank put in very definite safeguards to have the machine operate exactly as they wanted it to operate on this parity of exchange basis, and then we depart from this basis, and we do not put any other basis in, and therefore we depart from the whole thing that they had in mind in providing safeguards and definite principles. But if you are going to have this bank to do certain things you want to tie it right down to those things. And the point I wanted to make is that what they felt in that way is justified by what has been our own experience in the past with institutions which have had less power, and from time to time have not exercised that power quite as the people might like it or as was good for the country. Then there is the question of whether we could stabilize our currency acting independently by ourselves; and I think that the experience of Sweden shows that a small country can achieve certain results. They have only had it since the latter part of 1931, and then about a year after they got going they had that enormous Kreuger scandal, and huge deficits everywhere, which made difficult conditions for them. Yet if you look at that price-level of theirs it has shown greater stability than any other.

Dr. Sutch.] The New Zealand price-level in 1933 was more stable than the Swedish one. Our retail index was at the same point right throughout the twelve months. Our wholesale price-level moved by one or two points over a longer period. In the Swedish index the stability concealed two big movements. Exports went one way and imports went the other way, so that though you had a stability in your average you had two diverse factors operating. You did not help the unemployment situation. You helped exporters or you helped the importers—one or the other. But just because they had an internal price-level which was stable did not mean that their economic situation was any better?—What we want to do is to tell them that we want this stability to be their object. We should tell them to go ahead with stability, only to get it up to the level where the people can meet their obligations. And then people say, "We can only wait for the outside world." But I think that self-help is the whole essence of the thing, that if this reform is to come it will only come by one country here and there plucking up courage and doing something. Here we have had Sweden take it on, and when Governor Strong was Governor of the Federal Reserve Bank in New York he tried it, and they got a measure of success, the only period of stability since 1913 practically. And if the thing is ever to get anywhere in the world it will only be by one country here and another country there saying, "We have had enough of this unstable money. We are not going to carry on as we have been and see all our people ruined and the whole country brought to bankruptcy. We will do something about it." Well, here we have a start with the high-exchange legislation; we have made a break with this being dragged about at the tail of sterling and the dollar, and what I urge is that we should put it on to a definite principle that can be put down in legislation, so that everybody knows what is ahead and people need not go speculating and gambling as to whether the exchange is going to come off in June or July, or whether it is going to come down by 5 per cent. They should know where they are, so that they can make their

business engagements upon a basis of reasonable certainty. The ordinary risks attending ordinary business are quite enough for people to have to face and try and provide for without having these fluctuations in the value of money to deal with, and if they can be reduced to any extent it is the greatest service that can possibly be rendered to the people of New Zealand or any other country. I read an extract this morning about that historian who looked over the nineteenth century and thought that the whole basis of the financial operations and control that we have experienced in modern capitalism resulted practically in the supremacy of the speculative element, and that these great financial companies and banks and so forth make their profits out of the continuous fluctuation of values. We are told all the time that we must look to this same financial element to provide the stability we want, and which the world must have if it is ever to get out of this difficulty, and you will find that when it comes down to the point of making a beginning somewhere and doing anything, they shy right away from it. They will give you theoretical assent to all the principles of doing something, but they are not ready to begin anywhere in a practical way. Now and again they get asked questions directly, and such an occasion occurred when they had the Strong Stabilization Bill before Congress in America in 1928. They were examining Mr. Young, the Governor of the Federal Reserve at that time, and Mr. Strong, who was the author of the Bill, said to Mr. Young, "Do you not think that the first duty of any financial system is to attempt to stabilize the purchasing-power of its unit of value?" Mr. Young replied, "It never has been." Mr. Strong: "Should it not be?" Mr. Young: "No, sir. I am not going to say that." Mr. Strong: "Have you (meaning the Federal Reserve Bank) not been doing this very thing?" Mr. Young: "No." That is the machine which the American people were told was going to produce this stability and prevent these crises, but, when the man at the head of it was brought before this Committee and definitely asked whether they were operating it to achieve the ends for which the country was told the machine was instituted, he said, "No." Then you have a very similar passage in the evidence of Mr. Montagu Norman, the Governor of the Bank of England, before the Macmillan Committee about the Bank of International Settlements, which Mr. Norman has been very active in promoting and which is to be the world's super central bank, the central bank of all the central banks, eventually to control the whole situation, and Lord Macmillan said, "One question might I ask as a practical one? The conspicuous feature of the economic situation has been the extraordinary fall of world prices. Do you think that the Bank for International Settlements has any role to play in connection with that tendency?" Mr. Montagu Norman replied, "I do not think it recognizes any such role. . . . I do not think anybody there would be willing to devise measures which are intended as price-fixing measures." That is the answer of Mr. Montagu Norman on that point which the Macmillan Committee considers should be the objective of monetary control—to stabilize prices, to raise them first to some level on which people can carry on, and then keep them steady on that level. There you have Mr. Montagu Norman, who controls the monetary and credit machinery of the British Empire, when asked what this super-bank which he has assisted in promoting is going to do, saying it was not interested at all! I say it all fits in with the view of that historian writing thirty years ago, that the basis of the whole thing is the supremacy of the speculative element and that stability is not wanted by the financial people at all. When people come into this Committee and say that we must wait until these world financial institutions do happen to want this stability on which we all depend and you find these world financiers taking such a hopeless attitude as that, what can you think?

Mr. Langstone.] Do you think if there was no more gambling and the people got out of debt and did not need to borrow from the banks they would lose their control if you stabilized prices. Do you think that people as they increased their wealth would get out of debt and the banks would lose their control and therefore they would not be in the position they are to-day?—I think legitimate banking would absolutely profit by having money stabilized. But with a policy of getting industries into difficulties and then buying them up cheaply and forming rings and trusts and acquiring enormous power by doing so, it is necessary to have these fluctuations. Then you have the financial machinery getting into the hands of men with these ideas—it is a common thing for people to want to possess everything—and you get people wanting to own the whole world and everything in it. To carry on such a policy they must have these fluctuations, and when you learn that they have some subsidiary organization attached to the Bank of England for buying up industrial securities to bring about the marriage of finance and industry that Mr. Montagu Norman spoke about, and merging business ventures and that sort of thing, one sees sure signs of the policy being followed. The conditions obtaining during the depression have enabled them to buy up these securities very cheaply indeed.

It is not altogether accidental?—You can only speculate about motives.

Captain Rushworth.] The lust for power might be the motive?—It might be, when you look at the operation of the whole machinery. We have a lot of people who have got to such a state of mind that they almost confuse the Bank of England with the King of England. I give my allegiance to the King of England. I think the Bank of England is not to be confused with the King of England. Look at its history. When you go back into history you see what happened. There was a change of dynasty in 1688, and a Dutch King came over to England. Under the Stuarts the revenue was only £2,000,000 a year, and he doubled the revenue, and even went further than that. The national debt of England was £600,000 in 1688, and in thirteen years he brought it up to £16,000,000. He founded the Bank of England in order to borrow money from it, and that was the beginning of the Bank of England and the national debt. I was reading in Sir Archibald Alison's "History of Europe" this statement about it:—

> The Prince of Orange brought from the Republic of Holland, where it had been already practised and thoroughly understood, the secret of governing popular assemblies and extracting heavy taxes from popular communities. . . . His whole efforts were directed to gain the majority of the constituencies by corruption, and of votes in Parliament by patronage. . . . It was then that the national debt began; and Government was taught the dangerous secret of providing for the necessities, and maintaining the influence of present times by borrowing money and laying its payment on posterity.

That is how it began, and you come down to the middle of the nineteenth century, and in Morley's "Life of Gladstone" you find Gladstone, when he first became Chancellor of the Exchequer in 1852, saying that the Treasury was in a subservient position absolutely to the Bank in all financial matters. He had the greatest difficulty in getting any freedom at all until he got the Post Office Savings-bank going, and that gave him a little money that he could use. You come down to after the war, and you find the result of this new machinery established in America in the accumulation of enormous quantities of gold there, and what do you find is the policy of the Bank of England after the war? It has been purely an international policy. Its first proceeding was to lend money to the enemy States and to refuse help to France—to Britain's ally. It helped Germany and Austria. The policy has been absolutely international, whilst British industry has been starved. You find the Macmillan Committee talking about what conditions for borrowers should be on the London money-market—that they should be at least as favourable for the British people as for the foreigner. It is easier for the foreigner to get help and credit in England then it is for the British man. Then you take this Federal Reserve Bank, competent people point out that the purchasing-power of our money is controlled by the credit policies of the United States Federal Reserve Banks. Mr. McKenna, in his book, and Professor Cassel go into details on that point. It seems to me pretty convincing as to the control when you find Mr. Montagu Norman going across to America all the time. You never see the American people going over to England and asking them what to do. When you look round to see who these people are who started this American machinery going you are amazed at their nationality. You find there people closely associated with those who have been dominating German finance, and the whole policy that seems to have been pursued is to lift the debts off the backs of the people who were fighting the British Empire and to run for all their worth this deflationary policy in Britain and double the burden of the British debt. The net result of those operations seems to be that we have got tremendously into the grip of those people during the last few years. All our sacrifices have been absolutely thrown away by these financiers. Everything that was won during the war years at the loss of one million of British lives has been thrown away. All that endurance and sacrifice has been brought down to nothing by these men. You find Germany with £8 per head of debt on her back now and England with a debt of £150. The whole position established by British arms and valour on the battlefield has been reversed by these financiers.

Mr. Clinkard.] Germany wiped out a considerable amount of her indebtedness by internal deflation?—She wiped out £4,000,000,000 of Government debt, and the advantage to debtors in general was £10,000,000,000. And then you find these same people who started this American institution are named as being mixed up in this huge speculation in Russia, and you find a lot of peculiar things happening there which are enough to make one sick. You find these huge financial concerns in America and Germany assisting this Bolshevik Revolution right and left; and when the thing is established there they could not for one day continue this Five-year Plan without the co-operation of great financial resources outside. You can see photographs in the trade papers of the huge development in Russia, with the biggest armatures that have ever been made by the General Electric in America. These machines are sent to Russia, and the finance for all those operations can only come about by the co-operation of the people who control this great money-machine. You find conditions created by this machine which cause want all over the world and make the world ready for revolution. You find dictators arising in many countries—in Italy and elsewhere.

Is that not a case of these combines or associations making use of the monetary systems rather than the monetary systems making use of them?—I think it is, absolutely. They just use it to do what they want. We are told that it is only by waiting for these financiers that we will get prosperity. It requires a lot of explanation. Then you find them in 1931: on the 15th June Britain and France paid their half-year's instalment of the war debt to America, and one of those New York gentlemen spends a few days in Rome. The Foreign Minister in Italy gets up on the 16th June and says that it would be a very good thing if Germany was let off the reparations, and you find Italy prepared to forgo her part; and then, three days later, I think it was, you find Mr. Hoover making the suggestion to let Germany off paying the reparations or postpone payment for a year. The result of these operations is that as soon as they get the last British instalment of money in hand up goes the balloon and the money that England and France were expecting to come from Germany to make up for what they have paid America is not forthcoming—due to this manipulation they are done out of it. When you look over the whole situation I think you will see that what we are up against now is a continuation of the war in the economic and financial field, and our only hope is to take our own situation in hand, and do what we can by getting all the stability that we can and by putting things on a basis on which our own people can carry on inside New Zealand. The only practical way I can see of doing anything is to give some direction such as I have outlined to the Reserve Bank. I have submitted on that paper a proposal suggesting that we should make an amendment in the Act to preserve that rule which says that shares can only be transferred to British subjects ordinarily resident in New Zealand. I think it was the intention of Parliament to keep the control of the currency of New Zealand absolutely in New Zealand hands.

Mr. Langstone.] Is share capital necessary?—I could never understand why it was wanted, except that if you put share capital into the bank you get this position: that the Government of New Zealand has entered into contract with the people who put up that money and this Act becomes the basis of contract between the Government and those private citizens, and therefore by having that contract it is made more difficult to amend the Act. They can say, "You sold us the right to control your currency: you cannot back out of your bargain." Of course, if the contract is with your own citizens they are under the jurisdiction of the Government, but if foreigners are allowed to buy those shares you get a position by which if a large number of these shares get into the hands, say, of Wall Street, and the Government of New Zealand says, "We have had enough of this Reserve Bank, we will wipe it out"; then these foreign people might go to the British Embassy in Washington and say "We

good American citizens have relied on the British good faith and have put our money into this institution and those low-down people in New Zealand want to walk out of it." The British Government might say, " We will not allow this."

Mr. Holland.] But no transfer can be allowed except by the approval of the Minister of Finance ?—No, but the point is that the matter is very important, and I think it would be a good thing to put into that section which permits amendment of the rules the words " excepting subsection two of Rule eleven."

Mr. Schramm.] Why not cut out all the rules about capital altogether ?—That would be much better. It is preferable at least to put that rule in so that the question of amending that rule must come back to Parliament. At present it can be done without reference to Parliament. People could go round and make an offer to buy these shares at a premium and then the shareholders might say they would like to be able to sell them, and the Board might go to some Government that happened to be in power and say, " We want to alter this rule, will you approve it," and approval can be given in Cabinet, and the first thing the public would hear of the whole thing would be after it was readied up, and only the final confirmation had to be made at the shareholders' meeting.

Mr. Clinkard.] Could we in any case safeguard ourselves against what some Government might do ? If a Government would do that they could do anything else ?—I think it should be in the hands of Parliament, and if those words were put in to that section it would go right back to Parliament.

Mr. Langstone.] The shares would be controlled by the mortgagee ?—Yes, I suppose they could.

Mr. Schramm.] That shows the danger of private share capital ?—I think the thing would have been very much better not to have had any share capital in it. On the question of the banks' gold I think a great mistake has been made, when you look at the situation outside, in allowing this Reserve Bank to take this gold from these private banks and trade it away for paper. Under that reserve provision it says the reserve may consist of gold or of sterling or of documents giving title to gold or sterling including commercial bills of exchange not exceeding three months in currency and backed by two good names. Well, the whole of the reserve could consist of any one or more things under the headings set out in this clause. It simply means that they may take that £5,000,000, or whatever it is, of gold away to their London office and trade it away for paper. Mr. Litvinoff might walk in and say, " We can do with these millions of gold to help along our Five-year Plan in Russia : we will give you some commercial bills of exchange for them." The manager would ask, " Are they expressed in some gold currency ? " and the reply would be, " Yes, marks, kroners, anything you like." " Are they backed by two good names ? " " Oh yes," he might be told, " Most excellent names. Ivar Kreuger's and Mr. Stavisky's." And he might hand the gold over, and that paper would be the reserve of the New Zealand Reserve Bank. Then when that great crisis comes which the law contemplates, when the Minister of Finance permits the Bank to draw upon its reserve to save us from disaster, what is the position ? The two good names, perhaps, are not so good as they used to be : or there are five times, fifty times, five hundred times, more of these bills of exchange in this particular gold currency than there is gold to meet them, and unless you are the first man in there is nothing for you. And when you need it most your reserve is worthless. That gold is something real and tangible—a valuable nest-egg for a rainy day. The paper may turn out to be worth very little. Under the American Federal Reserve law the reserve may consist of 40 per cent. gold and 60 per cent. paper : and this Kreuger paper was worked off on them. Under our law it is lawful to have the whole reserve in this paper, I think they should not be allowed to export the gold until they have satisfied the Government that it is wise to do so because of the conditions obtaining.

Mr. Ashwin.] Nobody wants gold for itself except dentists ?—No. In that report of 1930 we were told a central reserve bank was the latest thing, and we must have one. I could not see in the report mention of any tremendous benefits for us. The world's central bankers, it seemed, were worried because they had " no suitable point of contact " with New Zealand. When you look around and see what these central banks have been doing, you feel inclined to say, " Happy and fortunate New Zealand that they have no point of contact." Then they were worried because our banks had some millions of gold in their vaults that did not fructify or multiply and brought in nothing : they were willing to take this useless gold, give us in place of it some valuable interest-bearing paper. So it seemed it was philanthropy on their part ! But they did not say why they themselves preferred the useless gold to the valuable paper. They seemed to want to get all the gold in the world locked up in this American Federal Reserve system or some other such place. What were they getting out of it ? They were getting something real and tangible, and we are getting this paper, which may, or may not, be good when we need it most. You have an asset in that gold which may be extremely valuable at some crisis in your external transactions.

The only point is that your gold is more saleable perhaps than butter or wool.—That is so. If you have now reached the point at which you could make more effective use of that gold by getting rid of it than by holding it, that is another matter. Then you are quite right to get rid of it ; but you want to consider carefully whether that is the position before you part with it. I say, put something in the Reserve Bank Act so that they must get the consent of the Governor-General in Council before shipping the gold out.

Dr. Sutch.] They still have that control ?—The recommendation of the Niemeyer Report was to cut out the present prohibition in regard to the export of gold. In America under that Federal Reserve Act they have to keep 40 per cent. of gold there and the rest of the reserve can be this commercial paper but with us the whole lot of it can be this commercial paper. I have before me a report of a speech in Congress by Mr. McFadden, Chairman of the Banking and Currency Committee of the United States House of Representatives for fourteen years. In connection with how this worked out he said in June of 1932 :—

> Mr. Chairman, when a Chinese merchant sells human hair to a Paris wigmaker and bills him in dollars, the Federal Reserve Banks can buy his bill against the Wigmaker and then use that bill as collateral for Federal Reserve notes. The United States Government thus pays the Chinese merchant the debt of the wigmaker and gets nothing in return except a shady title to the Chinese hair.

That would be our case if we had a bill of that sort put in. He goes on :—

> Mr. Chairman, if a Scotch distiller wishes to send a cargo of Scotch whisky to the United States, he can draw his bill against the purchasing bootlegger in dollars and after the bootlegger has accepted it by writing his name across the face of it the Scotch distiller can send that bill to the nefarious open-discount market in New York City, where the Federal Reserve Board and the Federal Reserve Banks will buy it and use it as collateral for a new issue of Federal Reserve notes. Thus the Government of the United States pays the Scotch distiller for the whisky before it is shipped, and if it is lost on the way, or if the Coast Guard seizes it and destroys it, the Federal Reserve Banks simply write off the loss and the Government never recovers the money that was paid to the Scotch distiller.

He says they can draw up a bill on a crop of beans before the beans are put in the ground in Brazil, and cash the bill for Federal Reserve notes in New York, change them for gold, and draw the gold out of the country. Under our Act the New Zealand Reserve Bank can be stuffed full of all sorts of things like that. And he goes on to say that this was how those colossal Kreuger frauds were worked. They got valuable assets away by putting in bills that had no backing. The same thing can be done under this law. This bank can be used as a machine for gambling on the short-term-loan market in London with the credit of New Zealand. You may say, what inducement have they : their dividends are limited to 5 per cent. ? But their profits come by the rake-off they get through joining with the big bulls and bears on the London Stock Exchange and sending other things up or down as suits them. And if they lose on these bills they buy the loss falls on the people of New Zealand.

Mr. Ashwin.] That example you are quoting boils down to this : that the New York or the British market is simply being used as a clearing-house for foreign bills of exchange, and in the past, Britain, in acting as a clearing-house for bills of exchange, has found it a very lucrative business ?—Yes. And supposing they get bad bills in who is going to pay the piper ?

You do not suggest that New Zealand is going to become a clearing-house for international bills of exchange do you ?—But the point is that these foreign commercial bills of exchange can be dealt in by this bank up to the whole limit of its reserve. Its reserve need consist of nothing else ; and the bills do not need to have the least connection with the trade of New Zealand or any other interest of ours. We should hang on to that gold. What I have said about it is not connected with what I have submitted with regard to stabilizing our money. But this is a Committee to deal with monetary matters generally, and I think these last two thing I put down—preventing foreign ownership of the Reserve Bank and looking after the gold—are worth the attention of such a Committee. On the general question I do think this Committee, by recommending to Parliament the adoption of some clear principle of currency-control, and the putting of some thing more definite in place of those words " economic welfare of New Zealand " in that Act would do a very great service to the people of New Zealand : and they would do a greater one if they recommended that something should be put in there directing that the Board should use all its powers to keep our money steady in buying-power so as to enable our people to carry on on some such basis as I have alluded to in my previous remarks. I have only taken an interest in this matter as a layman—I have become interested in it during the last few years—and I do think these broad principles are worth attention.

Hon. Mr. Downie Stewart.] You said that before you finished you would explain how you are going to stabilize the internal price-level ?—The Bank might go to the Treasury—supposing they decided that they wanted to bring more money into circulation—they would go to the Treasury and buy Government securities to the amount they wanted. The Treasury would then use this money in the same way as a loan and would be able to spend it as a loan is spent on public works, and thus get it into circulation. The object, under present conditions, would be to get enough money into active circulation to raise the internal price-level, and values generally, to round about the specified point, and then to keep them steady there. In normal times, with an annual increase in the national production, a corresponding increase in the currency would be needed to keep the price-level steady with this increasing volume of transactions. The increase in the currency would be effected by the Reserve Bank issuing money, to the extent it judged necessary, to the Government against Government securities, which money would be available for expenditure as loan-money has been in the past. I suggest we would keep our internal price-level as steady as we could. If we kept it higher than the present outside price-level, which is what we want, we would naturally have an exchange of 25 per cent. or 30 per cent. or whatever it might be according to the level we adopted.

Mr. Clinkard.] The exchange would have to fluctuate ?—Yes.

Mr. Langstone.] Is not the internal price kept higher by virtue of sales tax and other internal charges ? Does not that affect the position ?

Mr. Field.] I do not know, Mr. Stewart, whether I have answered what you wanted or not ?

Hon. Mr. Downie Stewart.] You did not go into special details as to how it would affect the problem of the dairy-farmer. Merely issuing a little more money to the central bank will not put him at the point whether he will make a profit ?—Wool has gone up and dairy-produce has not gone up. You cannot do everything by monetary control. It is a remedy that you can apply when the whole lot of prices have taken a downward turn. This British Committee on the stabilization of agricultural prices in England which reported in 1925 went into all these questions of the different movements in agricultural prices, and they reported that of course there were different influences acting on each commodity separately, with one thing going down and the other up, but that the great trouble was when you had the whole lot of them going all together. And when the whole lot go on a slide, that is when the money factor is telling. Their finding in 1925, after reviewing the whole situation, was : " In short, the whole history of the nineteenth century seems to show, in a manner which is beyond dispute, that variations in the purchasing-power of money have been responsible for greater misfortunes to agriculture than has arisen from any other single cause." Currency control meets the situation when the whole lot have gone all together, and they seemed to reckon that was the great trouble in agriculture, when the whole lot went. When one thing goes on its own and the others keep

up, all that monetary control can do is to take a general average over the whole lot. For a particular thing that has been affected by some other influence, or by some special causes in connection with the monetary system, you have to look round for some special method to give assistance. But you can best give assistance when there is a general fall in prices, and with minimum dislocation, by working from the money end.

Mr. Ashwin.] At the commencement of your remarks you indicated that in your opinion the world fall in prices was entirely a monetary phenomenon ?—That was the dominating cause of it.

Have you read those world economic surveys put out by the League of Nations wherein they bring forward very important non-monetary factors ?—No ; I have not had the opportunity of reading those.

They analyse the situation and, well supported with facts and figures, show that there are other very important factors, chief among them being an upset in the balance of production of various commodities ; while there might be a general shortage of goods, there might be overproduction in one class of goods, say, butter, and a shortage of other classes of goods. Do you suggest that lack of balance can be overcome by monetary means ?—No ; not at all. I do not suggest that the monetary factor is the only factor that comes into the situation by any means ; but I think the monetary factor obscures, the way it is worked now, a tremendous lot of the other causes, and if we get money put right, we would be able to see a lot of other things, and deal with them more efficiently. But I do think the chief thing is the money. This great distress has followed on these alterations and contractions of currency and credit in these different countries, and that is the main cause, and if we tackled that we ought to get considerable benefit to relieve the situation so that we can carry on.

At any rate, apart from the cause, you contend that the cure lies in monetary action ?—That is the cure for that particular part of it, not a cure for everything. You would get relief that way, and a lot of relief, I think.

At the present time Britain has gone in for a policy of easy money ; interest rates are right down to a very low level, but you yourself observed that it did not raise prices. In your opinion, why ?—I should say, on general principles, that as that money got into the hands of the consumers, the ordinary people, then prices will go up, but otherwise other things may happen.

You agree that that action must be taken outside the ambit of the monetary machine ?—It depends on where you put the money in as to what happens.

Yes ; the banking organization can bring about, or put on offer cheap money, but they cannot make people take it, or determine what use they are to make of it ?—The Bank of England, if it wanted to, could go along to Mr. Ramsay Macdonald and say, " We could improve conditions in this country if the Government would put in hand public works and we are willing to advance the money to do this."

Mr. Langstone : Could not Ramsay Macdonald go to them and tell them what to do ?

Mr. Ashwin.] That is not the usual policy of banks. Their action would be limited to giving advice to the Government ?—The Macmillan Committee said it should be the policy of the monetary controllers to raise prices and then keep them steady on whatever level they fixed, and they would look over the whole situation to see what needed doing, and go round and advise the Government.

If that is the solution, is not this the position : That ample cheap money is available and waiting ; is not the onus on the British Government to take it and put that policy into operation ?—I should say so, if they could get hold of it.

It is on the market, it is on offer to anybody, so that really, to that extent, the monetary system has done its part. It is more or less a negative part, of making the money available. But the onus has got to be on somebody else to take it and make right use of it ?—I think the controllers of money should have an obligation to look to the whole situation, because it is so very important, and use what influence they can to get the money out so that the machine keeps going on an even keel.

The bank ?—Whoever controls the currency.

You assume that they have more expert knowledge than others, and you consider it is their duty to urge upon the Government the necessity of certain lines of action ?—I would like to see a direction in the law that the currency should be controlled to achieve these objects.

That is the point ; even if you did that, the utmost the banking authority could do would be to make the credit available ?—I think it answers you if I say the control of the currency is really and truly the prerogative of the Crown, and one of the most important, and that it should never be parted with by the Crown. Whoever exercises that power must look round at the state of the whole country, and say, " Are things right ? " " Is justice prevailing among the people ? " " Have we got the necessary amount of medium of exchange out ? " That is a prerogative of the Crown. One of the finest things Sir George Grey ever said was that Ministers, and all the rest of us, have some divided interest, whereas the entire interest of the monarch is bound up with the welfare of the State and the good of his people, so that he and his family may stand well in their affection and regard. Every one else has some horrible private interest that may be in the way, and we have only the Crown to rely on to see justice done among us. And when the power to control money is taken away from the Crown and put into the hands of private people, they may use that power wrongfully. The Reserve Bank has been given that power, and if they are to exercise a function of Government, they must bear the responsibility to see that the thing is done rightly.

Even supposing a Government is not exercising its prerogative, if whoever is in control is willing to make the credit available, the point does not arise, provided the money gets out when it is wanted ?—Naturally, as a matter of common-sense, they must look to see that it is put out in such a way that it is distributed as they desire, and produces the effects they desire.

But the initiative and use of that, or it not being used, does not rely on the banks ?—They say, " We cannot do it because nobody wants to borrow." You get this vicious circle, and it must be broken. We must get money spent for public works. If the bank was directed to stabilize, and people knew what was coming and that they were going to work to restore values to a certain point, I think

the amount of currency that they would have to issue to do this might possibly be very small. As soon as it was known that this policy had been adopted, you would see the people who have the money on fixed deposit getting it out and trying to get in ahead of the rise in prices, and money would go out very quickly, and every pound thus brought out into active circulation would do away with the need for any other action.

That is true; that would influence the owners of deposits, but it does not alter the fact that the initiative in using those deposits still rests with those people. A man who has a deposit is not depending on the bank, and as to whether he uses it or not, it is entirely at his own discretion?—Absolutely; you do not want to interfere with a man's property.

The point I am trying to make is the initiative rests to a considerable extent outside the banking machine?—Yes; when you get money heaped up like it is now, if the people who have got this money are not getting it into circulation, you have to put some other money into circulation. If they know you are going to do it, they will soon realize that the longer they keep their money locked up, the less it will buy. They will bring their present money out and you will not need to put that new money out. But the initiative as to what they do with their money rests with them all the time.

Referring to the general trend of your remarks; you were talking about basing currency on items; do you then consider that the nations as a whole should go off gold as a monetary base?—For internal-currency purposes, absolutely. It is quite unnecessary. England has always got on quite well in the periods she has been off gold internally. It is only as a commodity that gold functions internationally; you do not send gold to America as sovereigns, but as bullion; it is a commodity, not money in international transactions.

If all the nations were off the gold standard, how are you going to use gold for settlement of international balances? You have got no price?—I have never heard of any commodity that did not have a price. Gold will have a price, and as to what you get for an ounce of gold, if you have pounds against francs, you will have your price in your money and he will have his price in his money, and if it suits you to settle in gold you will be able to do so.

You think they should all retain gold, although none of them uses it as a monetary base?—I do not think that is "retaining" gold. If they want to use gold in that way, there will be nothing to stop them, and they might find it a convenience.

You suggest New Zealand should do it?—I said we have got this gold on hand now and it is something real. It is separate from my proposal for stabilization, but it is a monetary question, and this Committee, I understand, was to look into all monetary matters.

Do you not think that if gold is entirely demonetized the world over, it will lose a great deal of value?—That may be so.

And therefore not be of much use for regulating international trade?—It may be so; I think it is valuable at the present time.

You said the simplest solution—I suppose for New Zealand—is to alter the monetary standard. You quoted that from the Macmillan report. How do you suggest that we should go about altering our monetary standard?—By the proposition I have written out and presented to the Committee this morning.

These alterations to the Reserve Bank Act?—Yes.

That in itself does not bring about any actual alteration, except you want to enlarge the directions to the bank directorate?—I do not know how you would define it, but that is what I wish to propose.

Your object, of course, is to maintain stable prices internally?—Yes.

Do you think there is any such thing as a general level of prices?—It is a statistical thing. What are these statistics? They make up, for instance, a thing they call "national production"; I should say half of it is guesswork. They make it up each year on the same basis, and so for comparison it probably represents something near the way things are going; it is all a sort of general average. They take out these figures as to prices, and they tell you roughly whether prices on the whole are going up or down.

That is the point. You may have the price of wool going up and butter coming down?—I did not say we should control our currency rigidly on this thing—some price index. I suggested that we should control our currency in order "to maintain a stable price-level and to promote stability and prosperity in agriculture, industry, commerce, and employment, and generally to promote the economic welfare of the Dominion." Then I went on to say, "the said level to be, so far as is consistent with the foregoing objects"; that is what we want to get at—the foregoing objects—and this second part only aids us to get at that. I think a most important thing at which they should always look is to see that there is enough money in circulation to keep the people employed. They should look at the whole situation. I do not advocate that they should make up some price index and just watch that one thing and say that all is right if it sticks at a certain point, and everything should follow on that. You want them to watch the whole situation.

If you have a certain level of prices and you suddenly find there has been a large rise in one or two important commodities, you would say, "They have got to tinker a bit." If you look at one important group of commodities and find the prices have gone down, you say we want to pump a bit more credit into the situation. From a practical point of view you are in great difficulty, are you not?—Do you not think, if you were Governor of that Reserve Bank, and you had an instruction, such as I have drafted, in the law, you would feel you had plenty of elbow-room to take care of the situation in a general way? If a particular thing went up or down, you would have the necessary room to look over the position, and not be tied down to watch only one particular thing? You are given a general instruction to watch the whole position, to keep things generally steady. Professor Cassel said that

people will say that you cannot get any very exact result, but you can still get something well worth while. He said :—

> The most natural object for monetary policy is doubtless a certain stabilization of the purchasing-power of money. Opinions may differ with regard to the exact measure of stability. However, a time of the most violent fluctuations of all the monetary units of the world is certainly not appropriate for a prolonged discussion of the most refined method of measuring the purchasing-power of money. Stabilization of the purchasing-power of money according to any reasonable standard would be infinitely better than the complete instability from which the world has had to suffer during the past few years. Again, opinions may differ as to the exact degree to which a policy of stabilization could be carried through. People unwilling to do anything are always willing to underline the difficulties of attaining a result of any exactness. How far stabilization will prove possible in the future we shall know only when we have applied a rational policy of stabilization for decades, and thus won experience and skill in this matter. Obviously, we can never attain anything of that sort if we never start the work. Hitherto the majority of the economists have been content with producing a whole literature on the difficulties, and have paid very little attention to the important results already attained by stabilization policy.

We have got to find out what we can do as we go along, and we do not want merely to go into some theoretical thing about the price-level and say that is what they have to work to, and that alone.

It is a practical difficulty. You quoted Sweden as an example. There is apparent general level of prices in Sweden, but they hide considerable fluctuations of prices. I think there has been a heavy falling-off in import prices balances against a heavy rise in prices of their local industries, so as to produce a steady increase, but it seems to me this heavy fluctuation in prices is not conducive to national prosperity. That is a mathematical point ?—The point is that the general instruction I put in there is to watch the national prosperity and to use these price indexes only so far as they help you to achieve the national prosperity. That is the great thing they have to watch, and that, of course, includes employment. When you have got enough money out to get these fellows on the dole into work you have done something worth while, and the first half of what I have drafted would give them the necessary direction to do that. The whole purpose of the second half is to put something down that lets the people have a general idea of what they are supposed to be aiming at, so that the people can all make their arrangements. Otherwise you put in no particular direction of any description as to just where they are to fix their level.

It is a great ideal, but I think that it would be very difficult in practice. You contend that they should look at the internal price and go for internal price stability. We are now exporting upwards of 60 per cent. of our production, apart from capital stuff. With such a large volume of our production going overseas and being replaced by imports, do you think that we can get any real stability internally as long as instability exists outside ?—I think, like Professor Cassel, that we cannot tell what we really can achieve until we have a try, and we should give them a general direction to have a try. You say, "What can we do" ? You must have some other alternative in your own mind. What would you like us to do ?

That is not the point ?—I am talking a little bit in the dark for practical purposes when I do not know whether you are against doing anything ; or whether there is some better way you have in mind.

Mr. Schramm.] You do not suggest doing nothing ?—No ; I think we ought to do something. If there is any better way let us have it.

Mr. Ashwin.] I wondered if you had any way in which you could neutralize the serious disturbances that must come out of fluctuations in external trade values ?—I think when those fluctuations in the outside price-level occur, it is much the best to have them screened off from our inside transactions by a movement of the exchange. To take an extreme case of that : Supposing it had been England that went in for that inflation in 1923 instead of Germany. They started off with 1,280 milliards of marks in circulation in January, 1923, and on the 15th October they had 123 million milliards of marks in circulation. The whole lot in the first place was worth £34,000,000 in sterling at the exchange-rate, and the whole lot at the finish was worth only £6,000,000 in sterling, as against the £34,000,000 when they began. Supposing that had occurred in England and not in Germany, and we had been working on this basis of parity of exchange, we would have had to have the Government Printing Works working all night to print these billions and billions of notes. I think it came down to 18,000 million or something like that to a pound. Would it not have been much better under those circumstances, if when they behaved so stupidly for us to have said, "We will carry on just as we are and let the exchange go." Supposing they had done that, do you not think that internal stability would have been worth having ?

No. You could screen it off if your export prices and import prices had either gone up or down on the same ratio, but when they do not you cannot avoid, as far as I can see, internal reactions from it ?—You have a difficulty, but I think you can reduce your difficulties from what they are now by what you do. You have difficulties, of course, as long as there is a blizzard going on outside. You shut the door and keep as much as you can of it out, but you will find that some of it will get inside.

You mentioned that the bank debits in New Zealand have fallen away. In your opinion is that due to any action of the banks ? I mean, the fall in the figures of bank debits ?—I think that the banks had all the power under the law to have kept up a normal circulation of money in the Dominion if they had wanted to. The amount of currency they can issue and the credit basis they can maintain under the war-time legislation still in force permitted that. If the banks had elected to say, "This thing is getting too hot altogether. We are going to get the volume of money in circulation up inside New Zealand, and we will let the exchange go. We will not worry about exchange stability." They could have done everything that is wanted, but they have not done it. They have carried on in the old way, doing just what London does.

But the point is the deposits are as great as ever, now, taking the total deposits, but the use of the money, or perhaps the velocity of circulation taken as a whole, has gone down on the average. Do you suggest we can blame the banks for that ?—I have not come here to blame people. I have come here to suggest things, with regard to that point I just want to say this : That our money system is just a sort

of extension of sterling, and when sterling goes wrong and they just carry on in that automatic way they have done all the years ever since they began banking here as if we were a province of England, naturally our money goes the same way. But then you reach a point and you can only say, "Well, if they would like to launch out and break new ground, they had all the powers to do something better than they have done." You cannot say more than that up to a certain point. And then last year when the Government definitely decided to put that exchange up, that extra 15 per cent., as a matter of Government policy, I say—when you look at those figures since then, that contraction of advances—that the banks have not used their resources to assist the Government and make that Government policy the success it might have been.

But you are speaking of bank advances now, not debits?—Well, naturally, when they curtail the advances, nobody goes and gets an advance from the bank to put it on fixed deposit, and when they contract their advances by £10,000,000 during the year, they have been pulling that money out of current account and there would have been more money going through those debits during the year and turning over in trade if there had not been that contraction of bank advances during the last twelve months.

You suggest, then, that the contraction of the bank advances was deliberately done by the banks, that they called them in?—I have no knowledge of that. Only the man inside knows that.

True. But you will observe that while the advances have fallen the deposits have not fallen?—That is so.

Then does not that show that it was not due to them calling in advances?—Well, when they paid out this extra 15 per cent. to all these farmers on what they sold abroad that new money was brought into the system. What conclusion can you draw when you see these fixed deposits go up, while the advances go down, and there is no increase in the turnover, and the velocity of circulation is slowed down?

You say that the deposits go up and advances go down?—Both have happened. The only conclusion you can draw is that new money has reached one lot of people who put this money on fixed deposit, not having any other use for it. Another lot of people have been called upon by the banks, or they have voluntarily of their own accord, been using an equivalent amount of money to pay off advances. Is that not so?

No. The real explanation of that in my opinion is that we have got a credit balance in our external trade, which perhaps is due to the effect of the exchange, but whatever it is due to it is purely a reflection of that?—You say that increased exchange wanted more money in circulation to support it? Naturally, in ordinary reasoning, but we have not had that money. We have had the money going to the banking system, but we have not had that money showing up in circulation, and we have seen a contraction in the advances, and we have seen very little of that money ever getting into the current accounts. Only a little increase there. But a great deal of money has gone into the fixed deposits and a lot of money has gone out of the advances, and you can explain the whole thing in this way: That a lot of people were called upon to pay up their overdrafts; and a lot of money was paid to other people in the form of interest which they had not any particular use for, and they put it on fixed deposit. But the high exchange has not operated as was intended. I think the Government's intention was to have the thing so that it would put more money into those current account deposits and to increase the business turnover, and it has not got there.

Captain Rushworth.] Could it be the case that the alleged non-monetary causes were really the effects of a monetary cause?—In many cases I think so. I think it could be quite well the effect of it. And the London Chamber of Commerce had some rather interesting remarks on that the other day in their journal. They had an article in their January number and they finished up by giving their opinion about this whole system that is being operated at the present time. The article was mainly about the fact that there is £2,000,000,000 of short-term money controlled by a few men which is used to send currencies up or down for speculative purposes in the money-markets of the world, and they finished up by saying, "Instead of an exchange of goods and services between nations, to their mutual advantage, the system compels a tooth-and-claw struggle to acquire the means of satisfying the money-lender. That system definitely conflicts with the conception of good will and international co-operation, and all attempts to reconcile the two must fail." And I think if you go into things like this quota and all those tariffs, you will find that the cause behind them is that they are all struggling to get hold of this money and keep it because it is so scarce, and they must take all sorts of measures to pay their way under the present money system. Therefore, you get all these kinds of things, these other complications which, if you analyse them, a great majority of them might be found to have had their origin in this monetary change and trouble from the beginning.

It has been suggested that some of these non-monetary causes are really protective measures that individuals, industries, and nations have adopted to prevent piracy of their money systems?—I think they are.

The question of lack of balance in the production from industries, now. It is a commonplace that certain primary products have been produced apparently in overabundance—wheat, coffee, sugar, tin, butter, and so on. Those things have been produced in enormous abundance apparently. You are familiar with that, are you?—Yes.

The present lack of balance has been suggested as between primary products and manufacturing goods, but that report issued by the technocrats of Columbia University recently; have you seen that?—No.

They indicate there that, although primary products in the world generally have increased enormously, that increase is not of consequence compared with the enormous increase that has taken place in manufacturing-goods, owing to discoveries of science and the harnessing of power. Does that suggest a lack of balance?—Between what?

Between the product of industries, primary goods, and manufactured articles?—Do you mean that they should be controlled?

No. It has been suggested that the originating cause of the slump is due to a lack of balance in the production of industries ?—There may be a lack of balance in the production of industries. I am not up in all the details of that sort of thing but I think you can find, in what has happened, and this money system, and the actions which were taken, and the consequences that have ensued, ample cause of the slump there.

You have been asked for details of a stabilization scheme to stabilize internal price-levels. I take it that you are adopting the position of the layman who simply desires to specify the kind of fruit that you require, leaving it to the Government or the experts to produce that fruit ?—Yes.

If you specify a certain kind of pear, you are not going to be content with a Californian thistle ?—That is so. And I think that if something on the lines I have suggested was tried and it came to a Monetary Committee in ten years' time to consider whether a more exact definition could be put in, the experience of the ten years would show much more exactly what was required. To begin with, you must give a general idea of what you want and give them a bit of room to find out how they have got to work to give us stability and prosperity, so that people carry on on a basis of justice : So that when you pay these existing debts in your money you are getting as good a measure of justice as the State can possibly give you.

It has been suggested that you could not possibly have a stabilized internal price-level and a stabilized exchange-rate at the same time. If that is the case, you prefer the internal price-level ?—Absolutely.

And it would be very much better if you could stabilize your internal price-level, as has been done in Egypt, Malaya, and Sweden, and at the same time neutralize the foreign exchange-rate ?—Absolutely. You would get 100 per cent. benefit then, instead of only getting a partial benefit.

And you think that might be produced by means of experiment ?—It might.

Hon. Mr. Downie Stewart.] In the memorandum you sent in you complained that under the Reserve Bank Act there is no fixed basis for our currency ?—Yes.

What do you want put in as a fixed basis ?—What I have put on that sheet of paper.

That is merely stating that they have got to have regard to a great number of factors ?—The principal thing is to keep our money as steady in internal purchasing-power as possible.

Yes. But you still anticipate it remaining linked to sterling ?—Not on any parity of exchange basis, or of any fixed exchange.

Would you let the exchange swing any distance necessary in order to keep internal prices stable ?—I put in, "to work to keep values as steady as possible and to maintain stability and prosperity in agriculture," and so on, with the idea that it was an experiment, and they were to watch everything as they went along. Naturally it is a tremendous experiment. Supposing it was seriously contemplated, as I hope it will be before long, everybody has to recognize that it is an experiment and you want it tried, but you have got to give them all the powers to watch everything and just keep the country steady.

But the specific point I want to know is : Would you allow the exchange to go to any height in order to keep internal price-levels stable. You realize, perhaps, that if there is any regard paid at all to the exchange your currency may rise to such heights as to become valueless ?—But I mean you would not pay any regard to the exchange at all.

But if you are paying regard to keeping the currency stable in purchasing-power, unless the exchange rate diverged to some extraordinary point outside——?—If the exchange did go to some extraordinary point, it would only be through the defect in sterling, and not through the defect in the New Zealand money ; and supposing sterling did go to some extraordinary point, as you say, and became valueless, I think the best thing that could happen to us under such circumstances is that we should screen ourselves inside from the dislocations which would be caused outside. Any very great movement like that in the exchange, when you were working on this internal stability basis, would only be from defects in the other currencies, not from our own. In the case of a tremendous defect arising in these outside currencies, I think the answer is that all the probabilities are that the best thing for us would be to let that exchange go under those circumstances and stick to stability inside.

Well, if you let it go and you are attempting to restore prosperity within the Empire, say, through the Ottawa Conference, all the agreements you make between the different parts of the Empire in order to try and promote prosperity become valueless if the exchange is moving all over the place, do they not ?—I think under those circumstances we could go to all the other members of the Empire and say, "Look here, we have kept our money steady in purchasing-power and these troubles have arisen from you people not keeping yours right, and if you will keep yours right and help your people in that way, then all these other things will work out correctly."

It would under international action ?—If all the countries in the world would keep their money steady in purchasing-power, then we would have 100 per cent. advantage out of the whole thing, but it has got to begin somewhere, and I say, of all the countries in the world here we are stuck away out in the middle of the South Pacific Ocean, all our exchange transactions go through a few channels, and if this thing can be tried out anywhere, surely we are in a good position to do it. We have had a name in the past for not being frightened to tackle a thing because it is new.

I only want to know whether you realize that there are some factors in connection with the external exchange that are of importance to the country, but if you concentrate entirely on the internal price-level there are other difficulties you would have to face ?—Yes. I think if anything could be done as Captain Rushworth suggested, to get stabilization of the exchange conjointly with stabilizing the internal price-level by some fund or something of that sort we should try it.

You referred to the fact that Britain's policy in recent years or after the war, was to finance Austria and other European countries to try and get them back to prosperity. You thought that was a mistake. Did you read the statement by Lord Snowden, that in his opinion the greatest service

that had been rendered to Great Britain since the war was by Montagu Norman's policy of assisting European countries back on to their feet, as he had the vision to realize that unless they were put on their feet Britain could not get back to prosperity. You did not see that article ?—I have seen some of Lord Snowden's articles. From what I have read I would not form that conclusion at all. It is his opinion, is it not ?

Yes. But he was a very eminent Chancellor of the Exchequer, was he not ?—He was so regarded.

He declared that Montagu Norman was the only great statesman England had produced since the war ?—I would not form that opinion myself.

Did you see Keynes's tribute to him ? Keynes said that in his opinion he was a great public servant who had rendered great service to Great Britain ?—I think a great statesman would be a man who produced a condition of prosperity in the country he was governing.

Well, he has kept Britain in a better position than most countries ?—I think France was more prosperous until the extreme deflation came, than Britain had been. I think America was more prosperous after the war than Britain has been.

Who is coming out best in the end ?—The end has not come yet.

I know. But where is France getting to now, and America ?—Well, where are we getting to ?

You said there was no objection to political control, in fact, it was better to have political control of the currency ?—I said Government control, I think.

Well, Government control, then. You quoted the incredible disaster that Germany arrived at in her inflation. Was that not due to Government control of the currency ?—I think those same interests were on the box-seat that have been on the box-seat all along there ; the same financial interests all through the piece.

That is the interests that you refer to in your book, " The Truth about the Slump " ?—I mean the big financial interest that operates, and which practically all the Governments have to more or less conform to.

You still hold that view that there is an international gang of Jewish bankers who are controlling the whole situation ?—I think there is a most extraordinary amount of evidence that something more is occurring that appears on the surface, and that enormous powers are being used in ways which are not openly stated, and in ways that are not making for the good of the British Empire ; and I think the *Spectator* was right when it said there was a case for inquiry by a Royal Commission as to what was happening.

Would you say, for example, that because Sir Rufus Isaacs was Lord Chief Justice of England and Sir Isaac Isaacs was Chief Justice of Australia, and perhaps Sir Michael Myers was Chief Justice here, that there is an international gang of Jewish lawyers trying to control the administration of justice ?—Does justice show signs of being controlled in some way ?

Is not your argument about the fact that many eminent bankers are Jews equally applicable to the law-courts or anywhere else where you find them very prominent ?—What I have stated there was that you look round and you find that extraordinary things have gone wrong with the money side and that you find certain people have been playing a leading part in connection with these things, and that you have a very extraordinary thing that it was forecast many years ago.

Do you think the position became too complicated for them or that they wilfully distorted the financial machine to suit their own ends ?—That is a thing you can only speculate about.

Well, you have speculated very freely about it have you not ?—I have tried to do this : In anything that I have written I have placed down the facts so far as I could discover them, and in any deductions I have drawn I have tried always to keep strictly to what the facts warranted in each case.

I am not complaining of your holding a point of view. I am just wondering if you still hold to it after further investigations while you were abroad ?—I have not been abroad, but the further matter I have collected has not weakened or discredited what I have published, or made me feel that I have put down anything that is wrong. All the additional matter I have encountered has fully confirmed and amplified what I had put there, considerably ; and I have come across nothing that upsets it.

On page 2 of this memorandum you say that the thing you are aiming at can be effected by the State issuing currency-notes in payment of wages for relief workers and other public purposes until values are restored to some suitable point as shown by some approved index. That is the gist of your remedy is it ?—I put it in what I thought were the best terms in what I passed round this morning. It was more general than that, that the money should be got out to break this vicious circle by getting consuming-power into the hands of the people.

Do you apprehend any danger at all from the State issuing its own currency for payment to the unemployed and all these things ?—I anticipate this danger, that if you attempt to do anything there are very large vested interests in the existing system, and I think human nature being what it is that those interests would be endeavouring to protect the system by discrediting in some way what you proposed to do—putting people up to demand excessive things out of what you were doing and so on. You would have to fight for it to get it right.

I am trying to find out are there any safeguards in your scheme against what so repeatedly happens, once the State starts inflation ?—The safeguard is that they have to keep things on a stable level and if they make excessive issues of money they cannot possibly conform to that requirement.

But have they not always done that when they have tried it ?—I do not think so. Britain was on this paper currency from 1914 to 1925, and I do not think that there was any trouble during that period ; and during the Napoleonic wars, during that much longer period from 1797 to 1820, they were on a purely paper currency and the thing was all right. And when they have got into a difficulty after they went on to this gold, they had to have these periods when they suspended the

Bank Act and the mere suspension of the gold standard put things right. The gold-standard basis put things wrong; and I do not think those difficulties have arisen in our British experience in connection with the paper money.

Have you read this book of Cole's—"What Everybody wants to Know about Money," by G. D. H. Cole ?—No, I have not had an opportunity of reading that one yet.

He deals with this proposal of fixing an internal price-level as against exchange stability in a country that is not on the gold standard, and he points out some of the difficulties that will arise. However, if you have not had an opportunity of reading it, I only want to draw your attention to it. He says, "This seems to show that the stabilization of the general level of internal prices, plausible as it seems as an ideal, is not in fact an object which can be pursued by a country either on or off the gold standard without very considerable dangers," and in various chapters in his book he discusses that in more detail. I would only draw your attention to it, but it is not fair to question you about it if you have not had an opportunity of reading it ?—What does he advocate positively ?

He suggests it is not feasible to fix the internal price-level under a capitalistic system without creating worse difficulties than you seek to avoid other than under a purely socialistic state with direction by the State ?—He is a Socialist is he not ?

Yes ?—That is the nigger in the wood-pile.

I think he is more a Socialist than a Communist. He says it is feasible to control internal prices, but only in a thoroughly organized State ?—My answer to that is that I think that man's idea is governed very largely by his overruling desire for an argument for Socialism or Communism.

You say if the currency is controlled by the State for the good of the people it should be made impossible for the people to be deprived of their farms, homes, and other property by manipulation of currency such as has taken place in the British Empire since the war. Do you hold the view that it is only manipulation of the currency that is causing all the trouble ?—I think it is the dominating cause. There are all sorts of causes in everything. I think the other evils would be bearable if you get the currency complication out of it.

In brief, I understand your contention is you want to amplify the consumers purchasing-power and to stabilize the internal price-level, but I gathered in answer to previous questions that even with the price-level stabilized it would not prevent an industry being in the plight that the dairy industry is in at present ?—Being affected by special external causes ? Nothing on the monetary side would do more than cover the general situation, I should imagine. The causes affecting that industry would have to be looked to by themselves.

I thank you.

Mr. Schramm.] Your main complaint is that nothing has been done at the present time at all to stabilize the internal price-level ?—Nothing has been done with a declared intention of doing that, that I know of in New Zealand. The only action has been the one of the Government to put the exchange up to help the people, and I think that was nullified by what has happened, the way the money has not got into general circulation.

And would you say if an attempt was made it would soon be found by its own control what would be the best means of getting on to a stable condition ?—I think experience would help. If we had ten years' experience of it we would know better what exact direction to give the bank than we do now before we get going. We have to learn as we go along.

There is another matter that you mentioned this morning—that people frequently hold up their hands in horror when the question of political control was mentioned in banking. Would you say that was only some scheme of those who are in favour of the present system of still leaving it under the present control, and, after all, everything boils down to the case of the State interfering or taking control. It has to appoint the executive heads. It does not matter in their minds when it is a case of appointing Judges and so forth ?—I think "political control" is one of those coloured expressions that people use when they do not want to state quite openly what they really mean; and political control really boils down to Government control; and the whole principle of Government, as I understand it, is that the State must be supreme over everything.

And to secure justice whether in a financial sphere or in a legal sphere ?—Yes. It must, of course, do the right thing by the citizens.

Mr. Clinkard.] You are advocating, of course, public works as a means of putting the additional currency into operation. How do you suggest that would be financed ?—Well, I think that the Reserve Bank might very well make an issue to the Government against Government securities. It would mean that the Reserve Bank would make a loan to the Government.

Just by ordinary loan ?—It would be an ordinary loan to this extent, the Government would get the money and the Reserve Bank would hold the securities and the Government would pay interest to the Reserve Bank. But as all the profits above 5 per cent. to the shareholders would go to the Government, the loan in effect, would be free of interest.

I can see you recognize some advantages in the central bank ?—Yes; if the central bank lends to the Government. I think if you stabilized on this basis you would be in a position in which you would greatly reduce, if you did not completely obviate, the necessity for borrowing outside.

I have a book here by Fred Henderson. He is the author of "The Economic Consequence of Power Production," and I see that he is somewhat in conflict with you on some of your suggestions. He says here—

The Source of Power.—The claim of any currency reform or credit scheme to provide for an effective release of the world's available abundance to the general body of consumers is based on the supposition that the power which inflicts deprivations upon the working community is the power of finance; and that monetary reforms and new ways of distributing credit are therefore sufficient in themselves to remedy the evil, without any need for touching the property system and its procedure in production.

That this is pure illusion should now be clear enough. Finance is not the source of power. It is only an accountancy of the operations of the real power. The real power is the power of the property system to take possession, by right of ownership of the community's producing opportunities, of all produced goods as they are brought into being by the producing activities of the community.

You suggest that the trouble is entirely a monetary one ?—He says it is the monopolization of ownership ?

He claims that ownership is the factor and that money is only its instrument ?—I think the two things are joined together. Under this present system, as the Macmillan Committee said, the greater part of the money in existence first emerges as debt, and you get the whole population plunged into this debt. In one of these articles which I have had posted to me by the London Chamber of Commerce the Secretary points out in regard to the methods of the banking system and the financial system in lending money, that most of the money in existence originates in loans from the banking system, and they never lend money to pay the interest. And so we come to a stage where the community always owes more money to the banks than the banks have put into existence, because they owe what is borrowed, and also the interest on that. This inability to meet these interest charges results in these transfers of ownership. The thing goes on like a great snowball, getting ownership into fewer and fewer hands, because it is necessary to wipe out a certain amount of these unpayable debts every few years in a commercial crisis ; and in a crisis there is a wholesale transfer of ownership from debtors to creditors. That is the difficulty.

And consequently the deflation which took place all over Europe—Austria, France, Germany—as you have said, is a way by which the money units have been so altered as to wipe out these accumulations of debt ?—You mean inflation ?

Yes ; that was probably the reason for that particular action being taken ?—Well, you have the broad fact that these countries which inflated as Germany and the other nations did, shot the debts off their backs, whilst John Bull is struggling along under his load.

Trying to be honest ?—Yes.

There is another quotation in this book of Henderson's which rather clashes with your idea of stabilization in prices. It is as follows :—

If prices are fixed, stabilized, regulated, or in any way manipulated in their monetary denomination, with any idea of deflating the price-volume of goods in the market, then the monetary denomination of costs must be kept within them. A regularization of prices would have excellent results in making the relation between money and goods more dependable ; but it would release no greater volume of goods to the consumer than is determined by the class ratio in which the property system disburses purchasing-power. To say that what appears in costs has to be recovered in prices—which is checkmate to money inflation as a means of enlarging the outlet for goods from the market to consumers—is only another way of saying that what appears in prices must cover costs.

If we increase out available currency in the hands of the community to any considerable extent it is a question whether that would really increase their actual utilization of goods and services ?—The thing that it would do would be to restore the debts down to what they meant originally. That is the whole trouble. If nobody owned anything and we were all working on the cash basis we could have money fluctuating as much as we liked, and it would not make a very great deal of difference. It is when you get a man's debts fixed in terms of money that the trouble comes. I saw a while ago valuations made by a concern which has several hundreds of thousands of pounds out on mortgage ; and their valuations made in 1930 for mortgage purposes were worked out on what it was safe to lend on the basis of wool selling at 1s. a pound. If the price-level slumps away any calculation made like that becomes worthless, and the unfortunate men are no longer able to meet their mortgage charges. Anything we can do to keep money values more steady we ought to do. We can only pay debts with our labour and with the produce of our labour, and we should endeavour to make the thing as just and constant as we can. When you spoke just now about John Bull being honest, I think John Bull was rather had when he was told he was honest if he gave his creditors about twice as much in real wealth as what they had given him ; and he fell in over it.

Mr. Langstone.] There has been a good deal said about the fluctuation of exchange, and if our prices went down overseas exchange would become worthless. We would not send goods there in the first place if we got nothing for them, would we ? If we got nothing for butter, cheese, and wool in London we would not send them there ?—I should think not. Of course, these exchanges are rigged a lot. Look at that long period of stabilization when the £1 and the dollar during and after the war were held together irrespective of everything. I think with regard to the exchanges, if there is a free exchange market that it would be determined by the purchasing-power parity between the two currencies, as to what one currency would buy in terms of the other. If we send our stuff over to England what we are really interested in is how much in manufactured goods we are going to get back for our exports.

If they do not buy from us we would not buy from them ?—No.

If they pursue that policy and if they have a huge unemployed army simply because they are too stupid and will not take remedial measures that is their funeral ?—Absolutely.

And that is no reason why we should not take action here ?—No, and if we took action here to help ourselves, we would encourage other parts of the Empire to take action also.

And do you not think the action would be this, if we stabilized our internal price-level, that only means selling our goods at a reasonable value so that everybody is solvent, and that would create a demand here for goods in New Zealand seeing that you had increased the spending-power of the people. Income is only good if you can spend it ?—Yes.

And if there were bigger demand it would mean people would require more commodities ?—Absolutely.

If, then, through the opening of that money here in New Zealand, we had a huge increase in the volume of things for internal consumption, would we not be just as well off even if prices had remained high overseas ?—Yes.

We would have extra wealth produced in this country to sustain the increased monetary effect which was brought into creation to start it ?—Yes. There is every prospect of it.

On the question of the overseas price-level you point out that it has only a bearing on about 40 per cent. of our goods anyhow, and the internal price-level covers anything—exports, imports, and everything.

The other thing, too, is, if they were foolish enough to depress our price-level then they would not be able to get paid what was owing to them in England ?—No.

And they would have no grudge coming if the people of New Zealand entered into a contract to borrow money at a certain price-level and if they will not give us anything for our own goods we are justified in taking a stand and saying we will not pay you until you will meet us on some basis of justice ?—We would simply say we cannot pay you. One reaches a point at which it becomes impossible to pay.

I think that is illustrated by Lord D'Abernon in one of his lectures where he showed that, unless the creditor country made it possible for the debtor country to sell goods at a price-level that would pay, there would come a time when the creditor country would be just as insolvent as the debtor country ?—Yes. The little one goes first and the bigger one after, and each crash knocks not only the people, but the Constitution about, because it leads to dictatorships. If a country becomes insolvent dictatorships follow, and that is why we are getting dictatorships all over the world.

The price seems to be the central feature in the whole gamut of the trouble ?—Yes.

The price is purely a monetary factor ?—That is so.

So therefore our troubles are monetary ? If we can restore prices and that is going to solve the problem it must be a monetary problem ?—Yes.

In regard to the general level of prices, although the supply of individual goods may determine the variation of prices between these groups of goods it is the amount of money that determines the general price-level ?—Other things being equal—absolutely.

And if you take the thing out of circulation prices must fall ?—Other things being equal.

And then debts double or treble or even quadruple in some instances ?—Yes.

The debtor classes are much worse off and the creditor class is not much better off so long as they cannot make the payment ?—Yes.

If the price-level is a central feature do you not think that here in New Zealand we are rather stupid in allowing everybody to go bankrupt simply because we refuse to fix our own price-level ?—Yes. I think that what you have just expressed is exactly the same view that Sir Basil Blackett put in his book, saying that in view of what we have done with currency, and what currency has done with us, we all ought to be in the lunatic asylum.

I noticed you quoted Kitson who draws an analogy between our weights and measures and money, the money being a measure of values and weights a measure of commodities. We will not stand for a fluctuating pound-weight and an elastic yard-stick ?—To have rubber money while other measures such as weights, &c., are fixed means all the value of standardizing these other measures has been done away with.

If human intelligence can devise a stabilized scheme of weighing and measuring things, surely it should not be outside the limits of human intelligence to bring about a stabilization of price-levels ?—It should not be, and it should be our business to get right down to it and get as close to it as we can.

I think Sir Josiah Stamp points out the reason that why the stabilization of prices is not desirable, is because it would do away with the purely speculative element ?—I think that is quite true.

Then we have to decide whether the speculative element is more beneficial to the community as a whole or whether a just honest relationship between each member of the community is of more benefit ?—Yes.

In the beginning of your evidence you quoted the Cunliffe Commission and the International Bankers Congress held in Brussels in 1919 or 1920. I suppose that those bankers were in possession of the evidence that you quoted here subsequently showing the evil and pernicious effects of deflation ?—I do not know what evidence they were in possession of. I think when you look over what has happened you can only wonder whether they did not know what the effects on commodity prices would be of what they proposed to do to restore the prosperity of the people, or whether they did not care.

But they are generally pretty wide-awake birds are they not ?—Well, they seem to be highly intelligent people.

And do you think that by any means they were conscious of what was going to happen, and they did it for some purpose, either to get a greater control through impoverishing the people or making them pawn the assets that were free of mortgage or unencumbered, or whether it was done just to bring about a state of niggardly economy throughout the world ?—I think one deduction we can draw is that, whatever their motives were, they were not in any way concerned with doing anything that would result in the strengthening and security of the British Empire or any part of it.

Seeing that these people have been in control and have brought about such a disaster, is there any reason why we should still leave them in control ?—I think if we could get rid of them it would be the best thing that ever happened to us ; and if we could act independently in our own country and set an example to other parts of the Empire—if benefits could be got by acting independently of those interests, we might do a very great service to our Empire.

You were quoting also the reserve banks—the Reserve Bank of England, the Federal Reserve Bank, and the Central Bank of France—have those countries a super-bank or superior banking system to what we had in New Zealand prior to the introduction of our Reserve Bank ?—I think that when you look over the whole situation which was brought in with that resolution at the Genoa Conference in 1922 whereby reserve banks were to be established in every country in the world, and which work has been carried on ever since, all I can say is that if they wanted stability it seems a long time coming : and these institutions which were to cure the whole evil do not seem to have been very successful so far. This United States Federal Reserve system, the most powerful institution of all, is able to resist any

instruction to stabilize; and the only conclusion you can draw from it is that they do not want stability, and we are not likely to get it through them.

You remember a short time ago, when it was mooted that the gold would be taken away from the banks, there was a controversy, and I think the then General Manager of the Bank of New Zealand, or a former chairman of directors, stated that, although dictation was not received from the Bank of England, pressure was brought to bear. That was in connection with the action of the Bank of England demanding that the banks in New Zealand provide £1,000,000 a month in London, and evidently the banks did not want to do it. That is the time they pooled the exchange, but said that pressure was brought to bear by the Bank of England on the Bank of New Zealand?—If you were an outsider, and knew of our position, how the Reserve Bank was established, and the powers given it, you might sum up the position by saying the Reserve Bank amounted to the Bank of England putting in the bailiff.

You do not think there is any connection between any official of the Bank of England being appointed the Governor of the Reserve Bank?—The Bank of England has been promoting these reserve banks, and the whole scheme originally was that they should be all tied together by parity of exchange, and that meant you had an institution controlled by these international financiers through their central institution, which at the present time would be the Federal Reserve, or the Bank for International Settlements. They had all these banks linked up by parity of exchange, and they could meet and alter things. They could arrive in the afternoon at a decision to alter the purchasing-power of money, and next morning it would begin to take effect in every country in the world, and presently every man and woman would find that the values of his equity in his farm or home had altered and had been decreased or increased by this action dictated by the United States Federal Reserve, or the Bank for International Settlements in Switzerland. They would govern the world by those alterations in the value of money, and hold all real power; and all the Parliaments in the world would be living away out on the ragged edges of power left over by these men.

The Chairman: But you have not answered Mr. Langstone's question.

Mr. Langstone.] I asked whether there was any significance seeing that the General Manager of the Bank of New Zealand made a statement that pressure was brought to bear by the Bank of England on the Government of New Zealand, in the fact that an official of the Bank of England was appointed the first Governor of the Reserve Bank of New Zealand?—All I can say is that it fits in with what the General Manager of the Bank of New Zealand said.

The Chairman.] You accept this statement of the Manager of the Bank of New Zealand; would you say he was in a position to say?—I would say he knew much more about it than I do. When he made a statement like that, he had a pretty shrewd idea, I should imagine.

Then you do suggest that there is significance in the appointment of Mr. Lefeaux as Governor of the Reserve Bank, and that it was done at the dictation of the Old Country?—I do not know precisely what you mean when you say "at the dictation of the Old Country." The Hon. Mr. Downie Stewart said we must pay attention to the desires of these people. My answer is that the two things fitted together.

Mr. Langstone.] We will carry that further. We did not have much public demand for a central bank prior to Sir Otto Niemeyer coming here?—Personally the only desire I saw were articles by Mr. Hislop which appeared in *New Zealand Truth*. Apart from that, I had never heard of any desire for it, until Sir Otto Niemeyer's visit.

You know the Bank of England has 1¼ per cent. of all the New Zealand loans raised in London for acting as managers on those loans?—I do not know the particular terms; I know they are concerned in the thing.

And that there seems to be a very close financial connection between the operations of the New Zealand Government's financial policy in Great Britain and the Bank of England?—I think they control the situation very largely there as to what money comes out to Governments like ours.

It seems reasonable to suppose that where we have the Bank of New Zealand with one-third of the shares held by the State and four directors out of six appointed on the Board to control the policy of the bank, all New Zealand's financial arrangements would be made through the Bank of New Zealand in London?—Yes.

Why the Bank of England?—I am not up in the details of what advantages they get by doing it one way or the other way. I cannot express any opinion.

It was evidently the action of the Bank of England that brought about the slump in so far as they were the greatest advocates for the return of the gold standard in England?—Yes.

They compelled the legislation in 1925?—They compelled it. It was the Cunliffe Committee, presided over by the Chairman of the Bank of England, that was set up in 1918 that advocated it first.

Evidently the Chancellor of the Exchequer was not prepared to accept it in 1918 or 1920. It was not until Winston Churchill was Chancellor of the Exchequer that they were able to convince him?—I think the Bank of England policy has been deflationary right through.

You know that Winston Churchill has made statements since that it was the mistake of his life, returning to the gold standard?—I have not seen those exact statements, but know he spoke condemning it.

I want to know something about the mechanical operations of the banking, if I can. I would like to know the operations that take place, and I have tried to draft something here. A bank buys Government securities—that is, either with notes or credit—say, £1,000,000. The position is the Government owes the bank £1,000,000. With this £1,000,000 the Government pays for services received, maybe contractors get it, and wages and salaries, and members of Parliament and every one gets a portion of it. This reflects in an increased deposit of £1,000,000. So that we have £1,000,000 that is owed by the Government to the bank, and £1,000,000 increase in deposits. The Government levy

taxation and collect £1,000,000. This taxation has reduced the deposits in the bank because most people pay their income-tax or other taxes by way of cheque drawn on the banks, so they reduce the deposits by £1,000,000. They take that £1,000,000 to the bank to pay off the loan. That cancels out the debt. The only thing that I can see remains is that, if those bills of exchange have been discounted at 5 per cent., the banks have made £50,000 on the deal. Do you think that is the position?—By lending that money?

Yes. Is there any obligation on the banks after that process has gone through to find £1,000,000 other than what I have quoted?—Some one said, and I think, correctly: "The first issuer of money, whether it is the State, or the banks, or a counterfeiter, always get the profit on it."

Mr. Clinkard.] What was the bank paying interest to its depositors for?—On the fixed deposits?

Yes. Was that to help to supply the £1,000,000?—With regard to the fixed deposits: take New Zealand. Here the banks work to keep the exchange stable, and if it is kept stable with, say, £25,000,000 in circulation in the current accounts, and they had no fixed deposit system, the amount of the advances they would be able to make would not be very much in excess of £25,000,000, or the exchange would start to go up with more loose money about. But if by offering interest to people, less interest than they charge for the advances, they induce them to bring money back and put it on fixed deposit they could then increase their loans up to perhaps £30,000,000, £40,000,000, maybe £50,000,000. And if they got that surplus above £25,000,000 back with only £25,000,000 circulating actively, they can keep the exchange stable. They can increase advances if they offer a high enough deposit rate to attract the surplus over £25,000,000 back on to fixed deposit. If they get out an extra £20,000,000 and attract it back, they make a profit on that of the difference between the interest rates charged to put it out on overdraft and the lower rate they pay to get it back on fixed deposit. It is generally about 2 per cent., and the net result is that the public is paying—over the community as a whole—2 per cent., the difference between the two rates, in respect of £20,000,000 or £15,000,000 or £10,000,000, of which they have no benefit whatever, because it is not in circulation. And the people who borrowed this money on the advances, instead of having the £50,000,000 they borrowed in active circulation in the country, have got to work on the £25,000,000, and the bank gets a "rake off" all the time. It enables the bank to lend more money by getting a large portion of it frozen on fixed deposit, and then they get the "rake off" between the rates.

We know that we have been financing very largely on Treasury bills of recent years?—Yes.

That is an indication of lack of revenue. If the Government had any amount of revenue, they would not bother with Treasury bills?—Yes.

They are expensive things. Reverting to your internal price-level, that if you create so much prosperity in the Dominion by the internal price-level, which would reflect itself in the taxation coming into the Consolidated Fund, you would not need the Treasury bills because you would have the ordinary volume of income from a process of taxation?—Yes.

That would operate from the imposing of an internal price-level?—Yes.

Mr. Holland.] In your evidence you said that it would have been better if there had been no share capital in the Reserve Bank. I have a little money in that; would you recommend me to get it out?—No, I think it is a very good investment for you as things go.

Why do you object to any share capital in it?—Of course, the argument was put forward, non-political control, which I suppose was intended to mean non-party control, but I think that if you wanted to get a Board of Governors for the Bank which was not affected by the party in power it could have been done quite well without bringing in the share capital. I do not think that you are necessarily going to get a Board which is more disinterested, looking for what is needed in the country, which is what is wanted in an organization like that, by confining it to people who can buy shares. I think you could equally well have said, We want to have a Board to look after this currency that is representative of the different interests of the community. Supposing you said, the Farmers' Union will nominate one, the Chambers of Commerce another, the Associated Banks will nominate one, the Manufacturers' Association another, Trades and Labour Councils another, or some basis of selection like that by which these people were chosen by different organizations and they were to sit on that Board and see how our money was managed, that it was in the interests of all the people. You would have representatives there to be affected if they did one thing, others if they did another, and they would hear both sides of the case argued out, and there would be the whole Board representing the principal different interests in the country to see what was the best thing for the whole community in any policy the bank was pursuing. I think you could have got a better Board there to give the people what they want, than by merely having a Board representative of any one who pays for shares. I do not think the £500,000 of share capital was necessary to the institution at all.

The Chairman.] This morning you were reading from a solicitor's opinion in reference to some £2,000,000-odd that the banks had alloted in shares, that it was not equitable that it should be done. You agree with that, of course?—I read the pamphlet through. He gave the reasons why he considered it was wrong, and it seemed to me the points he made were quite sound.

I am not raising any point, but I am asking you that question by way of asking you another. In your opinion who owns the gold in the bank, and do you think that the Government action is right in taking the gold from the bank at the price which has been stipulated, £3 17s. 10½d.?—I think this about that: You may have a piece of land, and the Government would like to put a road through. They take that piece of land, for the public interest, under the Public Works Act. You have got to put up with that. That gold has been put into those banks by the people. The banks were under obligation to pay that out to the people who owned it. They were relieved of that obligation by the State, and I think that was beneficial to the banks. I think the banks are called upon by law to make a sworn statement which is true in every particular once a quarter giving the value of all their assets and liabilities, and in that sworn statement (which they themselves say is true in every particular) they

put down the value of this gold. When the State makes this alteration, if the State takes that gold at the value the banks themselves consider to be the true value, and have sworn solemnly all these times to be the true value, I cannot see any greater injustice than by taking land for a road from me.

All I wanted to know was whether you approved of the action of the Government in taking the gold at that price ?—I just give my reasons : I think it was a fair thing.

You mentioned the Mortgagors Relief Act this morning, that it had not been a very great benefit. I was wondering whether, in your reasons for it not being a very great benefit, you included the fact that principal had not been dealt with ?—If I used the words, "it had not been of any great benefit," I was meaning as a solution of the problem. I think it has been of very great benefit as relief, but I think that it does not get the position cleared up so that people know where they are. They get helped and saved temporarily. But they do not get the heart put into them to go ahead as they ought to be going ahead and knowing where they are, until we clean the whole situation up, which we can only do by attending to the money end.

You referred to the high exchange. That was done, of course, to bridge the gap as near as possible, and you said that the unfortunate part of it was that it had not circulated amongst the people. What do you mean by that ? Do you suggest that no one has received any benefit from the high exchange ?—I meant this : That when you looked at those figures and those bank debits, which show the total amount of cheques written every week, the total of which really represents the total amount of money changing hands every week, that this increased money had not shown up there. The money was coming in all the time, but it had not got there to make an increase in that money that was changing hands in trade and business.

Do you not think that the dairy-farmers of New Zealand, for instance, have had benefits from it ?—I think the people that first got it are helped, but I think the general benefits to the community which the Government intended have not resulted, because of that contraction of advances during the year.

But you will admit that the dairy-farmer in particular——?—Yes. I think that the people who initially got that money were benefited, but it did not run through the channels of trade as far as it should have done.

I have read some of your books, and particularly one, "The Truth about the Slump." There, of course, you have laid the blame to the reserve banks ?—Yes. I have stated all those facts which seem to me to show that.

You are still holding to that opinion ?—Everything I have since encountered has confirmed me in what I put there.

Following up that question of Mr. Langstone's in reference to the appointment of the Governor of the Reserve Bank, it seemed to me an extraordinary thing that that suggestion should be made that practically it was done at the dictation of the Bank of England, and I was wondering on what grounds you would support a statement of that kind. When the Bill came down the next duty was to obtain the services of a Governor for the Bank, and surely it could not be suggested that the Government of this country should be told that they were to have a certain man. Do you think so ?—That they were to have a certain man ?

Yes. Sent at the dictation of the Bank of England. That is really what the question was ?—The question that was put to me was not what I thought, but what I thought of the appointment of this official of the Bank of England in relationship to the statement which had been made by the General Manager of the Bank of New Zealand. I said those two things fitted together. Now you ask me the direct question as to whether I think there has been Bank of England dictation. Is that it ?

Yes, generally speaking, you have referred to all the chain of reserve banks, and how these things fitted in, and from your reply I gathered that you thought such a thing had been possible because the General Manager of the Bank of New Zealand had said so. You said, further, that if he said so he ought to know something about it ?—I suppose he is an intelligent man in full possession of his faculties, and I suppose he knows all about these things.

Well, take the other side of it, the attitude of the General Manager of the Bank of New Zealand in regard to the Government starting a central bank and taking the gold ?—He is antagonistic.

Yes ; antagonistic all the way through. Then it comes down to what opinion you form of a statement made by the General Manager and as to how far his antagonism has weighed him to take a prejudiced view of the whole situation. Would you not take that into consideration ?—Naturally.

Well, that puts a different construction upon it altogether. However, there is no need to pursue it. I want to thank you for having devoted so much time to the Committee.

AUCKLAND, FRIDAY, 16TH MARCH, 1934.

Witness : Captain FRANK COLBECK.

The Colbeck Plan of Monetary Reform.

Statement: I have called this plan the "Colbeck Plan," but it was originally suggested by Captain Rushworth some three years ago. I have slightly altered the original plan and have added to it the idea of adopting the Egyptian plan of exchange. The "plan" is founded on the belief that the whole trouble is caused by the disequilibrium in the exchange value of commodities. I believe that the price-level is of little importance, the important thing is that values of commodities should be in equilibrium. At the present time most raw materials and foodstuffs are from 40 to 60 per cent. below 1913–14 level, and manufactured goods are from 40 to 100 per cent. above the level of 1913–14.

Trade is good when raw material and foodstuffs can be exchanged for manufactured goods and show a profit to both parties to the exchange. Trade is bad when one party makes a loss. The producers of raw material and the farmers have lost their purchasing-power and the producers of manufactured goods have, as a consequence, lost their selling-power. Both are threatened with bankruptcy. This state of things has been brought about by—(*a*) Legislation; (*b*) vested interests. With regard to (*a*), I suggest Customs duties, monetary depreciation, exchange, export bounties, shipping bounties, quotas, &c. With regard to (*b*), I suggest trade-unionism, fixation of wages, trade combinations, and financial control. I believe that if all these barriers were swept away and the law of supply and demand be allowed to operate to its full extent that our difficulties would soon be over. The biggest difficulty, if the above suggestions were put into force, is our long-term debt position.

The plan I suggest gets over all these difficulties. Admittedly, the plan is highly artificial, but so also are the barriers to be overcome. I would suggest that although conditions in 1929 were not ideal, still they were nearer to being ideal than any other year for probably a century. I therefore take 1929 as my standard.

My plan is to try and fix all prices for commodities and services on 1929 parity. I believe that the import parity governs all prices of local manufactures, and that export prices govern all prices for excess production that has to be sold outside the Dominion. Under this assumption I would fix the prices of local manufactured goods by adjusting the Customs tariff to the necessary extent, and I would fix the prices of exportable goods by the payment of a subsidy to bring them to the 1929 level. These subsidies would be paid in notes issued by the Government as required. Purely "paper money." This money would be legal tender and would be costless to the Dominion. To avoid inflation above the 1929 level I would fix exchange with Great Britain at par. The Government would handle the sale of all exports and the money received for same would be paid into the Government account in London.

The notes issued in New Zealand to pay for exports would be available for purchase of exchange on London at par *and as they were received for this purpose they would be destroyed.* As there would not probably be sufficient of these notes to buy the "sterling" required, after payment of our indebtedness in London, it would probably be necessary to reduce our importation of luxuries. The necessities of life and industry would, of course, have first call on sterling exchange.

The great advantage of this plan as compared with "pegged exchange" is that those exports that require help would get most help, and as prices rise the help they get is reduced in proportion to the price received overseas. As the exchange is fixed at par there can be no rise of local prices above import parity, except for such things as are not necessities of life or production.

P.S.—Of course all wages and interest charges would be restored to the 1913–14 level.

Captain Colbeck: The foundation of my plan is a belief that the whole trouble is caused by the disequilibrium in exchange values—that is, there has been an immense fall in primary products and an immense rise in everything else, both secondary products and services. I am also of opinion that this has been brought about by our own fault, by legislation and custom. I think that Providence has been exceedingly kind to us in the way of providing magnificent country and a magnificent climate and fairly intellectual citizens; but we have played ducks and drakes with the means of distribution, and it has landed us in the present position. I found my supposition largely on facts—it is not a theory; it is going to be proved, I think. For instance, I will quote a little table which I prepared and which you will find at the bottom of the printed statement I sent you. It is with regard to butterfat. Being a dairy-farmer, I naturally try to reduce everything to terms of butterfat.

——	Butterfat exported.	Payout.	Quantity Index.	British Prices Index.	Purchasing-power Index.
	Cwt.	d.			
1913	678,089	12·3	1	100	1·0
1920	923,025	21·15	1·35	307·3	0·75
1922	1,700,798	16·46	2.5	158·8	2·1
1929	2,543,153	18·86	3.75	136·3	3·98
1931	2,807,739	12·25	4·14	99·2 Sept. 106·4 Nov.	4·01
1932	3,080,761	11·85	4·543	97·7 July 99·5 Aug.	4·44

Base for wholesale prices in Britain, 1913 equals 100; base for butterfat, 1913 equals 1.
The wholesale price indices are Board of Trade figures.
The butterfat figures are from New Zealand Year-Book taking butter as 1 lb. and cheese as ½ lb.
Payouts are New Zealand Dairy Co. and Morrinsville Dairy Co. figures.

Since 1913–14 we have increased our production of butterfat from 1 ton to 4·44 tons—nearly four and a half times—450 per cent. And you will notice, if you refer to the index figures down below, that the wholesale price in Britain in 1913 represented by 100, and at present I have taken two figures there at the bottom—I took 1932 because this year was not completed—97·7 in July and 99·5 in August. That is, that the wholesale cost in Great Britain is some ½ per cent. less than it was in 1913–14, and four and a half times the amount of butter to exchange for this produce, and yet every dairy-farmer is practically on the rocks. There must be some way of assessing where the loss comes in, and my belief

is that it is brought about, first of all, as I stated in my statement, by legislation and by vested interests. We decided on a method of collecting taxation in New Zealand. In the early days it was through the Customs purely for revenue, and as the Government required more and more revenue, they gradually increased taxation from the Customs, with the result that they built up tariff walls and behind their shelter certain industries started, which are not economic, but quite payable to the manufacturer because of the increased cost of produce from overseas. After a time, I presume, the Government begins to see that the cost of living is rising and probably wants to take them off. It is presumable that after a time they say, We do not require the tax now, and would take them off, but the vested interests step in and say it is unfair to them. They built up an industry, and now the Government proposes to remove the protection; it will ruin them. This sounds a very good plea, and the members decided they could not very well ruin these men, but forgot that they would ruin the other fellow. It was a question of which they would ruin. They have got to ruin the local manufacturer or the exporter. The costs mounted until there was no profit left to the exporter. Kauri-gum, then flax, then wool, then butter fell. Wool has come back, and people, like Mr. Micawber, are "waiting for something to turn up," but it will not, because if you raise butter above 1s. people in England cannot buy it. With the immense production there is now, you have to sell it cheaply. If you cannot, you are going to lose your market. We have got to raise the price of butter, which we know to be an impossibility, or we have got to reduce the cost of producing it. There is the choice. For some forty years I have been battling to get down costs, and my efforts have been so successful that they have gradually risen! I thought, well, if they will not undo what they they have done, let us see if we cannot invent some system of overcoming these difficulties, and it struck me that if you could not take from one man you could add to another man's income. That is the whole plan. I propose to subsidize the exporter. There is no reason why flax should not again become remunerative; kauri-gum, too. I think a couple of pounds bounty on flax would make a payable proposition. I am not quite sure. My figures may be all wrong in regard to that, but assuming it is payable at £19 a ton, I do not know whether it is or not——

Mr. Murdoch: They are getting £14 or £15 now.

Captain Colbeck: Just take my figures. Say flax is payable at £19 a ton, but you can only get £17 for it. Supposing we subsidize it by £2 per ton; you would get all the goods from England to the extent of £17 and lose £2 in the process, and get all these men employed. Surely it is a sound proposition. It is sound even if you do it with actual money, but I do not propose to do it that way. I do honestly believe that there is such a thing as social credit, which can be used. You can issue costless money, costless to the Government, not to the people. It will be spread over the whole population, and when you have ironed it out they will not know they have paid it. That is my belief. You will go to the railway-station and pay your fare—£1 will still buy your fare, and £1 will still pay your taxation, although depreciated. It will still pay your wages, your Civil servants, and all the people on the railways. It will buy all the goods produced in New Zealand. I know the question—that is inflation. It is not inflation for two reasons, I do not mind what you call it. It will have no evil effects; it will not raise prices, because my proposal is to fix exchange with London at par as Egypt has done. Since all local prices are governed by import parity, if their tendency was to raise local prices, the imports would come in and prevent it, and our local prices for what we are exporting are governed by the export prices, so you would not raise those prices beyond the amount of the subsidy plus the world's parity. Who are you going to inflict the injury on? Who is going to suffer? You are going to restore all the contracts. You are going to restore that sanctity of contract which you have broken in every case. Now you are going to pay mortgagees the full rate of interest. You are going to pay the working-man his full wage. You are going to pay the Civil servant his full wage. You are going to restore every contract you made. I admit that the tendency will be to lower the standard of living to a certain extent, because your sterling imports must fall according to the amount you ship overseas, but not more than they do now. You will still get the same sterling you get to-day. You will send your stuff overseas. You will sell it for sterling, and you will get that amount of sterling, but there will not be enough sterling to buy all the people in New Zealand require. We have got into very luxurious habits, and I do not think there will be enough money to go round to buy all the people want. The Government will own the sterling. They have paid for the exports. They will own the sterling. That is the money that the exports are sold for in London, and a man comes along and he says, "I want to buy some gramophones." "We are sorry, but just at present gramophones are off." A man wants to buy some wireless sets. "Sorry, but we have not enough sterling to sell. We give priority to the necessaries of life and the tools of production." Another man will say, "I want to get some stuff from Japan." "We are not selling anything just now for exchange with Japan. We require it all for London." And you can control all our exports very wisely and properly, and it might be that instead of doing harm it would do a world of good. You would put your trade where it should go. It would not damage Great Britain, because we should still send, as we do now, everything there. There is nowhere else to send it, and they would get the full benefit of our trade. They would pay world's parity for it and we should adjust our prices by this issue of costless credit. I am not quite alone in this matter. I have no great following in New Zealand, I am sorry to say, because some people think they have got a better plan, but my own is a plan that anybody can understand. It is so simple I can put it on a sheet of notepaper. There are no mysteries about it. You may say you cannot do it. That is another thing. But you cannot say that you do not understand it. Anybody can understand it. There is no complication at all of any kind or description. There is no mystery about it. I am doing exactly what the Egyptians are doing with regard to exchange. They are not going as far as I do, but they go to a large extent as far as I propose to do by fixing their local prices, and I cannot see who I am going to injure, and I can tell you a large number of people I am going to benefit. In fact, I think I am going to benefit everybody. Even if the currency is slightly depreciated, the mortgagee gets his full interest. The working-man gets his full 1929 rate of pay. Everybody gets what he received in 1929.

Certainly depreciated currency, but I do not see that it is depreciated in our own country, except for some things that we shall have to do without. Those will run up to fabulous prices very likely. Well, if you have to pay a fabulous price for a gramophone it will not matter very much for a while, but I think that will right itself in time. And another thing, this plan is automatic in its action. You get exactly what you want at the time you want it. Take the exchange. Let me illustrate what I mean by exchange to-day. Wool is up in the air and the exchange on it is enormous. Butter is down to zero. You get no exchange at all, no benefit from the exchange at all. The exchange benefits the man who does not want it and is no benefit to the man who urgently requires it.

The Chairman.] Surely the exchange on the butterfat is a great thing for the people; I mean the dairy-farmer?—I do not say it does him no good at all.

But you said it was of no benefit?—I mean comparatively.

It is a wonderful thing. I am connected with the industry and I appreciate what it has done?—It is equivalent to 2d. a pound at the present time, certainly.

Yes. A very important thing?—Admittedly. But what is the subsidy on wool?

Yes, that is quite right. I agree with that side of it?—I am only trying to show you the absurdity of the exchange position.

Well, that was unforeseen, of course. We never expected that?—I am only saying that it shows that that is not a very good plan. I am only trying to make that point. I am not ungrateful, though I am terribly opposed to exchange. Still, I recognize that I am in a minority there as far as the farmers are concerned. Most of them think it was a very wise plan to raise it, but that does not matter. I am not raising that argument at all. I am only saying that it does not act equitably, and it does not act wisely. It gives too much to the man who has, and it does not give enough to the man who has not much.

I agree with you there?—And then there is another thing. I do not know whether I may use your name Mr. Stewart, but I admired something you said in the House very much indeed. You said it was a silly thing to try and fill a 40 ft. gap with a 25 ft. hurdle, or words to that effect. You said that the disparity between our farmers' selling-price and buying-price was 40 per cent. and you were going to provide 25 per cent. to fill that gap. That is what you are reported as having said, and it seems to me very wise. It seems to me that, unless you can fill the gap altogether, it is almost better to leave it alone. If you do not make the thing economic what is the good? You are prolonging life. It is like giving a man who is dying a nip of whisky and he bucks up for a few minutes but he is going to die a few minutes later. Unless you can make the industry economic it is not much good.

He will die happier?—Yes. I give you that. I had forgotten that. I think you have got to make these industries economic or else the bottom is going to drop out of New Zealand. "I see no prospect of a rise in butterfat," you say. Well, you might say that about wool. Well, I do not say that about wool. I have been stumping in the country for two years now, and I went round the Wairarapa and Manawatu, and any one who happened to be there will remember that I told the sheep-farmers they were silly fools to go in for cows because I told them they would be very sorry within eighteen months. They have gone to a lot of expense and built cow-sheds and later on they will want it. They were 3,000,000 sheep short in New Zealand, and they lost in South Africa 8,000,000 sheep in the drought and the Argentine position was bad. It was quite clear that there was going to be a rise in wool, though I did not expect this phenomenal rise, and I cannot account for it, and I do not think any one else can. The supposition is, of course, that they are preparing for eventualities.

Who made all the running in the buying?—I think our Japanese friends. I do not think there is any doubt about it, but I do not want to raise that issue. It is phenomenal and unnatural, but there would have been a rise. There is no question about that. The very fact that ladies were wearing longer dresses is a very big factor. They are using a third more material in all their clothing and that in itself is an enormous benefit. The short skirt was a deadly hit to the wool man. I have some remarks on various subjects, but I do not know whether it is worth while bothering you with them, because, after all, you have heard them from other people.

I dare say when we get on to the questions they will all arise?—Very likely. I think that is all I wish to say.

I have been rather interested in the proposals that you have put before us, but, first of all, following your remarks this morning in regard to Customs tariffs, you mentioned that they were put in in the earlier days by the Government for revenue, and you do not know why they have never been removed?—Yes. I do.

I mean to say, you suggest that they should have been removed?—Yes.

You say that the moment there is any suggestion of reduced tariffs the vested interests step in and they say, "Well, after all I have done for industry, now you want to take it away from me." What is your opinion, then, about secondary industries in this country?—Do you mean to say, do I think they would be ruined if they took away the protection?

Yes. First of all, you could answer that question and then, Do you think that secondary industries are desirable?—I will answer the first part first. I do not think that the removal of protection would injure the industries to the slightest extent. They are like a dog chasing his tail. As they get an increase of protection they get an increase of costs. It is automatic. It must be, unless you are going to starve the worker. If you protect boots and they can charge 25 per cent. more, the worker has got to pay 25 per cent. more for them, both the man who makes them and the man who does not make them.

But suppose they come in 25 per cent. cheaper? How can the manufacturer produce them to sell at that reduction?—He could sell because his costs will be reduced. I do not care whether you adopt my plan or you wipe out all the barriers to trade. I do not care which you do. If you wipe out all the barriers to trade and let the law of supply and demand act to its full extent, I would say, "I will burn that paper with the greatest pleasure." I am only trying to overcome one artificial disability by establishing another artificial disability.

You have made suggestions in another direction where we might overcome them, but it does not alter the fact that secondary industries are wanted in New Zealand ?—I think they would be more than ever. All fiscal history teaches us that as you decrease the costs of production you increase the ability to produce.

Of course, on the other hand, we have the city worker to think about ?—I deal with the city worker. Prior to the Federation of the States in Australia they had free trade in New South Wales and they had a very heavy protective tariff in Victoria. The two States were side by side, imaginary lines dividing them, and there were more people employed in New South Wales under free trade in the secondary industries than there were in Victoria under protection.

Dr. Sutch.] What about the two populations of the States ?—There were a less number in New South Wales when they started, but they were getting up very rapidly indeed. You will find these figures given in Lord Avebury's "Free Trade."

But my question is this: At the present time New South Wales has a much greater population that Victoria ?—Yes. It gave New South Wales such a kick that she never looked back again. She was going ahead by leaps and bounds at that time.

But if New South Wales had a bigger population, you would take for granted that she would have more workers in manufacturing industries ?—But she had not more workers at that time. She had less at that time.

The Chairman.] We will leave that in the meantime. You have made a suggestion about subsidizing the flax. What would it mean if they subsidized it £2 ? I do not think that would be anything like enough. We are only taking that as a figure. It would want much more than that, but have you any idea of the amount of flax that has been ploughed out of the ground now and put down in pasture ?—Yes. I am exceedingly sorry to hear it.

Do you not realize that to-day if we start off again, while it is true we started a new industry in New Zealand which I think will be a good industry too, that is going to consume a great deal of flax, it is doubtful whether they will have sufficient there to supply their needs, but the position we are in to-day is this, that they have got to start planting again ?—I understand there are some 90,000 acres of flax.

Yes. But as you know, a lot of it is affected and you could not possibly use it. That is the position in regard to the flax industry. I quite agree that if a subsidy had been granted for flax it should have been done long ago. That is the whole trouble. Now, when you get on to our exports you are speaking of butter, and you say there is no hope for the butter business ?—Not to come back to its old price.

We all admit that we are never going to get butter back to 2s. 6d. a pound nor 1s. 6d. probably ?—No.

But surely there is some hope of getting a better price for it than we are getting to-day ?—It might go to 1s., but it is very doubtful.

Mr. Coates says it might be like rubber and come down to 1½d. ?—It is quite as likely to come down as to go up. We have got to supply a market. The people in Great Britain are getting down costs, as I propose to do, so as to get their trade back. It is essential.

From the farming point of view, and seeing that you have set up a Dairy Control Board for New Zealand to regulate the butter business from the selling-point of view, and so forth, do not you think that there has been a lot of laxity in the matter of finding new markets for our butter ?—My opinion would not be worth a rap if I gave it, so I do not feel inclined to give one. I know that Mr. Goodfellow has spent a lot of money in the East trying to establish a market.

You know that a lot of money has been spent. But do you not think that there are markets there for the butter ?—Australia has not succeeded in selling much there.

If I told you that we were able to export from New Zealand butter to the Malay States for instance (it is warm enough, the climate quite different to this, but we are able to export it there to-day as ordinary cargo and land it in the finest possible condition) surely you must admit that there would be an opening and a reasonable opening ?—Without refrigeration ?

Without refrigeration, even ?—But in tins ?

In tins, but under the new system, of course ?—That may come of course. This vacuum process may revolutionize things, but they cannot afford to pay a very high price. You sell to the white population there, which is a very limited one, at any price. They want the butter. But you are not going to spread to the coloured population.

But the population of the whites alone. Surely there is an opening for our butter. If they can get good New Zealand fresh butter delivered to them there, the same as we have ?—Personally, I know something about other coloured countries.

Would it interest you to know that on the London market alone the ratio of profit over and above the New Zealand price of butter is 10s. per hundredweight and cheese 20s. Does that interest you ?—Do you mean the retail or what profit ?

On the New Zealand prices under the new process ?—Yes, I know that.

Do you not think, then, that there is some hope for butter, for the dairy-farmer, that one should not despair altogether ?—We might get the equivalent of the Danish price, but we will not get more than that.

If we get the Danish price, that is 100 ?—Then we have got nothing to complain of.

Assuming the exchange at 100, it is no good to the dairy-farmer ?—I am speaking of the minimum. But we do not hope to stay there all the time.

We are not going to get above 100 and some day we will have to take off the exchange ?—Supposing we get 100 for our butter against Danish, Danish butter would go up correspondingly in price.

I do not think so ?—I am sorry I do not agree with you. I think we should bring our quality up to Danish quality, and we would get the same price.

In your statement you refer to the price-level. You say that it is of little importance ?—Yes.

Surely it is quite an important factor, as far as the London market is concerned ?—I am talking about our local price-levels.

You refer to the legislation as being bad. You mentioned several things ?—From my point of view, of course. The Protectionist thinks it is fine.

Yes. The Protectionist fully approves, because it would be difficult to say that all legislation was bad would it not ?—From my point of view any legislation that interferes with the free exchange of goods is bad, and I think most economists will agree with me.

That may be so, but, on the other hand, you have got to legislate for everybody. There are all classes in the community are there not ?—But you are not legislating for the community when you injure one man by the legislation that helps another. That is class legislation.

That would be class legislation if you were doing a direct injury to one man ?—But you are.

That is questionable ?—Well, you raise my cost of production.

Would you say that there should be no mortgagors' relief ? You must be injuring another man when you give the farmer relief ?—I am not quite sure it is wise. I am very doubtful about it.

And you think it would be better to have allowed the farmer to be put off his farm ?—I think he will go off in any case. You are going to kill somebody.

You seem very despondent. We have not lost all hope yet, surely ?—Well, I have not much left. I sometimes thank God that I am seventy-four years of age, because I know that I have at least only five or six years more to see this muddle.

I think you are quite safe. I think you will see a hundred ?—Well, I sincerely hope not.

I might say to you that from our end of the Island we look upon you as a fighting warrior. I think you will go on, too ?—I will go on kicking as long as I live, but I do not expect to live forever.

You go on to say that legislation and vested interests have brought about this state of things, and suggest trades-unions being abolished. Do you not think they should have some protection ?—Yes. You cannot help that. I belong to the Farmers' Union and I am going to fight for my end of the question, and the labour unions should fight for their end of the question, but there should be no legislation giving him a right that the other fellow cannot exercise. I believe in collective bargaining. That is a different thing altogether. I am right with them there as far as collective bargaining is concerned, but they should have no legislative rights to enforce. I do not believe in the preference to unionists. They may force it on if they can, and more luck to them. They have every right to try. But you must not give it to them by legislation.

I voted for the recent legislation in connection with the Arbitration Court the Government brought down, but nevertheless, even under conciliation, the worker surely wants some protection. I want to be fair to you and I am going to say this: That up till now everything that has been done for the farmer, you say it would be better if it had not been done, so that you are quite consistent ?—I mean for everybody. I am not barracking alone for the farmer. I say you are ruining New Zealand. You destroy my buying-power and you destroy the other fellow's selling-power. I am a director of the Farmers' Trading Co. I see both sides of the question. We cannot sell because the other fellow cannot buy. We are both in the soup. I am not barracking for the farmer. I am barracking for New Zealand. I think so, at least.

You go on to say about the fixation of wages. You say here that fixing prices for commodities and services on the 1929 parity is your plan. I think you did refer to it when you were speaking a few minutes ago. That would bring wages back to where they were under the Arbitration Court. You do not object to that ?—No. Because I am giving the other fellow an equivalent. I am adjusting it. I am restoring the balance. I say definitely that 1929 was not an ideal year, but it was the nearest to an ideal year we have ever had. I do not say it was ideal, but let us start from something we know about. We have got to start somewhere.

To be consistent you say you would wipe out trade-unionism ?—No, legislation; not trade-unionism.

I understood you to say that ?—No; any aids through legislation.

I think you meant you would not give them any legal standing ?—That is what I meant.

What is the good of them, then ?—You would have collective bargaining. You have the right to strike.

What is the good of that with no legal power behind it ?—I think there is a lot of power behind it. You can stop an industry.

You say to avoid inflation you would fix the exchange at par. Do you not think a variable exchange would be better ?—No. I think it is essential that it should be fixed.

And you are absolutely against high exchange ?—Absolutely opposed to high exchange.

You say, in your opinion, it has been of benefit to the sheep-farmer, and we agree with you there, that things have altered and probably they have had a great difference, but you say that we would have been just as well without it ?—I think we should.

I am sorry I have not the figures here to show you just exactly what the exchange has meant to the dairy-farmer ?—I myself have the figures here.

I doubt very much whether you have got it up to date, the amount of money that has been distributed to the farmers through the high exchange.

Hon. Mr. Downie Stewart.] How would you propose to bring down the present high rate of exchange. Would you wipe it out in one hit ?—Yes, I would; in one act.

Do you think that would be advisable ?—I will bring you a dozen business men to support my view.

You would have no trouble in getting them ?—No, but importers. I will bring you the manager of my own firm. We import quite a lot. We have a London office.

But is not that rather brought about by the fact that there have been all sorts of rumours current for the last six months that the exchange is coming off ?—Here is my opinion. Mr. Coates or Mr. Forbes announces that you are going to reduce the exchange by 7½ per cent. or 10 per cent. every six months. Now what would we do ? At once we would say, " We will not buy. It will be down 10 per cent. in another six months. We will not buy anything." And it would be stagnation.

But that is precisely what you have been doing ?—No. We are limiting our buying as much as possible. We are getting more goods made in Auckland.

If it came right off it would make no difference ?—We are getting lawn-mowers made in Auckland.

Is not that a good idea ?—In a very short time nobody will be able to buy a lawn-mower. I will make you an up-to-date motor-car in New Zealand if you will pay for it. But there is not one of you in the room could afford to buy it. I can produce anything you like in New Zealand. You remember that French economist who proposed to grow oranges in Paris. He said, " Why not ? Look what it means to us. We should require glasshouses to grow them in. Look at the glassmaker, and the man who makes the frames to put the glass in. They would require painting. Look at the painter. We should require boilers to warm the houses. Think of the boilermaker. We should require coal to heat the boilers. Think of the coal-miner." And there was not a man in France who would not get a bite out of it. And he said, " Have I not proved to you, gentlemen, that I can do for you in Paris for 3s. 6d. what God Almighty will do for you in Lisbon for nothing."

I think we will have to take a more cheerful view of the position. You are very doleful this morning ?—I am an optimist. I say this : That if you would give me a chance I would put New Zealand on her feet in six months.

We will take a note of that, and see what can be done in that direction. Do you propose to restore the 1929 price-level ?—Yes.

For agricultural products and so on ?—For everything.

Why do you take the year 1929 for the price-level and 1913–14 for the wages-level and the interest-level ?—I do not. That is an error. That is either my own fault or a printer's error. I am sorry, but that is a mistake.

As I understand it, you propose to try and restore equilibrium by sweeping away the present Customs tariffs, putting the boot on the other leg. You are going to subsidize primary industries ?—No. I am going to fix the Customs tariffs so that the secondary industries get the full advantage they got in 1929.

You say, " I believe all these barriers should be swept away " ?—Then you are not adopting my plan. You can either adopt my plan—that is one way—or you can sweep away the barriers, which is just as good.

That is not part of the plan ?—You adopt which you like.

Dr. Sutch.] You have some barriers in your plan ?—My plan is full of barriers. I am putting more up.

Hon. Mr. Downie Stewart.] You say your plan is highly artificial ?—Yes, more artificial than ever.

In connection with the illustration you gave on the subsidy to the flax industry, that, I presume, applies to any industry that is not on its feet ?—Yes.

Is not the experience of subsidies that are at present being paid in Australia and England, that the moment you subsidize industry to make it profitable every one rushes to that industry and produces more than the market can consume ?—In 1929, if you remember, Mr. McLeod had some difficulty in getting people to go on the land and he was cursed by every one as the worst Minister of Lands that has existed. Do you remember that ?

Yes, but that is not my point. You may have noticed a statement made last week or the week before by the Minister of Agriculture in Western Australia to the effect that the Paterson plan might be disastrous ?—It was not spread over the whole community. I am helping every one. You must not help the farmer and leave the other fellow to get on as best he can. I am fixing what I think an ideal position, and I say I am going to restore the 1929 price-level.

Every one who has an industry which could not pay would be subsidized, if it was considered a legitimate industry ?—Of course, you might try and grow pineapples in New Zealand.

I am trying to find out the extent of your subsidies. You quoted the flax industry ?—I am going to restore the 1929 price-level to any industry that is economic. I am going to support it.

Whether it is primary or secondary ?—Yes. The secondary industries have got all they want through the Customs tariff. I am going to restore to them the 1929 Customs tariff, and that should be sufficient.

What I cannot follow is this : You say that the position now reached is that the farmers' purchasing-power has gone and the manufacturers' selling-power has gone ?—Yes.

Why did you say that. I have been talking to manufacturers—— ?—I do not say manufacturers, I say the distributors.

You say the producers of manufactured goods. I spoke to one yesterday and he says he cannot cope with the demand ?—You find that up in Parnell to-day.

Why do you say that they have no selling-power ?—The distributor has not.

Speaking of the manufacturer ?—I use the word " distributor."

Well, distributors flourish with manufacturers ?—No, they do not.

But it is a question of actual fact. I know many industries in New Zealand in which the profits are such that they can afford to pay the distributor a handsome commission for sales, and this man I was speaking to said his market is expanding so rapidly that he cannot cope with the orders. It is too broad a statement to say that the selling-power of the manufacturer has gone ?—I cannot remember saying " manufacturers."

This is what you say, " The producers of raw material and the farmers have lost their purchasing-power and the producers of manufactured goods have, as a consequence, lost their selling-power " ?—It should read " the distributors of manufactured goods." Again an error has crept in.

It is admitted that the secondary industries are prosperous at present ?—Yes, the exchange has helped them.

Yes, but apart from the exchange ?—I do not think so. They have another 25 per cent. protection. You take boots, they have a 65 per cent. protection to-day.

There was an industry in Dunedin last year which declared its profits on the preceding year's trade before the exchange was added and it gave a £5 bonus to the shareholders as well as a dividend ?—Can you tell me the article manufactured ?

Soap ?—In the manufacture of soap they are supplied with a 25 per cent. increase on cost.

They had no 25 per cent. when they earned those profits ; they had a duty of course ?—But they have 25 per cent. in addition now ?

Yes, they do now ?—I tell you they are making mowing-machines and lawn-mowers in Parnell and selling them against the British article.

The Chairman.] And a good thing too ?—I do not think so at more than twice the cost. You will not be able to buy a lawn-mower soon.

Hon. Mr. Downie Stewart.] You would put up the secondary industries to the 1929 level. Have they received it since 1929 except for the exchange ?—No, only on clothing.

That has come off again ?—No.

The mere fact of going back to 1929 tariffs would still leave you with a very substantial tariff from your point of view ?—Yes ; but you are going to give me a bonus to bring my selling-price of butter up to 1s. 6d.

What would be the position of all the agricultural items that are protected just now and all the primary products protected to-day ?—I look upon that as a subsidy and that should be part of their subsidy. I would do away with any protection, because you would give it in the form of a subsidy. I do not want to give it twice, through the duty and then through the subsidy.

If the duty is not sufficient, then you would give a subsidy or increase the duty ?—I would make it economic.

When you arrange for the Government to buy all the exports and realize them on the London market, then they will control the purchases so far as imports are concerned ?—All purchases. They sell all exchange, but they would have nothing to do with the buying of the goods.

Say a man wants to import gramophones, you will not let him ?—You will not sell him sterling.

That is equivalent to controlling him ?—Yes.

Do you not think that that would involve having something far beyond anything we have yet in any administrative branch of the Government ?—You might require help ; it is very simple, it seems to me.

Is it simple, considering how trade is conducted now ? In dozens of trades a whole life-study is on one item. They know the pulse of the market, they know when to import tapioca or whatever it may be. If some Government Department has to have all that intimate knowledge that is spread over such a large field, it would require an administration far beyond anything we have now ?—It is all a matter of having the necessaries of life. There would be ample sterling for them. The only question would be luxuries which might affect one or two firms, though not materially. As a matter of fact, those goods should be manufactured in New Zealand.

Certainly, but at an enormous cost ?—But since you do not really need them, if you want them you could afford to pay for them.

That restricts the individual. If I have surplus funds and want to buy something from Japan, then the Government could say, " No, you cannot do that " ?—They would not sell you sterling, but there would be other means of buying sterling, I presume.

I would still be able to buy luxuries if I could afford them ?—I think so. I think the banks would make some arrangements, but as far as the Government is concerned they would not sell the sterling.

Mr. Langstone.] What could be the other means ?—I do not know ; I am not pretending to know.

Hon. Mr. Downie Stewart.] Assuming you restore the 1929 price-level and that is far above the world's price-level, would we not be flooded with imports ?—No, how could you pay for them ?

Is that not the problem President Roosevelt is up against now ?—He is not adopting my plan.

He is trying to restore the farmers' prices ?—To my view, in a ridiculous way. You could not have a flooding of imports, because how are you going to get the money to pay for them ? Where are you going to get the sterling ?

People will buy the imported goods if they are cheaper ?—You cannot get them. How are you going to pay for them ?

You admitted that they were allowed to buy sterling ?—You could not pay for them.

Why ?—Because the Government owns all the exports, and will not sell sterling.

You said they would be allowed to buy sterling, except for luxuries ?—But the Government would exercise that discretion.

Is the Government going to say to every individual, " You are not going to buy this imported article or that imported article," because it is cheaper than the New Zealand article ?—I do not think it would have that effect at all.

Say prices rose to a price that you could not afford ?—It is impossible for them to do that.

If they rise to the 1929 level, then that is higher than the present price ?—You have fixed the tariffs, so the imports cannot come in at a lower price.

You would have to alter your tariffs every day ?—You would have a sliding scale as you have for wheat.

Then your plan is getting very complicated ?—World prices do not vary to that extent to make the tariffs alter every day.

Your idea is to fix the New Zealand prices for commodities at the 1929 level ?—Say at import value, it simplifies things.

That might be a different thing ?—They would be under no disabilities. Importers cannot compete with them if they cannot get under their level.

If tariffs are fixed and the cost of production in world prices fall and you try to maintain an artificial price-level they sweep you off your feet ?—You always sell at import value.

The local producer, if his costs of production fall, reduces his price, but you are not going to make him reduce his price ?—I am going to peg him to the 1929 level.

By improved machinery he might be able to produce more ?—No plan will provide for the future altogether; do not let us jump that hurdle until we come to it.

When this costless credit is issued to enable these subsidies to be paid, you say that inflation would be avoided because the exchange would be kept at par. How does that work ?—I do not say that. I say there could not be too much money, because you do not issue this currency until the goods are in the store.

How long do you keep the money in existence ?—You destroy it as soon as you buy sterling.

Supposing you do not buy sterling ?—Then you will have to spread it locally.

Should you not try to do two separate things: make New Zealand a self-contained community—— ?—I dread the idea of a self-contained community.

You are trying to fix local conditions apart from world conditions ?—Yes.

Then you must do it effectively. I do not see how you are going to do it if you are still going to allow imports to pour in ?—They cannot. You think they are going to rise above the 1929 value; they are going to fall.

Internal prices have also to fall ?—I am going to give the local manufacturer the 1929 parity.

Then you are going to have a higher tariff than at present ?—If it is necessary. I say, raise the tariff so that he gets the 1929 parity.

To whatever height it is necessary to raise it ?—Yes. You would fix the absolute limit and it could rise up and down without injury to anybody.

Who is going to let you do it ?—Legislation.

Do you think the politicians in the House, knowing that they are going to cut incomes——?—They are not going to do that. You presuppose that prices overseas have fallen.

You started off by saying that they will reduce the cost overseas if they reduce the cost here ?—To every one, not one.

Then you are going away from the 1929 level ?—The price-level does not matter a bit once you fix the limit.

You would not allow any internal variation ?—That is it. I fix my internal exchange values.

Assuming you fix them and you are on this level, and a new discovery is made with which you can produce the goods at half the cost, has that price not to drop for one item internally ?—I suppose there would be some adjustment there, but I would meet that difficulty when it arrived.

Then you would have dozens of things to adjust; I am only suggesting a few ?—I do not think there will be any complications. Anyhow, I would adjust prices in New Zealand on a par level, so that each man got a profit on his work and service, and I would not be arbitrary about it. If conditions altered you would have to alter the plan.

How many Civil servants would we need to have to regulate the thing ?—I do not think there is any difficulty there at all.

Look how long the Tariff Board took to inquire into those protected industries ?—That is a smoke-screen. You do not imagine it means anything.

I do not know that ?—You must know. They have had numerous inquiries within the last ten years.

The prices alter every year, and if you are going to go back ten years to alter your tariff—— ?—I do not think conditions have altered to that extent.

The only way you have of getting rid of this paper money is by buying sterling ?—Yes.

And assuming that the importers are restricting the imports, what happens to the money then ?—You will not have enough; you need not worry about that. You must remember you have to pay £10,000,000 in London before you begin to accumulate sterling at all. Our exports are £40,000,000 and you only have £30,000,000 left and we have been importing at the rate of £50,000,000.

Not lately ?—No, because there are 75,000 unemployed workers who cannot buy anything. I do not think we can raise the present position.

How is this costless credit issued ?—Now, you have an idea of the thing; you have your central bank and that is the controlling authority. It is not allowed to issue the money until the produce is there.

Supposing some one says, I cannot carry on unless I get a subsidy; what does he do ?—That has nothing to do with the bank.

How does he get his subsidy ?—He sells his flax.

How does he get his subsidy ?—From the sale of the flax to the Government.

Who pays it ?—The Government.

What if a man says he cannot carry on without a subsidy and his neighbour says he can carry on at a profit, and they are both carrying on the same work ?—You would not give it to him. You would have a survey of the industry; you would take an average for the industry.

Do you not think that the fixation of the average involves enormous complications, because each individual producer has his own methods of production. That is one of the troubles in the

boot industry. One man has a number of chain stores and he can sell at a profit and perhaps another man cannot, because he has not the chain stores ?—The fact that you make a profit does not alter the cost of production.

One is selling at a profit and the other is not ?—But that does not affect the cost of production.

You are not fixing the average on cost of production ?—I am.

You are fixing it on whether he makes a profit ?—You must fix it so that the production costs are covered, leaving him a profit.

Every individual man makes his costs vary ?—I am taking the average.

If you take an average some who do not need the subsidy will get it and others who do need it will not get enough ?—That is the same nowadays in connection with the production of butterfat. You know that there are not two farmers in New Zealand producing at the same price.

You help the weak and strong at the same time ?—You are bound to strike an average.

You say that everything that interferes with trade is bad. Does that not involve taking away the Customs tariffs ?—I have given a choice of two evils. One is to adopt my plan; the other is to do away with Customs tariffs. You have to adopt one plan or the other. I do not care which you adopt, but do not mix the two plans. As far as I am concerned I think they are equally efficient.

You consider that there is no difficulty in changing our present system so that every industry in New Zealand is guarded and watched, so that some one somewhere knows all about every industry and says what subsidy it is entitled to or otherwise ?—If you want to make a point you can say that would be a difficulty. I do not see any difficulty in that myself.

That is what makes the plan so simple—you do not see the difficulties.

Mr. Langstone.] In regard to the question of fixing the exchanges, we can only have the amount of credit in London that we send goods for, and they are being sold at that price ?—Absolutely, that is the limit.

Is it not possible for that to be increased ?—I do not know how.

Let us put it this way: We will assume that a Japanese merchant wants to buy wool in New Zealand and he sends goods to London, £10,000 worth of goods. As soon as he sells goods in London he has £10,000 exchange in London. He sells that to a New Zealand bank operating in London because he wants to buy wool in New Zealand. The mere fact of his selling that exchange, that Japanese exchange, on London to the Bank of New Zealand in London would increase our holding of exchanges ?—The banks have nothing to do with the exchange—that is in the hands of the Government.

The mere fact of it being the Government or any one else does not alter the position ?—I think it does.

Then what happens ? Owing to an exchange-rate of 25 per cent. a country can trade through London to get the benefit of the 25 per cent. and that would cause an increase of our sterling held in London. That is the natural tendency of it ?—It is not our sterling; it is their sterling.

But we bought it off them ?—How ?

Through the banks. He sold his exchange in London. He sold it to a New Zealand bank. All the New Zealand bank necessarily does is to transfer a cross-entry in New Zealand ?—But under my scheme the banks cannot sell it.

I am talking of the present-day scheme; I am asking is there another way ?—At present you could put that across; under my scheme you could not do it.

You think it goes on at the present time ?—Yes; there is a tremendous amount of traffic at the present time. I know people making quite a good living out of it.

London is 25 per cent. under New Zealand; wool at 1s. a pound. The purchaser would only pay 6d., 3d. would be contributed by some one in London and some one in New Zealand ?—I am not pretending to give opinions; I do not really know sufficient about it.

In the fixing of your exchange, you will do it by law ?—Oh, yes. It is absolutely tied up.

That is different to an organization of workers to get a standard of living or anything like that ?—I am doing it in the interests of the people.

If the workers are in the majority ?—I am putting it in the hands of the majority of the people.

But if the workers are in the majority ?—If they get power they will control exchange.

If it is logical to use the law in one instance, it would be logical to follow it right through ?—You are legislating in one case for a class, and in the other I presume you are legislating for the whole of the people—it is a different thing.

Let us follow how your exchange would work. First of all, I think it is a fact that the internal price-level in any country is always different from what they call world parity ?—Oh, yes.

We see in the paper where butter in London is 65s. a hundredweight and 163s. in Paris ?—There is no such thing as a world price-level; that is ridiculous.

Seeing that the internal standards of a country are different from the country with which they are trading, they are compelled, if they are intelligent, to adjust things accordingly ?—Yes. Sir Basil Blackett says that; he is a bigger authority than I am, though I invented it first.

You will say that the State buys £100 worth of butter from a farmer; it is going overseas; it is sold in London for £50. They have only £50 worth of sterling with which they buy £50 worth of goods to come back to New Zealand. By what method are you going to make that £50 into £100 ?—I am not going to try it.

You are still going to sell it for £50 ?—It is paid for by issuing credit. It is spread over the whole of the people through this costless subsidy. If there is not that in it, there is nothing in it.

You create £100 here and you pay it to a particular producer ?—Yes.

You tax all the rest of the people to give that to him ?—I do not think that is a fair way of putting it.

You are going to give him the right to purchase £100 worth of goods in New Zealand ?—Yes, that is right.

When those goods go to London, and they only fetch £50, and those goods come back to New Zealand, they are sold for £50. That exporter is able to buy twice as much goods with the money that he gave than the money he received ?—You are barking up the wrong tree. He has only got his own back. You have robbed him of £50 through the Customs and you give it him back again. This is the whole point of the argument; if you let me buy in the markets in which I sell, I do not want any help from you. But you robbed me of £50. I am talking about what I know. If I want to buy a suit of clothes, it costs, say, £1 10s. in London. Before the man who imports it and gets 10 per cent. profit only, he has got to charge me £3 2s. 6d. I paid 2 lb. of butter for goods which I could have got for 1 lb. if allowed to buy in the market in which I sold.

The bulk of that £3 2s., with the exception of the payment of the service in shipping, is New Zealand money, and is paid by the people of New Zealand ?—Unfortunately, I sell in London and get a credit from London.

For your credit in London, you have got double in New Zealand ?—Under the present system ?

No, under your system ?—That is what I am doing it for.

If you say £100 in New Zealand is going to remain £100, constant and unvariable, and that if we buy goods overseas and when those goods come into New Zealand, they, too, have got to be adjusted to our price-level, that is all right ?—Suppose you are a working-man and your wages were £4 10s. a week before the slump. You are getting £2 5s. now. I am going to give you £4 10s. again, and I am going to give the farmer the same.

There is one point there: a worker has only got his labour power to sell ?—I have got the same.

He cannot increase the value of his production the same as you as a farmer can; you may double your production, but because you double your production as a farmer, you do not work any harder, are no more useful as a citizen, but owing to various factors and better cows you double your production, and because you double your production, double your income, but the worker cannot double his income ?—It is presumable he will not be a worker all his life. If he works for a certain time he can buy a farm; he might start an establishment of his own. If he is a carpenter, he may start as a master-builder.

I think we have got to take New Zealand as we find it; there are no very revolutionary changes ?—Do you not think it would be a good thing if the worker got his whole wages restored ?

I stand for the stabilization of prices; not quite in the manner in which you would. You reckon that fixing the exchange on something like the Egyptian system will do it ?—Yes, at par. There is no mystery about it; they adjust their price-level internally and fix exchange at par.

That is automatic under the scheme, is it not ?—Oh, no; you have got to fix it. Before we had pegged exchange we had a 10 per cent. premium.

If you fix your internal price-level, you sell overseas for what it will fetch and you can only buy there after you have paid off your expenses. The thing is self-adjusting. It must be by sterling; it cannot be anywhere else ?—It is at sterling, but you will find you have considerable trouble in getting that out to New Zealand. If you leave it to the banks they say there is a scarcity of sterling; there will be; there must be.

Suppose that they continued to do business with us; I do not think they would, but assume they did. You would then have to reduce our overseas indebtedness. We would have the money in New Zealand to circulate, being a demand for goods in New Zealand, a greater activity; therefore in the last analysis you have such goods and commodities in New Zealand, made and manufactured here, as if prices had remained high overseas. Would not that be the actual result of it ? If you get no increase and the people, because of the increased income here, spend it and you made more things here by the extra money you create they would fix your price-level ?—If you have got no imports, you must have no exports.

I mentioned that to you ?—You must know, if you are a self-contained country, it will adjust itself.

That will hapen ?—Yes. If, as Mr. Bernard Shaw says, you wear your own wool and eat your own butter, you will be alright.

Coming to the farmer: suppose you do not believe in protection: we are affected by what other countries do, are we not, under present conditions ?—Yes.

Supposing the London market is shut against Australia; they say we will send butter to New Zealand, and because of our bounty they can double it, they can make up the difference and they can sell butter in New Zealand at a price that would not pay any dairy-farmer in New Zealand. If a position like that arose, would you say it is correct ?—I am dealing with my plan. Under my plan it is impossible. Australia could not send us butter; how would she get paid ?

Any country will get paid only by taking goods back again ?—Even then she could not, because under my plan the Government control exchange.

Of course we have not got your plan yet ?—But I am here to give evidence on my plan.

There is a possibility of that happening to-day and New Zealand as a country could not allow herself to idly sit by and not meet a position like that if it arose ?—Surely you know that in every country in the world they have dumping laws.

You could take England and highly protected countries like America; there is little difference between them; they all have an unemployed problem, all have profiteering; if you were to take away protection and free trade, you would not be able to tell one from the other ?—I do not agree with you.

Take a highly protected country like America, and a free trade country like England ?—She had free trade amongst 120,000,000 people, and until she got to such a point, it was ideal.

You could take other countries ?—As soon as she got to that point she could not export a lower class of commodities.

You take free trade between England and Australia, and the standard of living in Australia is ever so much better than in England ?—Not due to the condition of trade.

No, of course not. I quite agree with you that any impediments that are put in the way of trade, but there may be circumstances arising where it is policy for a country to protect itself the same as others ?—There may be ; I do not like to admit a thing until it is there. There must be obstacles, I suppose ; all sorts of things will happen.

You spoke about lawn-mowers. I suppose you are aware that many of the imports that come here from Britain are re-exports ; they have been imports into that country and are re-exported here ?—There are laws governing that. There has to be a certain percentage of British labour put into it.

There are many cases where Britain has got preferential treatment with the tariff, that she imports considerably more goods of that class—it may be lawn-mowers—there are more lawn-mowers imported into England than England manufactures or exports ?—Oh, no.

Yes ?—It may have been a short time ago ; it is not so now.

We can befog ourselves unless we talk of all the features ?—England has knocked out the world.

No, America ?—No, England.

Do you mow your own lawn ?—Yes, with a British machine.

Does it cut your grass well ?—Very well, indeed.

Mr. J. N. Massey.] I was interested in one remark of yours ; you said you would not advance against butter until it was made ?—Yes.

What is costless credit ?—We have never had a real practical experience of costless credit, but it is paper money.

And it would not assist in production ?—It is just as good as any other money. It is legal tender ; it represents value ; it will pay anything ; it will buy anything in your own country ; it is just as good as gold.

Would you only advance against the finished article ?—That is all. The value is there before it is advanced.

You would not assist the producer in any way ?—No ; I am only issuing against production.

In connection with subsidies, in your opening remarks you spoke of subsidizing the flax industry ?—It is only a suggestion. I only suggested that possible means of re-establishing an industry. I am not too keen on it, but I think it is a great possibility. Flax has as much right as butter ; I am going to restore their profit.

I agree, but I wish to come to this point : On one side you say advance against a finished article ?—Flax fibre is a finished article as far as New Zealand is concerned.

Why confine it to flax fibre ?—There was a new industry established in Wellington Province. If they can produce on anything like economic rates, I would say subsidize that.

You would assist in establishing industries ?—Yes ; if they are reasonably economic.

In connection with farm products, the Government are at the moment paying a small subsidy on the export of onions ; do you agree with that principle ?—I prefer a subsidy to any other form of payment.

Or guaranteed prices ?—Yes. Of course, I am inclined to think when you begin a scheme it should go all round. I do not like picking and choosing, otherwise that is quite sound.

Just the general principle ; the difference between, say, the subsidy on onions and the guaranteed price of fruit ?—I do not see why we should not. We are selling fruit below the cost of production, and I do not see why we should not make an economic industry by a subsidy of this kind.

You made a point that you would restore contracts and get back on the 1929 price-level ?—Yes.

How would you restore contracts ? I presume you would have to find tremendous sums of money in order to bring the butter industry up to the price that we receive ?—I am going to pay 18d. a pound now. If you did not pay out the full amount, you could not do it.

I am wondering where all the money is coming from ?—It is coming from the printing-press.

At the moment, butter is actually worth approximately 8d. per pound ?—Yes.

You mentioned 18d. What would that mean ?—It does not matter what it means—that is immaterial. It does not cost the Government anything.

I am wondering whether it does not ?—If you can show that it is going to cost anything, I crawl out.

I am asking you ?—I say definitely it does not cost anything, except a very slight depreciation throughout the whole community in the cost of living.

I am wondering about butter—butter at 8d. and butter at 18d. How many millions does that amount to ?—It is not material to the issue. According to my scheme, that is immaterial. I must restore equilibrium otherwise the whole thing fails.

You would restore the value of markets ?—Oh, yes.

You are a dairy-farmer. I am very much interested in this point : First, a dairy-farmer as a rule has a mortgage and you would restore that to 1929 levels. The dairy-farmer has paid a certain sum of money in order to get in, therefore he has an equity ?—Yes, that would be restored. It is automatic. If he gets his money it is automatic.

Then, the dairy-farmer, as a rule, either has to employ outsiders or else he has a family and they do the work ; you would bring their wages up to the 1929 level ; you would restore the market to the 1929 level and the equity to the 1929 level ?—That is automatic.

And the wages to the 1929 level ?—Yes.

I just want you to work it out and tell me how you can do it ?—There is no difficulty at all if he gets 18d. a pound.

And where is the money coming from ?—The printing-press.

But who is going to repay it ?—It is no use out of the country and is used to buy sterling and destroys itself.

What would be the value of it if you put it into circulation ?—It would be worth 20s. in the pound.

For how long ?—For ever. As long as the system lasts.

You have said it is necessary to have some authority in order to control currency and control exchange. I am not going into the question of what overseas countries are doing ; Great Britain endeavoured to control the currency and established a Board ?—She was dealing with world conditions, which was a very different proposition. We cannot control anything outside our own country. Do not think I am so silly as to think we can control anything outside our own country ; but we can control our price-level.

I think you will agree with the principles of the Reserve Bank Act ?—It would be useful to administer my plan.

You agree that the authorities who will control the central bank will be able to administer your scheme ?—Yes ; if we had not a central bank you would have to set up a Committee.

We have the first step ?—Yes.

Captain Rushworth.] Your plan is based on what Egypt has been doing for many years ?—As far as the exchange is concerned. To a limited extent they may be ; I am not quite sure. I am not really conversant. I know that they do regulate their price-level.

They have adopted cotton as the base and so established an internal price-level which was independent of gold or sterling, and then they arranged for the sterling balance in London to be held on Government account, and the importer in Egypt has to deal with the Government in order to obtain his exchange ?—Exactly ; that is the position as I understand it.

Talking of the possibilities of subsidizing exports, do you know what is happening in Japan ?—I am not conversant with it. I know generally that they are doing this, and they are capturing world markets by doing it.

That is in actual practice ?—Yes.

Your plan is not entirely theory ; it is adopting something adopted in other countries ?—Probably going a little further.

A suggestion has been made about the Eastern markets. Is not one of the difficulties connected with the Eastern markets the fact that we can only sell to people who are possessed of either sterling or gold ?—That is so. We cannot sell for a yen, for instance.

No. The reason is we must sell for sterling or gold, because we have commitments in London to meet ?—That is so.

So that the limit of our possibilities of trade in the Eastern market seems to be only those people who are possessed of sterling or gold ?—Unless we go for barter.

For instance, we could trade with Japan if we would send them a cargo of butter and take back a cargo of some Japanese goods ?—Yes. We did to a certain extent last year. For instance, we sold them £60,000 of wool and we took back rubber shoes, and there was a row about it because they overpaid us.

It is a horrible crime, is it not ?—Yes. They gave us too much. They gave us two pairs of boots instead of one.

Mr. Schramm.] They were not much good were they ?—Yes. They were jolly good shoes.

Captain Rushworth.] That raises another interesting point. My impression was that Japanese goods were decidedly inferior to the goods of other countries, but particularly to British goods. But my attention has been directed recently to some Japanese goods. I must confess that I find them of much superior quality than I had anticipated. Is that your experience ?—Yes. No doubt about it. They are improving very rapidly, and they are now sending goods which will compete for quality with a lot of imported goods.

The Hon. Mr. Downie Stewart pointed to the complications that might or would arise through adopting some such course as you suggest. Are we free from complications and anomalies now ?—No. It would not make a bit of difference. There would be no more than there are now. I think that is just a bogy.

If there were some anomalies, presumably they could be corrected as time went on. Your suggestion really is that we should feel our way ?—That is it. I would jump the hurdles as I came to them, not before.

Mr. Langstone.] You might knock a few of them over ?—Yes. I might.

Captain Rushworth.] The question of the price that is to be paid in New Zealand for butter or wool or wheat or cheese or whatever it might be, you would apply that to any exportable products, would you ?—Yes. That idea, I take it, is to enable New Zealand to get out of debt in the quickest possible time. It is the only way she can get out.

Is there any essential difference in principle between establishing a guaranteed price for butter and establishing a guaranteed price for apples ?—I do not think there is any difference.

But the New Zealand Government has been for many years guaranteeing 1d. a pound for apples ?—When it is a small thing they think it is all right. When it is a big thing it is very wrong.

But in principle it is the same ?—Yes. Exactly the same.

So that you are not suggesting anything that is unfamiliar to the present Government ?—No. They have been doing it for many years.

Mr. Schramm.] And we can fix the price of milk, too, can we not ?—Yes. But do not get me on that. I am not very *au fait* with it.

It is just a question of not being able to fix prices. That is simply a bogy that is put up for the purpose of misleading people. There is one thing I do not like about you. You were not going to give any legal status to the trades-unions, were you ?—No. None at all.

Why ?—I think it is giving them an unfair advantage over the rest of the people. As a farmer I cannot avail myself of any of these things. It is giving them a bargaining-power that I do not possess.

But you wanted to give them a bargaining-power did you not ?—A collective bargaining-power on their own base. I am a unionist and I believe in unionism, but I do not think he ought to have any legislative rights. He should have the rights he possesses as an ordinary citizen to protect his own interests.

But you said you would go back to the 1929 level of wages. That was the level of wages under the Arbitration Court when the unions had a legal status ?—Yes.

How could you reconcile your view then, when you go back to the 1929 level of wages and the unions were functioning under the Arbitration Court. How can you reconcile that as your opinion that the unions should have no legal status ?—Well, I want it to stay put. Now, what would happen if I gave you full powers such as you had. I have just got everything nicely level and you immediately go to the Arbitration Court and say, "The cost of living has gone up. No doubt about it." Yet it is open to argument. If the Judge is a nice soft-hearted gentleman and says, "Oh, well, I do not think it has, but still 2½ per cent. will put it right," you would upset the balance at once.

Did you support the Arbitration Court ?—Yes.

Well, are you not inconsistent ?—No. You see I am restoring equilibrium and I do not want you to upset it again, but there was no equilibrium then. You artificially raised your cost of living, and I said you had a perfect right to have a Court in which, as you gradually raised your cost of living, you could go and get it arrested, but I am going to stabilize your cost of living, and you have no right to upset the equilibrium. If I give the right to one person to upset it, I must give the right to every one else.

You would stabilize wages, too ?—Yes. That is the essence of the contract.

By law ?—Yes, by law.

Guaranteed wages too ?—Yes. They are guaranteed. I do not think it would be necessary to guarantee them.

One would be fixed by law by the Court, and one would be fixed by law by a special stabilizing law ?—I would not allow fluctuations in butter. Butter would be permanently fixed at that price for ever. I do not say that you would not be able to alter your price-level by general consent of the people, because it would not matter whether you did or not. Supposing I said to the working-man, "You are getting £4 10s. a week. That is your established wage." I would say, "Do you not think it is rather silly, like the old plan when we used to exchange properties and we both put a 50 per cent. extra price on, so that we could fatten the land-agents and the lawyers and a few other people. Do you not think it is rather silly ? That is what we did, and in essence you might be doing that under this price-level. Why not drop the whole thing 20 per cent. We are all exactly the same. You get 20 per cent. less wages, but you will get 20 per cent. more buying-power and you will be just where you were, and it will bring us nearer to world's parity and save a lot of this artificial subsidizing. The farmer would come down 20 per cent. in his prices. You would come down 20 per cent. in your prices." I mean it should be adjusted fairly and squarely.

You are trying to save the present system, are you ?—No. It is an absurd thing to think we are going to get machinery that is going to produce stuff at half the price. Alter your level to meet that and you would still get the volume of goods. All you are concerned about in selling your labour is to get certain commodities and certain services. You want a house over your head, you want clothing and food to eat, and you want a school for your children, and so on. So long as you get those things what does it matter what price you pay for them, so long as you get them for your services. There is no catch in it. I would wipe it out if you say all this is dangerous.

Do you think this Reserve Bank would help you ?—You are asking me a conundrum. If I were in charge I would make it do the job. I would say it would be a most useful office position, the very thing I want.

You would have the control ?—It would have to do what I told it.

Not as a private corporation ?—No.

Mr. Clinkard.] Captain Rushworth asked you a question to the effect that we can only sell to those who have sterling or gold. Do you agree with that ?—Yes.

Are we doing any business with France or Belgium or Germany ?—Yes. I believe we do. We do not do very much directly, but we do a good deal indirectly.

Is there anything to debar us from doing business with them ?—Under my scheme do you mean, or now ?

Now ?—No. Nothing to prevent us if we can get the money to pay them.

If we are selling to them they would pay us in their currency, which would be converted into sterling ?—No. Supposing I was a French gentleman and I sent you some francs. What would you do with them ?

Convert them ?—Yes. If you can convert them it is all right.

You can convert them here ?—Yes. I daresay you can.

If I have a credit on Paris I can get that converted into sterling ?—If you can transfer it to sterling it is good to you, but supposing you could not, it would be no good.

Would it not affect purchases in France ?—Yes.

Well, why do you say it is no good ?—It is no good to you here. You want payment here, do you not ?

Not necessarily ?—What did I understand you to say ?

Our business is to sell goods in order to buy goods. Is there anything to prevent any one in New Zealand selling to France and buying from France ?—That is barter.

Measured by what ?—Measured by the different values of the currency.

Measured by money of account ?—Yes.

You gave Captain Rushworth credit for being the author of your scheme. Is he still definitely associated with it ?—No. Cut that out. I have nothing to do with that.

Well, you gave us that at the commencement ?—Well, it does not matter where I got my ideas. I was in this unfortunate position, I was coming along with this scheme which I did not invent and a lot of my friends know it is not my scheme, and if I did not say that I got the idea from my friend, Captain Rushworth, they would say, "Well, of all the cheek I ever heard of! That chap went along and put up Rushworth's scheme and called it the 'Colbeck Plan.'"

That is quite all right. That is all I wanted to know ?—I was not going to try and jump his claim.

You have told us that the money is to come from the printing-press. Is there any arrangement for redemption ?—No. There is an arrangement for destruction, for taking it out of existence.

But if you take it out is not that depreciation ?—But you have got value for it. You have exchanged it for sterling.

Well, that is only disposing of it ?—That is about the only use it is, and to buy locally.

But would you not keep the same amount. Once having put a note into issue here in New Zealand, would you keep that note continuously ?—No. Since you buy sterling with it you destroy the whole note-issue.

I do not follow your reasoning. You may do figuratively, but in actual practice do you provide for it ?—Yes. You have exchanged it for sterling and consequently it ceases to exist as New Zealand money.

And it is burnt ?—Yes, burnt.

To what extent is your scheme, I mean the issue of money with the printing-press, different from the scheme that was inaugurated in France when, in order to avoid taxation, they added 25 per cent. in the first year to their currency. What is the material difference ?—Was there any value for them ?

They put it into circulation to take the place of taxation ?—But I am issuing mine against production. Surely you grasped that fact ?

Well, there may be a distinction, but I cannot see much difference ?—I cannot help that.

You say that our currency would be no use outside the country ?—No good at all.

Your money of account, internal currency, the money in which you keep the accounts of the country, that would be placed on your internal parity ?—Yes. That would be the New Zealand pound.

Would that not fluctuate according as you increased the amount of your currency ?—No. I do not think so, because you do not increase the amount of your currency unless you increase the amount of your production.

But no matter what the reason for the increase, is your answer not at variance with experience ?—No. I do not think it has ever been tried.

Yes. It has been tried ?—As a matter of fact, the issue of money is automatically against production. Now, I produce a ton of butter. I go to the bank and they give me credit against that butter. Automatically I bring in a credit for that butter, and it is a just credit because it is against production, and I am doing exactly the same thing under this scheme of mine.

But in that case they issue a credit without the creation of fresh money. The way you do, you issue an additional number of notes ?—Yes.

That is entirely different ?—When you wipe out the debt you pay it off, and you wipe it out.

No. You are only wiping out the figures of account ?—But they do not issue notes.

What do you propose to do, then ?—Supposing these notes were not used to buy sterling, what would you do with them ?

That is not answering my question ?—Then you would get inflation.

I am satisfied you will get inflation all right ?—I do not see how you can.

According to your proposal, is the Government to be the sole purchaser of exportable goods ?—Absolutely.

And also the sole importer ?—No. They have nothing to do with imports.

I understood you to say this morning that if some one came to you and said he wanted to buy gramophones or wireless, that you would say, "Nothing doing" ?—Yes. They will not sell you sterling for that purpose.

So the Government or the bureau would have to determine the particular goods which the people of New Zealand were to consume ?—They did that quite recently in Australia. It is nothing new.

I want to know just where we are going to be ?—It is quite clear that when we had paid our debts in London there would not be sufficient sterling to buy all we wanted. That is quite clear. Now, if you allowed people to buy gramophones and wireless sets and all those sort of things there would not be enough left to buy the necessaries.

What I want to get is to come down to just exactly where we would be. People have all sorts of varied tastes, and with the advance of civilization all sorts of fresh things are developing all the time. Now this bureau would determine whether or not the people of New Zealand would enjoy those new productions or otherwise; they would be the sole arbiter; individual tastes would have nothing to do with it ?—Absolutely. But their opinion would be governed entirely by the fact of whether they had money to buy these things or not.

I was very interested in the information you were giving me as to the intention—namely, that the State would be the sole purchasers and the controllers of imports, and I have been thinking how difficult that would be for whoever was entrusted with the job to determine whether they were to allow the importation of, say, the latest creations in millinery, and fur coats and silks from Japan and so on. But you would take that on ?—I do not think there would be any difficulty. They would assess the Dominion's necessary requisites first, and later, if they found they had sterling to spare, of course they would be anxious to sell all the sterling, and they would be very glad to sell it to any of these people if they had it to spare.

I was going to ask you how you would arrange this matter. Say that a merchant has imported goods which he has had to purchase with sterling. Now in disposing of those goods he would fix his prices on his replacement cost, would he not ?—Yes.

In other words, he would fix his prices on a sterling basis ?—On an import parity, yes.

Now, as he had to sell in Dominion currency, there would have to be a direct exchange relationship between the two currencies, in order that he might be able to turn his receipts into sterling for its replacement ?—There would be no complication in that way at all. Not as much as there is to-day. I suppose you have seen costing sheets made up frequently ?

Oh, yes ?—Well, you have a printed form in which you put down all your costs, but now we have, of course, to add exchange.

That was not the point I wanted to get at. At the present time we have a direct relationship between sterling and New Zealand 25 per cent. off. We know exactly where we are ?—Well, you would have a more direct relationship because it would be at par.

Quite so. But if your New Zealand currency is to be converted into sterling, are you not practically basing your internal currency on sterling ?—You do. You buy sterling at par for imports. There is no difference between sterling and local currency.

But that is not my point. My point is that we will say you have bought £100 worth of sterling goods. You bring them here and you sell them for £150 New Zealand. Under your proposals what will be the amount of the New Zealand currency that the merchant will have to give in order to get another £100 for replacement of his goods at the other end. How are you going to adjust that ?—There is no difficulty at all. For each pound New Zealand he gets a pound sterling.

Oh, he will ?—Yes. It is at par.

In that case you are going to make your currency exchangeable into sterling at par ?—Yes. That is the essence of the scheme.

That is refreshing, and yet you are going to pay 1929 prices for exports, which will mean practically £20,000,000 more, roughly speaking, than the amount which they will realize at the other end, and you are going to allow that payment to be converted into sterling ?—No.

Well, that is what you said ?—As far as sterling will go.

Well, it is first come, first served ?—No. You asked about ladies' millinery and so on. That is exactly what it is not. It is, first, urgent requirements first served. For instance, you would buy all the material for your necessary manufactures first. You would buy all your wire for farmers, all your foodstuffs that are essential, sugar, tea, and so on. They would have a call before any fancy goods.

Well, we know where we are, anyway. It is to be convertible into sterling at par ?—That is the essence of the contract.

Would you agree that the 25 per cent. additional exchange increases the current credits available for the purchase of goods and services in New Zealand ?—Undoubtedly.

That has been disputed ?—It increases the amount of money, but it does not increase the purchasing-power. They are two distinct subjects.

It increased the current credits available for the purchase of goods ?—It did not increase purchasing-power for goods. It increased the farmer's ability to pay taxation, because a pound was quite effective in paying taxation just as it was before, and so as regards rates and for interest. Because you depreciated the pound the farmer could command more for his interest, but the minute you went to buy commodities, whether they were imported or local manufacture, you paid 25 per cent. more for them plus profit.

For instance, if the exporters collectively were entitled to £30,000,000 for their exports, they were paid out in New Zealand, £37,500,000 in credits. That would mean that they were £7,500,000 better off in credits than they would have been had they simply remitted to them at par ?—Well, in currency, yes.

It is in credits really, because, after all, the bulk of our business is done with credits ?—I would like to confine ourselves to currency just to make it clear.

I wanted to get your view on that. Now here is another difficulty that I see. There is a change going on all the time in the requirements, the demand for commodities, which is more or less adjusted by the rise and fall in prices according to competition and so on, and which induces the increase of one commodity or decrease in the supply of another commodity, to adjust itself. You would agree with that ?—You mean there is a variation in demand for different commodities ?

Yes. Now, the idea of a subsidy, we have taken flax more as a figure than anything else, but we will just suppose, for the sake of argument, that in 1929 flax was worth £20 a ton. I think it was somewhere round about that. Now, if the requirements for flax in the markets of the world had almost disappeared, we will say, owing to the competition of other commodities, or the change in habits and customs and so on, would you still continue to pay the subsidy ?—You have given me the most difficult problem to solve that I could have.

Well, we shall meet these problems. That is why ?—You might say, suppose flax became worth nothing, would you still pay £22 a ton.

That is rather an extreme ?—Well, I must get an extreme to make my point. I should say, no. Generally speaking, I would restore equilibrium, but I would not make an absurdity of it.

Well, supposing flax went down from £20 to £10 ?—I think I should pay a sufficient sum, because it will probably come back again. It is only a temporary thing, and if you do not you would have industry starting to-day and stopping to-morrow. You would have no finality at all.

That would apply more to temporary fluctuations ?—It really would not hurt New Zealand, because, after all said and done, suppose it went down to £10 a ton you would get so much more overseas.

Yes. What I want to get at is: Would you establish a limit, and what would be the limit ?—I would rather jump that hurdle when I come to it.

But when we are building up a scheme we have to imagine the hurdles before we come to them ?—You can reduce anything to an absurdity, but I would go to great lengths to maintain an industry, but there must be a limit.

To what cause do you attribute the fall in our prices for our products overseas ?—There are a great many causes. You see there is no resistance in the fall of our products. They are put on the markets and they are sold ; there is a tremendous resistance in the fall of wages. You have trade-unionism and general opinion against you. You have interest, and the financial institutions do not want interest to fall and they can keep it up, but the producers of raw material have nobody at all to keep prices up, and they naturally try to assume a level which is warranted by world conditions.

Of course, the wasting commodity is always at a disadvantage against the commodity which does not waste ?—Yes, but even if you can store it you could not hold it indefinitely. Besides there might be an oversupply according to the buying-power of the people.

It has been contended that the fall in our prices overseas is owing to the decreased purchasing power of the working-classes ?—Undoubtedly.

That is so ?—Undoubtedly.

And another statement you made was that there was very little difference in wholesale prices in the markets of the world ?—They are 0·5 per cent. lower than 1913–14.

I have here a book which I have only recently acquired. Would you be surprised to know that it is established that from 1925 to 1930 wages fell by 1·8 per cent., retail prices fell by 11 per cent., and wholesale prices fell by 30 per cent. ?—Yes, I know those figures.

Does that not destroy your assertion that the fall in wages was the cause of the lack of purchasing-power, and, further, does it not contradict the statement you made that the fall in wholesale world prices was small ?—You are making me make a very lengthy statement. I do not say it was the fall in wages altogether, but there are several millions of unemployed ; you must remember that.

If you take the unemployed ?—You are taking the wages paid ; I am taking the aggregate wage. New Zealand has not reduced her wages materially, but if you add the unemployed into the wage list and put them in as nothing, then the drop in wages is astounding.

Then when you say that it is largely owing to the fall in wages, you do not really mean wages, you mean increased unemployment ?—I mean the purchasing-power of the working-class.

If wages do not fall, how can it be said that the growth of unemployment is owing to the fall in wages ?—No, the fall in wages would reduce unemployment, generally speaking.

That is your opinion ?—Generally speaking, it would, because you cut them down until you can afford to employ them. You sack a man because you cannot pay his wages, but if he will take less you can probably employ him ; that is common-sense.

That is quite all right. I just wanted to clear up those two points—viz., that wages in the Old Country have not materially fallen, but that wholesale prices have tremendously declined ?—There is tremendous resistance in the fall in wages.

Mr. Murdoch.] You made reference to certain industries like the kauri-gum industry and other industries of that sort, and you suggest that subsidies might be applied. What would the limit of your subsidy be ?—Mr. Clinkard tried to put that to me and I admit it is a poser. I would hardly like to say. Flax may fall materially one day, almost to an absurdity, but as regards my subsidy I am going to suppose that it is only a temporary fall and I would pay an absurd subsidy to keep them going, on the assumption that the price would rise again.

What I am trying to get at is : Would you suggest what industries you would subsidize and to what extent, because, taking the case you have quoted, it is a pretty extreme fall from £20 down to £10. That is 50 per cent. ?—It is a very difficult thing.

Captain Rushworth.] Your desire is for sterling ?—That question arises, too. We get some sterling for this and it all helps us. We want sterling ; we must have sterling to fulfil our requirements, and, after all is said and done, I am employing men and I am getting something for it. I am getting £10 a ton for the flax, that is quite clear, and that helps with the sterling and when the goods that sterling has bought come here the distributors get something out of it. All that money is distributed to some one and helps the whole of New Zealand in that way. Take a shipment of goods coming into Auckland to-day : 100 per cent. is added on to the cost in one way or another to help ships to come out, to pay taxes, to pay the lorry-man to take it to the ship, to pay the man in the store to distribute it, and to pay the profit to the merchant. There is nearly 100 per cent. added on. It is a most profitable business, as far as the people are concerned, this distributing of goods. It is not all loss ; it is not as big a loss as it looks ; but I could not put a limit to what I would pay without knowing the entire conditions and whether there was a chance that the price would go up again.

Dr. Sutch.] You say that we can either adopt your plan or cut out total tariffs ?—There are a lot of other obstructions. You have to leave everything to the law of supply and demand. Let everything function without any legislation at all. Remove every barrier there is to trade, and I believe that would be just as good as my plan ; in fact it would be the same thing.

We have a number of industries here in New Zealand and, I think, they are quite good industries, which are being protected to-day. The protection may be too high in some cases, but there is a certain amount of protection required. If we cut out tariffs what is going to be the actual effect on those industries ? Can we, in New Zealand, manufacture to compete with other countries ?—I think so in nearly all cases.

They say they cannot ?—No, because they have raised their costs against themselves.

Assuming that the bulk of our imports come from Japan, how long would it be before most of our industries would be out of action ?—Of course, if we did, our exchange through London, I will admit it, would not be a very profitable business ; but supposing the Japanese said to us, " We cannot pay 1s. a pound for butter ; but we can pay 4d. Do you realise that we will pay you in goods, not money." We say, " What about the price of goods ? " They say, " Our goods will be just as much depreciated in money as if you got the cash." You, no doubt, remember those shoes which came in at a cost of 18s. for a dozen pairs. The Canadian shoes at the same time were costing about 3s. 6d. a pair. We were

selling that lot of shoes at 1s. 11d. We got some advantage in the exchange there. If they give us a return article at a low price where do we lose ?

What I am wanting to get at is this : New Zealand has a small population ; you have a sprinkling in the country, but a larger proportion in the towns. Supposing we dislocate the towns by throwing these men out of action ?—I do not think you would.

You do not think so ?—No. In any case there is a very small number engaged in those industries that would be put out of action. Boot repairs, engineering repairs, tramway repairs, running of railways, and all work on railways would not be affected. There are so many things that are not affected.

If you dislocate the manufacturing side, will you not dislocate the other side too ? Will the man want to go by tram or railway to work if there is no work for him ?—How many would you dislocate ?

I should say a very big percentage ?—Against that I advance the argument of New South Wales and Victoria as a classic example of the proof that protection does not protect. You have had three Tariff Commissions in Australia recently, and each one of them says that in their opinion protection does not protect.

They argue in New South Wales to-day that by the imposition of heavy duties they have been able to build up industries ?—If you put a prohibitive tariff on.

You do not think there is any necessity for that even in a young country like New Zealand ? You are going to assist by subsidies to develop industries ?—That is so. I would subsidize. I would not put a tariff on.

In regard to the establishment of the central bank, is that a wise move or otherwise ?—My opinion is not worth much, but if it is used by the authorities properly it would be a most useful institution.

Is not the object to minimize the cost of advances—I do not mean advances in a general way, but say the Government wants to get money from the central bank—— ?—My answer is that it depends on the administration. If it is administered for the good of the people it can be a good thing, but if it is administered for private gain it could be a bad thing. You have the limitation of dividends and many other things which make it seem that it is all right, but there are other factors regarding which I am not a big enough authority to talk on ; but if it is administered in the interests of the Dominion, then it is a very fine thing.

In regard to the question of the guaranteed price of apples, the idea behind the guarantee was so-much a case on London until such times as the industry was stabilized, and at the present time there is a fund being created—I understand that is so—so that after a year or two there will be a sufficient reserve of their own to cut out the guarantee ?—That is a good idea.

By guaranteeing the price until the industry is stabilized you are simply assisting that industry the same as you would do with subsidies ?—It is not the same thing at all.

But you are finding nothing at the moment ?—In the protective system you are helping one industry admittedly, but at the expense of the rest.

Not if your guarantee is not called upon ?—Unfortunately, you have the Customs tax before the stuff is allowed to land.

Not on these apples ?—It is a subsidy ; that is different.

It is not a subsidy ; in many of their shipments they paid nothing ?—Mine would be the same. Supposing the price of butter went up to 1s. 6d., there would be no subsidy. It reduces itself automatically as prices rise. At 10d. there would be less subsidy than 7d., and so on. It would automatically put itself right.

Do you not see you are prepared to give this guarantee and this cover for a product that we send out, but where we have an industry here operating and competing against the world—— ?—You are misunderstanding the position. I am guaranteeing them 1929 prices. I am crediting them with at least 25 per cent., plus 15 per cent.

That is assuming we want your plan. We started off on the assumption that you cut out all tariffs ?—I did not know which side you were arguing on. If you cut out tariffs down come costs at once. There is no subsidy for anything under those conditions.

You would not give a guarantee on apples or anything else ?—It would not be necessary ; it would rectify itself.

Mr. Langstone.] There is one statement you make that puzzles me. You say, " The notes issued in New Zealand to pay for exports would be available for purchase of exchange on London at par and as they were received for this purpose they would be destroyed." Supposing A is a producer and he has £100 worth of butter that has been put on the ship, the Government then, against that commodity, gives him £100 either in goods or credit in New Zealand ?—Yes.

Now, the Government sends those goods to London because they belong to the Government ; they are paid for. They are sold in London for, say, £50. When those goods come back into New Zealand to be sold will that £100 that he has already been paid be used to purchase those goods that have been returned for the goods sent away ?—Yes.

Where will the destruction come in ?—You have a transfer.

At what point would you destroy them ?—Supposing you do not destroy them, the Government would get them in exchange for sterling.

No. Sterling is the London price-level. The goods are sold in London for English money and they get paid in English money which is credited to the exporter in New Zealand money ?—Yes.

They use that New Zealand money again to buy New Zealand goods with. That has nothing to do with New Zealand, nothing whatever, but that is a transaction over there. They use the credit in London, that £50, to buy £50 worth of British goods in London ?—Yes.

That exchange cancels itself there. It is a transfer from the Government who have a credit in London to the person that they buy the goods from. It is a transfer, because they buy the goods there ?—Yes.

What happens to the £100 that has been paid to the producer in New Zealand ?—He keeps that.

That still remains ?—As long as he does not buy sterling. That is for circulation in New Zealand. You only destroy that portion that buys sterling, not the other portion. I might not want to buy sterling.

It is only a debit and credit in London ; a change from a credit to a debit ?—It need not be used to buy sterling ; it may be used for circulation here.

When you sell the goods in London you have sterling ?—Yes.

The Government have sterling ?—Yes.

If they buy goods they transfer that credit to some one ?—Some one else has to buy that sterling ; the Government has sterling for sale.

We will say the Government buys the goods ?—It does not make any difference.

They transfer their credit in London and pay for the goods ?—If you do not destroy the money that buys sterling you would have a huge sum of money, before you knew where you were, circulating in New Zealand and the money would become valueless.

But the English money does not circulate in New Zealand ?—The goods do.

That is what I say. You have created an issue of money against the exporter's goods ?—I do not know what you are getting at. I am not trying to dodge the issue, but I do not follow you.

Say a farmer has £100 worth of butter at 1s. 6d. a pound according to your London price. It is all ready to be exported, and you have all the documents and it is on board ship. Then you create a credit in the bank that he can draw on. He gets either notes or something else ?—Yes.

And that money is circulating to buy goods in New Zealand because his goods have gone out ? Yes, some one gets the money.

In New Zealand ?—Yes.

Is that money in New Zealand ever destroyed ?—When they buy sterling ; if it is used to buy sterling.

That does not buy sterling ?—Then it is not destroyed.

When the goods come back again if the farmer goes to the importer and buys them does that destroy the New Zealand money ?—No.

Where is the destruction then ? I want to find out where the money is destroyed ?—You see, this is a costless issue.

I will admit that ?—If you do not destroy it you would have an accumulation of notes which would have no value.

If those notes were spent in New Zealand they must represent £100 worth of wealth in something else ?—Yes, but you iron out your inflation by transferring it to sterling and bringing it back to sterling.

Do you imagine that we are going to remain stagnant in New Zealand ; that we will have no more production as a result of your increased money ?—No. I think you will find we will not have enough currency, but you must not confuse currency to buy sterling with currency to buy New Zealand goods. You would not, first of all, have enough to buy sterling and you would have no notes for New Zealand at all. My idea is this, that if the Government finds itself short of currency it would buy up its own bonds and issue currency in that way.

Say you are an exporter and the Government has paid you £100 which represents £50 in London. I am an importer—— ?—Let us finish with my job first. I have £100. Now, I am going to spend it and I go to the shops and buy goods. That money may never leave New Zealand, it may be circulating in New Zealand for all time. But supposing I want to buy goods from London I have to assemble these notes in order to get sterling and I go to the Government and buy that sterling at par —these notes are issued by the Government with the idea of buying sterling at par. If this plan is not adopted you would not buy sterling at par ; there would be a big exchange against you ; but if they issued those notes under those conditions and then destroyed them you have not destroyed value, because you have goods and sterling for them.

Directly the importer transfers his credit to the Government with the credit they have got in London, that destroys credit in New Zealand. There is a period before they come into New Zealand and recreate another lot of money to balance up those goods ?—I think they would create a value themselves.

Then there is this about it : Why would not these notes that have already done the job one way, do it the reverse way ? Why the need for destruction ? If when the extra goods come in you have more wealth, why go to the bother of destroying what you have already created to do the job ?—I think you would have a state of inflation if you did not do that.

Mr. Lye.] I unfortunately was absent for a while. I do not want to ask any questions that you have already been asked, so that if I should ask a question you have already answered, please say so. I understand your plan is to fix the price-level internally on 1929 figures ?—Yes.

I understand that you desire to maintain stability of price and avoid fluctuations by fixing at 1929 parity ?—Yes.

Do you know what the functions of the central bank are, or do you know that the chief functions according to the Macmillan report are to maintain the international price-level for long and short periods and to prevent from time to time any serious fall from a fixed level of prices ?—You mean to minimize ? I prevent.

Prevent, if it is necessary. Now, would you say that the central Reserve Bank of New Zealand, being established for that purpose, properly controlled and directed, may be a valuable instrument in controlling the exchange-rate and incidentally in maintaining a stable internal price-level ?—I do not see how they are going to do it.

Let me ask you another question that might interest you : I agree with that, but I was asking you whether you agreed with it. I believe you do agree with it if you understand it properly. Our

exports and our imports are largely controlled by exchange, are they not, exchange on London ?—Controlled by exchange ?

Our internal price-level under our present system is controlled ?—It is affected by exchange, of course, but not controlled.

Is not the internal price-level to the producer of primary products really determined by the price-level in London where we sell our goods ?—Yes, undoubtedly.

If our internal economy is largely influenced (if you do not like the word "controlled") by the price-level in London, if the function of the central Reserve Bank is properly administered for the purpose for which it was set up, and has as its object maintaining an internal price-level and a stable or fixed rate of exchange between New Zealand and London, then I submit that would be in the public interest ?—Yes; if it can do it.

We are agreed entirely so far ?—But I am not admitting that it can do it. I am admitting it would be a good thing if it could.

We come to the question of subsidized payments for production: Would you say that by issuing a sum of money from £10,000,000 to £20,000,000 in excess of London parity, that was a form of inflation ?—I do not know whether you are using inflation to frighten me as a bogy. It is not a term that frightens me in the least. I do not agree; I do not think it is inflation. I should want to know the particular definition of the man who is asking the question. My definition is that you issue money without a corresponding production of goods, but I do not do that. I issue money against production.

Exactly, but if the place of realization of that production is Great Britain, we must accept the London price-level as the factor. Then by a process of inflation you are issuing an amount of currency or credit in excess ?—I am paying a higher price; I am issuing against the volume of production, but paying a higher price.

In excess of its par value in London ?—Yes; that is the whole plan.

Then when it comes to question of trade between New Zealand and Great Britain and an exchange, in the last analysis goods pay for goods. You have in effect then, by the process of this issue, internally depreciated the New Zealand currency in its relation to sterling ?—But I have not affected our power to buy sterling.

That is where we disagree ?—You can only get sterling for goods. I am going to send the goods to London and get the sterling just as we do now. I have not affected that point at all.

Supposing you put through this issue of paying the sum to the exporter of £10,000,000 or £20,000,000 in excess of London parity price, you have got in circulation an additional £10,000,000 or £20,000,000 ?—Yes.

There is a demand for sterling funds in London, but in terms of New Zealand currency there is an excess of £10,000,000 or £20,000,000; how are you going to satisfy the demand for London funds ?—You cannot. I say so in my paper. Sterling would be short. You have issued two against one in sterling; paid £2 in New Zealand and only £1 to buy. One remains in New Zealand and one is to buy sterling with. You would be short of sterling. The Government cannot sell more sterling than they have got.

You do not think your system would create any unfairness ?—I think it is going to increase the trade inside the Dominion materially. You have got the extra pound to buy in New Zealand with that you have never had before, and you have got £1 to buy sterling with as well. If you do not destroy the money, you would have two instead of one.

Do you suggest it would increase internally the purchasing-power of the people although they were purchasing—— ?—I am a director of the Trading Company and we sell very largely to farmers, not entirely. We used to turn over a very large sum per month, over £100,000. When this slump hit us we dropped at one time to a long way below that. We had the goods to sell; they were in stock; we had the service to pass them on to the individual, the men to pack them, but the trouble was that the people in the country had not the money to buy them. The consequence was that the men in the country got no goods and the poor man here got the sack because we had not a job for him. We as a company lost because our turnover fell by something like 33⅓ per cent. and our overhead remained much the same. What we got rid of in labour was a bagatelle; we paid the same interest on the building; the same shares that ought to have got a dividend, though they did not. Every one got a 10-per-cent. cut, but it was a small thing, and did not reduce our overhead anything like our turnover. We suffered nearly as much as the man who could not buy; he could not buy and we could not sell, and both were going bankrupt.

What is the position of the man who desires to buy imported goods with his depreciated currency under your plan ?—He has not got a depreciated currency.

Do you mean to say, then, that the depreciation of the currency would not affect the price of goods ?—I have fixed exchange at par and all goods are sold in import parity. I have fixed the exchange at par, and there can be no rise in import cost; there is no increase at all in import costs.

Additional note by Captain Colbeck:—

In order to meet the objections to my plan voiced by some members of the Committee, and voiced especially by the Hon. Mr. Downie Stewart, I would suggest the following amendment:—

That prices for all commodities, both primary and secondary, be assessed at the 1929 level. That this base be used for the purpose of working out an index for prices in the Dominion. Base for all commodities 1929 prices = 100.

That as world's parity fluctuates the prices of secondary commodities in New Zealand be allowed to conform to such parity.

The "protection" granted in 1929 to all local manufacturers be confirmed.

As world's parity for secondary commodities rises or falls, so also shall the subsidy to primary products (exports) rise and fall. For example: We will suppose that the index number for secondary commodities has fallen from the 1929 base of 100 to 90 in 1934. Then the price in New Zealand would be 90 plus duty, plus usual costs for freight, insurance, &c. (individual persons and firms would of course add their "overheads" and profit). The subsidy paid to exports would be reduced to bring the export price down in conformity with secondary prices. As a practical example butter would be valued at 1s. 6d. per pound less 10 per cent., or 1s. 6d. less $1\frac{4}{5}$d. per pound = 1s. $4\frac{1}{5}$d. per pound. This would make the prices of secondary commodities automatically conform to world's parity.

The price of primary, or rather export commodities, would be governed by the price of secondary commodities.

All that would be necessary to keep a constant equilibrium between primary and secondary prices would be to take the index figure for imports and adjust the export subsidy to conform with the import index.

Wages and interest could be adjusted in the same way, or they could be left to work out their own salvation *after the first adjustment*. As a matter of fact the British Board of Trade wholesale index figure for exports would be found fairly satisfactory to all interests.

The price-level should not be adjusted to conform with the index figure oftener than once per annum.

Summary: Secondary commodities would be controlled by world's parity but would have the "protection" of 1929 plus actual costs of importing, &c.

Primary or export commodities would conform to the price of secondary commodities, rising and falling with them.

Wages and interest would rise and fall with price of commodities.

WELLINGTON, TUESDAY, 17th APRIL, 1934.

Summary of scheme submitted by Mr. S. G. HOLLAND.

Pay off New Zealand's internal debt over a period of fifty years and save £4,000,000 a year which would otherwise be devoted to interest and debt reduction. On maturity dates of loans the Government will repay the stockholder with legal-tender bonds or Reserve Bank notes; these notes to be withdrawn and cancelled out of taxation at the rate of £2,000,000 a year, thus paying off and at the same time redeeming £100,000,000 of debt in fifty years without payment of interest.

Witness: Mr. S. G. HOLLAND.

Mr. Holland: Mr. Chairman, and gentlemen, in the first place I wish to express my pleasure at the invitation I received to come to Wellington and discuss with you these proposals. The proposals which I have prepared have for their objective reduced taxation and the liquidation of our internal debt and to substantially lighten the load which posterity will be called upon to carry. These proposals, gentlemen, had their origin last winter, when I came in very close contact with the appalling distress which was such a blight upon New Zealand from one end to the other. I was very closely associated with the Business Men's Committee in Christchurch which raised some £16,000 or £17,000 for the relief of the distress. In the distribution of that fund I came in contact with the unemployed. I had the unpleasant opportunity of visiting their homes and seeing first hand to some extent—to a very large extent—the tremendous amount of poverty and distress, which, as I have said, was so appalling. It made my mind function in this way that I just wondered whether something could not be done to help these people and I came to the conclusion that we must alleviate the lot of these lower down rather than bring down the lot of those higher up, so that everybody can get the necessary amount of the things which they need. The question arises, How can this be done? And I believe there is another way of doing it outside the communistic method of evening up the distribution of things, and I think it can be done through orthodox channels; and I think it is perhaps made more possible by reduced taxation, by lower costs generally, and a restoration of confidence which is so lacking to-day. There was a time when I used to think that economics was a subject that was beyond the understanding of the ordinary average individual, but when I came to examine the high-exchange proposals of the economists and the experts, I found their view was diametrically opposed to mine, and I felt justified in having the temerity to do a little thinking on that subject myself, and the proposals which have been submitted to you are the result. I may say that I have been encouraged to send the proposals forward to this Committee for consideration very largely not of my own wishes, but on the urge of friends who have assisted me in the preparation of these proposals.

I think all will agree, even those responsible for high taxation, that the high taxation which is to-day necessary to endeavour to make ends meet is very largely responsible for the slow progress which we are making towards recovery, and I believe that if taxation could be reduced by even a small amount the effect would be very largely snowball, and confidence would be restored, and I believe once the ball was set rolling we would very soon feel the process of recovery and everybody would be happier as a result. The old cry that we are round the corner has just about got the corners worn off it, and I think all will agree that it is only a platitude. If we were able to reduce taxation I think we would be adopting a policy which would come within the bounds of practical politics. I do not

pose as an authority on banking or finance, and the proposals which I wish to submit to you are simply the considerations of a simple business mind. The present banking situation figures which were published last week, we have been told by authorities, are just simply due to a lack of confidence. Now these proposals which you have before you have been examined by different people in different walks of life. They have been thoroughly overhauled by three registered public accountants, by a bachelor of laws, by a master of commerce, by a bishop—and here I would like to say the bishop is Bishop Brodie of Christchurch, and I would like to pay a tribute to Bishop Brodie, who is perhaps one of the best informed men in New Zealand. He reads everything he possibly can, and he is tremendously concerned regarding the position in New Zealand as it applies to those in distress. Bishop Brodie has had an opportunity of looking at these proposals, and I would like to read you the letter I have received from him yesterday :—

Catholic Cathedral, Christchurch, 14th April, 1934.

Mr. S. G. Holland,

DEAR SIR,—

While not posing as an authority on State finance, I must say that I am much impressed with your proposed method of payment of the internal debt of New Zealand.

The following comments suggest themselves :—

(1) Your wise concentration on the question of internal debt ensures for you a safety zone for your negotiations, thus avoiding the inevitable complications of international finance.
(2) Your proposed issue of Reserve Bank notes is a perfectly legitimate and recognized procedure.
(3) Your suggested withdrawal or cancellation is supported by precedent in the spheres of State and banking financial methods, and the redemption provision of 2 per cent., bringing in £2,000,000 a year, eliminates any objection that may be raised.
(4) Your plan is presented in an attractive and simple form, and the proclamation of "no repudiation" and "no broken contracts" should claim a sympathetic and impartial investigation for your proposals.

I certainly consider that your plan is worthy of presentation to the Currency Investigation Committee. I heartily congratulate you on the insight and study evident in your proposals, and I trust that you will be rewarded by their finding acceptance as a most important factor in the reconstruction programme which must be devised to bring our young land back to the ways of prosperity and progress.

With every best wish for the success of your mission to Wellington.

Sincerely yours,
MATHEW J. BRODIE, Bishop of Christchurch.

Then, in addition to those people—the three public accountants, the bachelor of laws, master of commerce, and Bishop Brodie—my proposals have been examined by a politician, who shall be nameless, in this case, by a newspaper editor, by a recognized economist, and I think I am entitled to say that the least of these is not the politician. Mr. Arthur Stewart, one of the public accountants has added this proviso to his approval of the proposals, that his approval is contingent upon the notes referred to being made legal tender and not subject to depreciation by any one. The editor of the newspaper has written to say that he does not know what is wrong with the plan, but he does not think it will work. The economist says he thinks the proposals will result in the exchange-rate between London and New Zealand being increased to £250 per cent., and that New Zealand prices will be doubled and labour costs will be doubled. He thought that this proposal would result in a twenty years' boom and a forty years' slump. I am giving you these opinions, and you will see that I am not keeping anything from the Committee. I have told you everything that anybody has told me. With the exception of the newspaper editor, who says that he does not know what is wrong with the scheme, but it will not work, and the economist, all the other authorities approve the scheme, and I think you will agree with me that when you consult masters of commerce, bachelors of laws, registered public accountants, and business managers, I have spread the field of consultation fairly widely. I would like to say, too, that in the proposals which you already have I would like to make it clear that they were as the position appeared before the last conversion. I think I made it clear in the paper that my figures were taken from the 1933 Year-Book, and I would like to explain that I did not consult the 1933 Year-Book for convenience—the 1934 Year-Book was not published at that time. The conversion of the new loans does alter the position slightly. However, the principle of replacing a 4 per cent. interest bill with a 2 per cent. redemption tax is the same irrespective of the amount concerned. I would like, with your permission, to read proposals which I have committed to writing in the form of an essay, which really amounts to a contention which has not been published purposely. I thought it was the right procedure that the Committee should have this information first. This essay reads as follows :—

I think it is generally agreed that our troubles to-day are largely economic, but the process of rectifying these troubles through the medium of economics is so slow, so indefinite, and so uncertain, that many thousands of our citizens are past or are passing the stage when they believe that remedies can be applied along orthodox lines, but that our new present-day problems and difficulties are without precedent, as are the remedies for their alleviation. The times, therefore, call for new treatment and for new ideas in an attempt to find a way out.

All will agree, I think, that the burden of public debt is a weight round the necks of debtor nations like New Zealand, and is seriously retarding the process of recovery.

Greatly increased supplies of any commodity usually result in the cheapening of those goods, but this is by no means always the case. Take gold, for example : There has been more gold won from the earth during the thirty-three years of this century than in the 400-odd years between the discovery of America by Christopher Columbus and the year 1900, yet, in spite of that phenomenal increase in supply, gold was never dearer and never so plentiful. The recent price of £7 per fine ounce has never been equalled in the world's history.

In times of stress such as the present, sheer necessity demands the application of economy measures with something akin to ruthlessness, and in its wake is left a mass of suffering humanity irrespective

of class or creed—farmer, merchant, producer, distributor, lawyer, mortgagor, mortgagee, exporter, importer, employer, employee, adult or child, man or woman—none escape, but all come within the pale—some more than others, it is true. Naturally those with the least to lose feel the blow the most, and believe they suffer the most, simply because they reach zero first. If a man with £100 loses £100 he is destitute of money, whereas the person who has £5,000 and loses £4,000 of it still has £1,000 left on which he can exist for some time at least; but when the wielder of the economy or depression axe applies his attention to the dead wood of our tree of public debt, he finds that the trunk or principle is as hard as flint and simply impervious to his attacks. Even the interest branches are case-hardened, those which hang over the overseas fence are immune from treatment, while those which shade our own land yield but little to the most vigorous assaults.

The Minister of Finance, in his last Budget speech, told us that it was impracticable in the meantime to make any arrangements for relief in interest payable on that portion of our debt which is domiciled overseas.

While it is true that our internal debt charges have been reduced, the fact remains, nevertheless, that we still owe over £100,000,000 which is domiciled in New Zealand, and this internal debt costs us near enough to £4,000,000 per annum in interest, and little attempt is being made to get our debts reduced. On the contrary, they continue to rise and would soar still higher, but for the drying-up of those wells from which these mysterious loan "moneys" spring.

If we will just eradicate from our minds for the moment all such terms as "deflation," "stabilization," "inflation," and so on, we will, perhaps, be able to examine the subject of the contribution more clearly and without prejudice. Incidentally it has never been determined which is the greater bogy—inflation or deflation.

The official statistics available from the 1933 Year-Book give the following information: Total debt, £281,942,800. This is domiciled as follows:—

	£	Proportion of Total. Per Cent.
In London	159,000,000	56·61
In Australia	4,000,000	1·39
Total, overseas	163,000,000	58
In New Zealand	118,000,000	42
	281,000,000	100

For the purposes of this discussion let us take the internal debt at £100,000,000, and the interest rate at 4 per cent., so that the following conclusions will be the easier to follow. I submit that a long-term view should be taken and a plan devised accordingly.

Stripped of all its frills, the "bones" of this contention are:—

(1) The plan covers a period of, say, fifty years.
(2) The paying-off of our internal debt without—(*a*) repudiating a single pound of debt; (*b*) breaking or varying a single contract; (*c*) a single pound of extra money being in circulation on the completion of the plan.
(3) That the adoption of this plan would result in the following savings being made when it is in full operation: (*a*) Reduced taxation—fifty years at £2,000,000 a year = £100,000,000; (*b*) the extinction of our entire internal debt, £100,000,000; average savings per annum, £4,000,000.

How is this to be achieved?—Behind our internal debt of £100,000,000 is some kind of security. This plan provides for paying off internal debt—we will discuss the "how" and the "when" a little later on—by the issue of Government legal-tender bonds, notes, certificates, or whatever title they may be given; but for the present let us refer to them as Reserve Bank notes for want of a better name. These bonds will come from exactly the same source as our old friends the war-loan certificates of 1914–18, Treasury notes, "John Bradbury's," and so on, and would be issued by the Reserve Bank on behalf of the State. Politicians became statesmen when they devised means to finance a manual war. If the method is sound enough to finance our way into a manual war, why not employ the same methods to finance our way out of an economic war *with full provision for the redemption of every pound issued?* These notes will be backed by identically the same security as now backs our internal debts. In other words, holders of Government stocks will exchange their stocks for these bonds, which, like Bank of New Zealand notes, will not be interest-bearing. There is no suggestion in these proposals to break or interfere with existing contracts in any way whatever; but that will be dealt with in a minute or two.

A saving of £4,000,000 a year.—Now that our internal debt is paid off by the exchange of stock for bonds, we immediatley save £4,000,000 a year in interest charges, which of course has to be extracted from the pockets of the taxpayers, by either direct or indirect taxes such as electricity and telephone charges, &c.

It will doubtless be said that there is nothing new in a proposal to print £100,000,000 of money, but the plan is not completed yet, and we now set about getting that "new" money out of circulation without confiscation, repudiation, or anything of that sort. It is only proposed to pass on to the taxpayer one-half of £4,000,000 per annum saved in interest charges, and to apply the remaining one-half to redeem the notes put into circulation.

Some of us will pay our taxes and other Government accounts with these notes, so they will be passing through the Government's hands continuously, but on a given day in each year two millions

of them will be tied up, cancelled, and withdrawn from circulation for ever, without disturbing the Government's finances one iota. Fifty years or thereabouts of this procedure will find the whole issue completely out of circulation.

Every present-day holder of Government stock will have had this money back, we will have no internal debt, no interest to pay, and no note-redemption taxes to pay, and no special note-issue in circulation.

The "How" and the "When" of this contention.—Let us return to the point where the holders of Government stock exchange their holdings for debt-redemption bonds without disturbing any contracts, &c.

During the next fifteen years' period New Zealand has loans maturing—internal and external—to the tune of over £181,000,000, made up as follows:—

1933–37 inclusive, £53,000,000; which averages £10,500,000 each year.
1938–42 inclusive, £62,000,000; which averages £12,500,000 each year.
1943–48 inclusive, £66,000,000; which averages £13,250,000 each year.
1933–48 inclusive, £181,000,000; which averages £12,000,000 each year.

The Year-Book does not state the years in which that portion of our debt which is domiciled in New Zealand matures, but, for purposes of discussion, it will suffice it we use the same proportion as the internal debt is to the total debt—*i.e.*, 42 per cent.

It has been shown that during the next fifteen years we have an average of £12,000,000 of loans maturing and becoming due for payment in the ordinary course of events. 42 per cent. of £12,000,000 is near enough to £5,000,000 which is somewhere near to the amount which will be falling due to New Zealand stockholders.

As these loans mature and the contract with the lender expires in a normal way, the State is under an obligation to give back to the lender the money he has lent in full, but the State is under no obligation to find a further investment for the investor's money. The money was borrowed for a specific period and on maturity date the lender is entitled to have his money returned to him, and he can surely have no cause for complaint if he is paid off. Where the lender gave the State a cheque, or Bank of New Zealand notes (paper money) the State now repays him in Reserve Bank notes (also paper money) which are created legal tender in New Zealand. There is no difference between the lender who lent the Government Bank of New Zealand notes and is repaid in Reserve Bank notes—both are legal tender—and the lender who lent the Government sovereigns years ago, and is now repaid in bank-notes.

In fifteen years more than £75,000,000 of internal loan would mature and be paid off, and the interest burden would cease instantly on repayment to the lender. This process would be continued until the whole internal debt had been dealt with. The amount of "extra money" going into circulation would not be sufficient to seriously disturb the orthodox money-market. It is interesting to remember that during the past five years our borrowings (new money) have exceeded an average of £7,000,000 a year. There would be no more disturbance than if the loans were paid off in cash on maturity date in the ordinary way. £5,000,000 would be looking for fresh investment, interest-rates would be forced lower and more in line with rates ruling in other countries. Industry would receive a great fillip by the availability of more money, while those who can now just manage to carry on with the present low rates for fixed deposits would be more inclined to invest in industrial undertakings, both primary and manufacturing.

The following summarizes the points of this contention:—

(1) At present we owe £100,000,000 domiciled internally.
(2) This costs us £4,000,000 per annum in interest.
(3) Over a period of fifty years, under existing conditions we will have paid £200,000,000 in interest and we will still owe the £100,000,000. The position will have to be faced some day, why not now?
(4) In place of the 4 per cent. (£4,000,000 a year) bill for interest, let us pay the debt off, and tax 2 per cent. (£2,000,000 a year) to redeem the special note-issue.
(5) In fifty years (or thereabouts) we will have no internal debt, no internal debt interest to pay, no debt redemption taxes to pay, and no special notes in circulation.
(6) The proposals definitely mean an improvement of £200,000,000 over something more than a fifty years' period—this equals £4,000,000 a year clear saving.
(7) There will be no adverse effect on our overseas credit position by the adoption of this plan.

I have made no attempt to be microscopically accurate regarding the amount of our internal debt, &c., because the principle of the plan of substituting a 2 per cent. sinking-fund tax for a 4 per cent. interest bill is the same irrespective of the amount to which it is applied.

The criticism that a plan of this nature is inflation is, I think, answered by the fact that it is only proposed to pay stockholders off as maturity date of their holding is reached. The stockholders have been promised their money back on a certain date and this plan enables those promises to be honoured. Were the Government in a position to pay these loans off in paper bank-notes, that would surely not be called inflation, so why should payment in this new form of legal tender be called inflation? These proposals are much more sound than the present practice of raising new loans to pay off old ones, and in the past we have not been innocent of raising loans to pay interest on old loans.

Many years ago a survey was made with a view to running a railway-line from Linwood to Sumner. The line was of course never laid, but the cost of the survey was paid out of loan-money. The loan has not yet been paid off, and the accumulated interest-charges now greatly exceed the original cost of the survey, which is still owing and presumably will never be paid. It is remarkable how we all agree that such a procedure does not come within the category of sound finance, but it is equally

remarkable how we choose to view this unsound procedure with the blind eye, simply because it is orthodox. It may be considered that the operation of such a plan would prove an irresistible temptation to future Governments to use the method proposed for the carrying-on of public works which would normally be paid for out of revenue. My answer is that future Governments will be free to choose their own methods, and they will not be prevented from putting a policy into effect simply because preceding Governments have not provided the necessary machinery and precedent.

Now, gentlemen, may I return to the criticism of my economist friend. His criticism is that the bank exchange will be raised from £125 per cent. to £250 per cent. Now his reason for that is that he believes that once the holders of present Government stock have their money back in their hands the first thing they want to do is to rush round and buy motor-cars and that sort of thing from other countries. I think the very reverse is the case, and, as far as I have been able to ascertain, Government stock is largely held by companies who invest their reserve funds in Government stock, trustees of deceased estates, Government Departments, and those who have few other resources. They feel that they can invest money in Government stock and feel that their interest is sure at any rate. Most of those people at the present time have most of the things they need physically, and it does not seem to me to be reasonable to think that because they are being given their capital back they are going to set about spending it. I think New-Zealanders can be said to spend their income, but I think it could be said with equal safety that the New-Zealander is not inclined to spend his capital. I think, too, that the very procedure of lowering interest-rates would make the holder of capital feel that he has to watch his step, because a given sum of money is going to offer a less amount of income from interest. I think he would be less inclined to spend his capital with the prospect of reduced interest than he would be if the reverse were the case. Maybe that 10 per cent. or 15 per cent. of the capital would be spent in the way my economist friend has indicated, but I think in the majority of cases it would be spent within the boundaries of our own country and that would be beneficial. To that extent the proposals may be inflationary to the extent of 10 per cent. or 15 per cent. My master of commerce friend stressed that the proposals would be inflationary to the extent of 10 per cent. or 15 per cent. Even that is questionable. The result of the carrying-out of the proposals would be that the present holders of Government stock would be competing for the investments which are supplied from the orthodox money circles to-day. Increased competition for these investments would naturally force down interest-rates, and I think that is a procedure greatly to be hoped for. The point that my economist friend raised that local prices would be doubled. I argued this with him, and while he said there might be something in what I said, he did not alter his opinion. We are all entitled to our views and we agreed to differ. Interest is an important item in the overhead cost of production—lower interest means lower overhead; lower overhead means lower cost; lower cost means increased demand; increased demand means greater output; greater output means more employment, which is what we are all after. That means recovery and reduced taxation, and that means increased purchasing-power.

Mr. Langstone.] That did not operate with the wages cut?—It was not the reduced wages that was the point; it was reduced purchasing-power, because the overhead of the business had to be spread over a fewer number of articles.

You reduce the amount of money that there was to buy the things; the volume slowed down; that was inimical to the trader, but the worker did not have the money to buy with?—I think our national income was reduced by the fellow who buys our produce. I think reduction of wages was a natural consequence. This reduced interest-rate is going to be achieved by economic pressure, and I think we will agree that this is a better procedure than reducing it by legislative enactment. My friend says that labour-costs will be doubled, but did not support that by any argument, and I agreed to disagree with him. I do not think labour-costs could be doubled before the whole of the unemployed are absorbed, and I do not think that then there would be any objection to an increase in wages. Labour is not substantially part of the cost of production. I agree that in the production of materials, labour probably is 90 per cent. of it. My friend says we will have a twenty years' boom and a forty years' slump, but we will leave that. In sixty years' time it will not be worrying us very much. The point that the proposal would be a temptation to future Governments: I would like to emphasize that I do not think any future Government coming in with any policy is going to be deterred from putting that policy into operation because the preceding Government has not provided it with the necessary precedent. Another thing, I think these proposals have this merit at least, that they are easily understandable, complete in their details, and are definitely limited to the amount not merely of our debt, but our internal debt. The next criticism was that the proposals amount to the issue of a new currency without corresponding supply of goods. That may be substantially true, but I would put it this way: That the same method was used to finance our way into a manual war without any redemption proposals, but that was excused on the grounds of patriotic motive. I hold that if we use the same methods to finance our way out of an economic war plus definite redemption proposals, the proposals are equally sound and the motives no less sincere and patriotic. If we can remove from New Zealand the blight of unemployment and distress, which I have come so closely in contact with, I think we will be making a contribution which will make this world a better place than it was when we came here.

Mr. Ashwin.] It seems to me that the basis of your proposals is really your contention that it involves no more than the exchange of one class of claim to wealth for another class of claim to wealth?—Substantially.

You appreciate, however, that Government stock is not money?—I do not know whether you wish to involve me in a discussion of advanced economics. I think wealth is something like trade, or something like beauty—it is not definable.

I am talking about money?—What is money?

Something you can buy something with. You will agree that you cannot take a Government bond up the street, go into a draper's shop and buy goods with it ?—I think you could take it into a bank and get an overdraft, and buy the goods with the overdraft.

But in itself the bond is not money ; it is not legal tender ?—No.

It seems to me that therein lies the trouble which would arise from your proposal. You agree, I suppose, with the basic theory of the value of money, governed by its quantity and rate of circulation in relation to the quantity of goods coming forward for sale ?—The value of money is governed by the quantity of goods coming forward for sale ?

By the interconnection between the quantity of money plus the rate it circulated in relation to the volume of goods or services that come into the market. That is a generally accepted thing ?—The value of money is what it will purchase.

That is what determines what it will purchase. Your proposal comes down to this : You are creating an extra £5,000,000 of money each year and have your 2 per cent. sinking fund. You are going to issue £5,000,000 and retire £100,000 ; therefore your net increase is £4,900,000. In ten years you have got an increase of £49,000,000. That is just about equal to the present volume of deposits. You therefore will have double the volume of deposits ; you have doubled the value of possible, if not actual, purchasing-power ?—Maybe.

That in itself must involve what your economist friend says ; it means more or less doubling prices in the long-run ?—Why ?

You have got double the quantity of money to do the same amount of work ?—But you must have the will to purchase.

But you cannot seriously contend that this extra £50,000,000 of deposits is going to be placed on fixed deposit and not used ?—I do not think they are going to spend it.

They will invest, and some one else will spend it ?—I do not think because you are handing me back £1,000 I am going to get rid of it. I will look round for investment, and that will open up a new field for investment.

You may build a house with the £1,000 ; if so, it will involve expenditure on the part of some one else ?—That is what my economist friend said. I disagree.

It is only used as an illustration. Investing money means using it for capital purposes ?—Yes, but you will have a corresponding asset ?

Yes, but the point is that the quantity of money at any time comes back to the same theory. The value of it is governed by the amount of goods coming into the market, and if you suddenly double the money you double the price ?—I do not agree. I think the quantity of goods coming into the market is determined by the demand, and the demand is determined by the purchasing-power of the people.

You quoted the example of the issue of money in the war-time. There was a considerable inflation in Britain in the war-time, and you saw the result on the price-level. They were directly connected ?—I agree with you. I contend the two matters were synonymous.

You suggest it was not done here ?—I do not see why ; we have been borrowing £7,000,000 a year.

Borrowing is a different proposition. When you borrow you are getting the use of the existing purchasing-power. You are going to create extra ?—I grant that.

I think there is a good deal in what your economist friend says. You are aware, of course, that the conversion here altered the maturity dates of loans and that there are none falling due for some years to come ?—I tried to make that clear.

Are you also aware that we have actually a debt-repayment fund in existence in New Zealand to-day ?—I am aware that we are budgeting for a deficit. Obviously, then, you cannot pay your sinking fund.

You can ; it is a portion of your deficits for the time being. You stated that your proposal would pay off the debt in fifty-nine years ; the present proposal will do it in about sixty years ?—But you are not doing it.

We are ?—Would you say you can provide sinking fund if you are not taxing to get it ? If you are not taxing for a deficit, how would you provide for your sinking fund ?

It is a portion of our deficit ?—We hope we will be better off. We are budgeting for a deficit to-day. If that procedure is to continue, we have to maintain our present rate of taxation and catch up the arrears. Surely recovery is going to be retarded if when times improve, we have got to pick up arrears as well as providing for the present.

Will this proposal overcome Budget deficits ?—I think it would make it ever so much less by the amount of the saving in interest. While I agree that your present proposals will do it—½ per cent. invested at 3½ per cent. you have got to maintain your present rate of taxation, and I am showing you a proposal where you can reduce taxation for interest by 50 per cent.

At a price of perhaps doubling the price-level ?—While my economist friend agrees with you, my master of commerce friend says it is only 15 per cent. inflationary. I am on the horns of a dilemma.

Mr. Langstone.] I agree with your proposal, but it falls rather short in so far as it only applies to the internal-debt arrangement. If you are going to apply the reduction cancelling out the debt by the issue of fresh money, and are going to save £4,000,000 a year, what would be wrong with farmers and other people who are in financial difficulties—you mentioned £2,000,000—could not that be used to treat private mortgagors in the same way that the State has dealt with its redemption ?—Quite frankly, I have not given the question any thought at all.

If it is sound for the Government to get rid of the national internal debt, what about the internal debt of private individuals ? They are affected by debt and interest payments just as a nation is ?—I would hardly think the same conditions would apply for this reason : I believe up to a point this is inflationary ; it is inflationary to the extent of 10 per cent. or 15 per cent. and that is about the limit.

Mr. Ashwin.] Have you any basis for your 15 per cent. ?—My master of commerce.

On my figures you are going to double the deposits in ten years, and you would perhaps treble or quadruple them ?—At the end of twenty years you have £79,000,000 added money.

Mr. Langstone.] The position, as I see it, is that we have had deflation of over 50 per cent., and I do not agree that it is an inflation even up to 50 per cent. ; it is realy a reflation back to the 1929 level. We have had a tremendous amount of deflation. Our income in 1929 was £150,000,000, and to-day it is £80,000,000. We are not to be frightened by a word "inflation." If you have increased wealth as a result of increased productivity, and you do not have any increase in the money factor, but distribute it, that is deflation ?—Yes, quite probably.

If you have less goods and the same amount of money, that would be inflation. If I alter economic conditions as it affects the money factor, so that while going to the scheme of dealing with our internal indebtedness, I do not think it would be successful simply because there is not sufficient to meet the nation's need. It would fix the Government, but nothing outside that ; you do not intend to go any further ?—The only avenue I have explored is the question of internal debt. I do not say it would not work, but I have not considered that aspect of it. May I ask you a question ? Did I understand you to say the scheme was all right, but did not go far enough ?

Yes. You are going to have free money ?—For a period.

You are establishing a new economic principle if you are going to have free money. If you can have free money for that purpose and if there is no hire price for money, you cannot capitalize interest. That is what the system is based on, capitalizing the return of money, and if you have done away with interest, there is nothing left to capitalize and then there is no capitalism ?—I think you are getting a little bit beyond what I have said. It is not drawn out of my evidence.

Suppose there is £1,000,000 of these loans maturing and the holders of bonds or securities wanted payment, and the Government, instead of raising a further loan, went to the bank and discounted Treasury bills and bought them back that way ?—Who ?

The bondholders. That would be just the same as what you are suggesting to do. You do not propose discount at all ?—That involves interest, and mine does not.

There would be no more inflation than what happens to-day in many instances. That is what takes place to-day in many institutions. We come, then, to this proposition : Suppose the Government discount Treasury bills to £1,000,000 at 5 per cent., they only get £950,000. But they have got to pay back £1,000,000. That money is not in existence, is it ? If they have to pay back £1,000,000 and only get £950,000, they have got a shortage ?—Are you making a statement or asking a question ?

Is that a fact ?—I assume it is, in the way you put it.

Either that, or it is going to take out of circulation the amount of money, £50,000, now in circulation, and create a shortage that way ?—Yes.

Really the position to-day is a shortage of money. With the fall in prices you demonetize wealth, do you not ?—I am not sure.

Say you are manufacturing something—butter—and the price of it is reduced. You are manufacturing just as much to-day as in 1929, but the price in 1929 was, say, 1s. 6d., and you are getting 9d. to-day. You demonetize butter ?—It is a new term to me, as applied that way.

Butter is 1s. 6d. in one period and 9d. in another. We only measure its value in money form. The food-value is just as great now as before, but the money factor has altered, and we have got to translate goods into money first so that we can buy other goods with it. It is the money factor that is the nigger in the wood-pile. If prices had remained stable and the increase in wealth-production and money synchronized, we would not have any trouble at all ?—Probably not.

You have put forward a proposition for the Committee to consider, and we have to consider it in relation to the economic life of New Zealand not only in relation to the internal debt. It affects every one, and we have got to try and be broad enough that our report is not going to be a kind of palliative for one particular class of debt or contract, but wide enough to meet New Zealand's need. It is quite right that when a debt is matured then it has to be paid and there is no contract broken in the paying for it, but neither is there any contract broken if a mortgagor cannot pay his interest and the mortgagee forecloses on him because of default, and what we want to do is to save the mortgagor, and I can see that at that point it is necessary to provide some means of saving the mortgagee. If you can save £4,000,000 a year on the internal portion of the national debt, and you propose to use £2,000,000 of it to reduce taxation, and you are going to cancel out £2,000,000 of it, could not that other £2,000,000 be utilized to the private mortgagor and treated as debt the same as you are treating the internal national debt ?—I understand your question more clearly, but I would still stick to my proposals, and that is to get the new money out of circulation by the procedure I have suggested rather than leaving it in circulation and transferring it to somebody else.

If the money is necessary, why cancel it out ?—I think that should be dealt with as a separate subject, and should have separate treatment. That is for the Committee to decide.

Is not a note redeemed every time a transaction takes place ?—I should not think so.

I have given you something for the note or you would not have given it to me ?—Do you call that redeeming a note ?

I should say it is the only way to redeem it ?—I have always understood redemption of a note is, "I promise to pay a sovereign," and I give you a sovereign back.

But if I go and give the sovereign to some one else and get a note for it, you are in the same position ?—I should say redeeming a debt.

All money comes into existence in debt form ?—I could not answer that question.

When the State wants money and it raises a loan or gets accommodation, there is a debt ?—Yes.

If you give me an IOU and I have done some work for you, that is evidence of a debt ; it comes into being in the form of a debt ?—Yes.

All our money seems to come into form as evidence of a debt. With regard to the effects of the internal situation, that the economist was so frightened about, that £5,000,000 that matures and you pay in and create £5,000,000 of new money; you liquidate debt to that extent. Or the State is minus a debt of £5,000,000. There is £25,000,000, then, of real purchasing-power in New Zealand. If that was spent in New Zealand in buying furniture or clothing or things produced in New Zealand, you would get £5,000,000 of wealth to repay the £5,000,000 that had been spent?—Yes.

That would not affect the overseas price at all?—Not a bit.

If they wanted to use it in buying things from overseas, could not the Government, to safeguard the position, place an embargo on that particular class of business to avoid any overseas complications?—I think they could. It has been done in the past.

That is evidence that it is quite competent for the Government, if they in their wisdom think it is right, to increase an internal price-level by an artificial exchange-rate?—To increase the internal price-level by an artificial exchange-rate?

That is what they have done is it not? The reason why they put up the exchange-rate was that they said, "The farmer's income is down." He has got to get some income, and although they considered various proposals in their wisdom they said that the most efficacious one was to give them a higher exchange-rate, 15 per cent. It was done purely to give the farmer more income. It has not worked out that way, but that was their idea. Well, if it is competent for a Government to pass legislation and make it effective to do that, then they could go the reverse way and regulate imports that were to come into this country. If they can do it one way, they can do it the other, so that if we saw a situation arising such as Mr. Ashwin foresees and the economist foresees, legislative enactment could be brought in to protect that situation, could it not?—Quite easily.

And it would be necessary, possibly, if we saw that arising, for something to be done on those lines?—Yes, I think so.

The banks tell us that there is any amount of money to-day. There is no shortage of money. The only thing is that, owing to the fall in prices, and the uncertainty of securities and business generally, that they do not feel justified in making the advances. Whenever they do feel justified they will make the advances, so there is no shortage of money in that sphere, but, at the same time, we have got the unemployed that you talked about. So that really to bring really effective purchasing-power into being we have got to find ways and means of putting it into the pockets of the people that need it and will spend it. Now, the banks admit to us that they cannot do that. It is utterly impossible for them to do that, and how would your scheme in any way enter into that problem?—The question of absorbing the unemployed is another subject altogether, but I have always held that we should reserve for New Zealand the New Zealand market for New Zealand manufacturers who willl produce goods (*a*) of a satisfactory quality, (*b*) in sufficient quantity to provide New Zealand's requirements over a period, and at a competitive price. Provided those three qualifications—quality, quantity, and price—are complied with, I would not let any goods come into New Zealand. That is my view, and my proposals would come in in this respect, that cheap money would be available for the establishment of those industries necessary. Let me give you this illustration: In the agricultural-implement industry they are prepared to reduce prices 10 per cent. and put on five hundred more men, if you will keep out American implements.

That is only another way of increasing internal price-levels?—No. Reduce prices 10 per cent. And I think it should be done. The question of selling-conditions and all that enters into it. When you can get it down to a buyer of an instrument or an implement putting down 11d. a month to the big American combines, the local manufacturer who wants payment for his goods in a reasonable time has not a chance.

You would want total protection?—Provided you have got the safeguards. Always with that qualification in the right quality, in sufficient quantity, at the right price.

The Chairman.] Do you make that apply to Britain, too, that takes all our produce?—I think not, in the meantime.

Are you only talking about agricultural implements?—No. I was just giving that as a point of illustration. Most of them come from Canada, which will not take our stuff.

The most effective thing you have had has been the exchange-rate. Is not that sufficient for you?—No.

You want the total market?—When you have firms financing the farmer who say, "You must buy this thing because we are agent for it," what is the actual user of that to say. He has just got to take what he is given.

By that process, then, how would you propose to give the money into the pockets of the wage-earner?—By employing them in the manufacture of the goods.

Would you have a regulated wage?—I think that could be arranged.

Because it does not matter how much you produce if the people have not got the money to buy it with. The aim and object of production is consumption, is it not?—I should think so.

You produce things to be consumed—to be used. If they are not used there is no need for production. We are not short of wealth in New Zealand to-day. We may possibly be short of certain lines of imports owing to the exchange-rate, but of our local production there is no shortage?—No shortage in production of local manufactures? I should think there was.

Are not the boot-manufacturers capable of producing all the boots necessary for New Zealand?—I should think so.

Are they capable of doing it now?—I should think so. But when they are not producing them, there is a shortage of local production.

I am just trying to find out how your scheme is going to affect that phase of the problem. I quite agree that so far as the internal national debt is concerned, that as it matures, you want free money

to pay it off with. The principle there is sound. That is what we have been saying for years, the party that I belong to; but it does not go far enough. That is the position. The principle is sound, only it wants to be extended over the whole range of our economic life?—I have only studied the question from the internal-debt point of view. You may be right, but I cannot agree, because I have not considered it.

The question, then, of the overseas price-level. We come again to the economists. Has the overseas price-level such an important bearing on our internal economy as they suppose?—I think you better excuse me from that, because I do not know what they suppose in the first place.

They suppose that our national income is determined by London prices, by sterling. That is what they suppose to-day, and as prices have fallen overseas, prices fall here, incomes fall here. That is the position is it not?—I think I would rather not be involved in that. I much prefer to speak of things I know something about, because I frankly confess I am not an expert on that sort of thing. I am sure the economist is right when he says that, anyhow.

But if that is what they call good sound economics, then we could link our price-level to Japan or India or China at some lower level still, and bring our people down to the standard that they have got in those countries. That is neither desirable nor advisable, is it?—No.

Do you think that we could, by some process of legislation, fix the internal price-level covering all things?—I do not know. It would be very difficult. I would like to examine any such proposals. I do not know of any such proposals. It would be very difficult.

You just limit yourself to this particular point, and you believe that if this was introduced, or adopted and introduced, then from time to time, if we liked to extend it we could?—Exactly.

Mr. J. N. Massey.] Following up the questions put to you by Mr. Langstone, I would like to follow up that question of export prices and ask you, can we have prosperity in New Zealand when the overseas price-levels are so exceedingly low?—Do you call the present price of wool exceedingly low?

I am talking about the quantity you quoted, the figure at 31st March, 1933. I am just following up this question that has been put to you by Mr. Langstone. Can we have prosperity in New Zealand while the price-level overseas for our exports is so low?—To be quite frank, I do not think your statement is correct. The price-level is not low.

But assuming that it was?—Take it back two years or so?

Or one year. When you were dealing with debt you quoted a year back and you said you had the latest figures available. You quoted the year ending 31st March, 1933, to illustrate the point. If you take the peak year at £56,000,000, and last year 31st March, 1933, at £36,000,000, can we have prosperity in New Zealand?—I would say that the price-level in London must affect our prosperity here.

You are of the opinion that what we export overseas has a decided effect on the prosperity of the people of New Zealand?—Yes.

In connection with the scheme that you presented, in effect it means consolidation conversion of loans. You will adopt practically the same principle as Parliament adopted when they provided for the consolidation conversion of local-body loans?—I do not think so. They broke all contracts, did they not?

They reduced the rate of interest by Act of Parliament?—Yes, but while the contract was in force. I do not think I have said that at any stage.

No, that is so. But you will provide for additional taxation under your scheme?—On the contrary, I would provide for less taxation.

Would you extend the life of the loans?—No. Pay it off when it is due. That is the finish of the loan.

But you would have to provide additional money in order to pay it off?—Exactly.

Well, Parliament extended the life of the loan or provided for the extension of the life of the loan actually, to reduce percentage charges, but the life of the loans were extended. You would not propose anything along those lines?—No. Because that is perpetuating the old interest-bearing-loan system.

Then you do not intend to provide for interest charges?—Not after the loan has matured. Let the contract continue. Let it come to maturity date, give him his money back when you said you would, and let him do what he likes with his money.

How do you propose to provide the money to pay off those loans?—By the issue of Reserve Bank notes. I thought I had made that clear.

Would that not be money?—Yes.

What is the difference?—Between what?

Between your proposals and the proposals that have been carried into effect to-day by the consolidation conversion of local authorities loans?—You have extended the loan after maturity date. I do not propose to extend it, and you are continuing to pay interest, and I do not propose to continue paying interest. Surely there is a difference there, a fundamental difference.

What effect would that have on the country?—It has the effect of making a profit of £4,000,000 a year over a period.

But who pays?—What do you mean by pays?

If you provide additional credit somebody must pay?—If we provide additional credit for what?

Would you not increase the price-levels within the country?—I do not think so, because it would reduce overhead and that would be to reduce costs, and that is not the way to put up a price-level.

Take the war period, which you quoted, where the price-level of goods was increased to an alarming extent?—Because you took so many men out of production in the ordinary course of events and put them on to fight each other. There was no production there and the factories were emptied of men. The demand for men increased of course.

But if you provide additional credit somebody has to pay. Would you say that yours would be costless credit ?—No. My method would be half as costly as the present method.

But you would get additional money to pay for it ?—Yes. And over a period of years you bring that all out of circulation and get back to where you were.

Actually by providing for a sinking fund ?—To all intents and purposes, yes.

But somebody has to pay the additional taxation ?—No. It is only half the taxation. At the present time you are paying £4,000,000 a year on £100,000,000 are you not ?

Yes ?—Well, this way you pay £2,000,000 a year to get it out of circulation and it is not an interest-tax ; it is a redemption tax. There is a difference, of course.

But there is additional interest in circulation ?—No. It is additional money in circulation.

Additional money, but not interest-bearing ?—That is it exactly. It is rather simple is it not ? No, not to me ; for the simple reason that if we provide the additional credit I am of the opinion that somebody has got to pay ?—I have tried to show you where they do not. They pay half the amount that they do now. I think I have shown that.

Then why not exaggerate the position just a little and provide three times the money we require, if it is not going to cost us anything ?—I do not see any sense in doing such a thing. I would not do this if we did not have the debt. It is only to get rid of this dead weight that is getting the country down. I did not make the debt, but I am trying to provide the formula for getting rid of it, and nobody else has provided the formula because our debt has been increasing year by year, and to-day we have a sinking fund of ½ per cent., but we budget for a deficit. The result is we do not raise our sinking fund.

Mr. Ashwin.] Would you stop fresh borrowing ?—Yes ; I think so.

Mr. J. N. Massey.] That is just the point I was coming to. After providing for the redemption of these loans how would you provide for the future working of the country ?—I do not think we should borrow any more money for a while at any rate.

No not for a while, but you mentioned sixty years ?—I think we should limit our future borrowings to the excess of exports over imports.

Probably we will have no control over the future Governments and their actions ?—We probably will not have.

And you are simply providing for to-day ?—That is it.

The local authorities have found one of their difficulties in providing for consolidation conversion of loans is to take the next step and provide for future working ?—I have not dealt with that at all. I am only dealing with the debts that have been contracted in the past, and that is as far as I am prepared to go.

That is our trouble. I am a member of a local authority and our trouble is to provide for future working of the local authority ?—Have you not enough revenue to provide for that working ?

I do not suppose we will stay in our present position. We will get out of our present position, and some scheme must be evolved where we will go ahead ?—That raising of money for local public works and so on is really just simply getting the advantage of the expenditure of the money and leaving posterity to fight its own battle out.

Exactly ?—In these proposals of mine posterity is trying to get rid of its predecessors' sins, if I may put it that way.

Mr. Ashwin.] What has posterity done for us ?—It has not had the opportunity.

Mr. Clinkard.] I do not think we need be scared too much about this word "inflation." The probabilities are that whatever action is taken some inflation will have to take place. It is more a question of degree. How soon do you imagine that the first effects would be felt of your proposals ? How soon would the first payments be made ?—I think I could answer that question best this way, that I believe the effect would be very profound once we felt that we had something tangible, that we were recovering, and that something had been done, rather than the actual money saving.

But supposing that it is two or three years before one of these loans fell due for payment. You would never know, even supposing that we decided to do it before that, some one else might come along and change the idea ?—Quite true.

So that it seems to me that something must be done at once, and there appears to me to be a weak point in the initiation of the operation of your scheme. The next thing is, even though it may be sound in principle, I do not know that I agree with either of those quotations that you give. I do not think that inflation would be as great as is suggested, but I do think that if it was carried to your final conclusion in the lapse of years the inflation must be very great, and while we may justify a certain amount of inflation there must be a limit ; otherwise we would simply get into the same position as France. I think it would be very interesting to you if you followed the operations of the inflation in France. There they added 25 per cent. in the first operation in order to obviate taxation. That relieved the taxpayer all round with exactly the object that you have, only in another way, to reduce taxation, and prices went up almost exactly in proportion to the increase in the quantity of currency as cited by Mr. Ashwin. That has been proved over and over again, that wherever you increase the quantity of currency you inevitably raise the prices of commodities, because there is more of the commodity currency to exchange for the commodity of consumption. There seems to me to be a weak point in your advocacy, the question whether the first would not operate soon enough and the final would operate at too great an extent. I do not know whether you have tried to meet those two points ?—The alteration in the due date of the loans is something that was brought to my notice after this was prepared. I knew the loans had been converted, but I did not know that they had been converted to the stage that none fell due for the next nine years.

That would mean that, supposing we, as a Committee, recognized that some reflation to a degree was necessary, your proposals would be far too remote. You could not get the results in time. Now, there have been some other issues raised in connection with what you would do for other debtors. There is

no doubt that your proposal, if put into operation, would so far inflate the currency as to reduce the burden of indebtedness on all other classes of debtors. I think your economist friend would agree with that, that wherever you increase the amount of currency you decrease the burden of the debtor more or less at the expense of the creditor ?—I do not see that.

That is an established fact, that deflation is always to the advantage of the creditor, and reflation or inflation is always to the advantage of the debtor and detrimental in an equal degree to the creditor ?—I should have thought it was the other way round.

No ?—Do you say that deflation is to the advantage of the creditor ?

Yes. Because the pound that he receives, his pound of flesh, is a more valuable pound of flesh than it would have been under the inflated conditions. He gets blood and all. And of course, on the other hand, when you inflate you pay off your debt with a depreciated currency, a less valuable currency. You will recognize it better perhaps if you take the mode that is being practised now, I think, in America. They are there reducing the gold content of the dollar, degrading the specie, as it were, debasing the specie. Some call it devaluation. So that a man who has so many thousand dollars, after that operation he is able to pay that debt with coinage which does not possess anything like the same amount of gold which the original coinage did. That is exactly inflation, only it is done in a different form ; by diluting the currency, or injecting an additional amount of currency, you get exactly the same effect ?—Is that the reason why we have a new silver coinage in New Zealand ?

The silver currency at the present time is not based on its intrinsic value. It is on the same principle as paper currency. It is representative money really. It represents a certain equivalent in gold, or supposed to, and it represents a certain legal tender. It is legal tender up to a given amount, up to £2, but not more, because it does not contain the intrinsic value, and we are still clinging to the old supposition that it has to have a relationship to gold in order to give it that £2 worth, but really it is representative. Mr. Langstone raised the question that if the Government discounted Treasury bills that the position would be the same. I think Mr. Langstone is in error there, because if the Government discounted Treasury bills they would be operating on the currency. We have about £8,000,000 of currency, roughly speaking, available in New Zealand at the present time. The note-issue has varied, but you can take it round about £8,000,000 as being stationary all the time. Well, to discount the Treasury bills would be operating on the use of that £8,000,000, whereas your proposal, supposing they paid off £5,000,000 of loan, would be to add another £5,000,000 to the existing £8,000,000, and then you can see from that that the continual injection of an additional amount of note-issue must materially affect the value of that currency. I do not see how we could escape. Mr. Langstone's comparison with the IOU was : He asked you whether, when that pound was paid for a debt, that did not cancel the pound. Of course it does not ?—I agree with you there.

It simply transfers the ownership of the pound from one individual to another, and when he compared it with an IOU the position is quite different. If I issue an IOU to you when you bring it back to me I have got to redeem it with some value, otherwise I continue to owe it, and, having redeemed it, then I can destroy it ; but if my friend on the left or the right were to take it from you he would still owe his claim against me, and that is the position of the loan ?—Yes. I think so too.

Now the bank balances. I do not know whether you have watched that at all, this very rapid increase in the bank deposits. Do you think that it is possible that some of the exporters from the Old Country to this country, instead of having the funds remitted at the present time, are, through their agents, having funds deposited with the banks here ?—Yes. Definitely.

Probably that has a great deal to do with that rapid growth in the bank deposits ?—Yes. And instead of raising money in New Zealand a lot of firms are raising their loans in England for building purposes.

And depositing credits here and raising loans at the other end, but particularly in view of the low price of short-dated loans, financing in that way ?—Yes. If they have got a £125,000 building to put up, they raise £100,000 in London and then go and get the unemployment subsidy on it.

Captain Rushworth.] I was very interested in your suggestion that New Zealand was a debtor nation. That is perfectly true. You were referring to the internal debt all through. Is there any nation in the world that is not a debtor nation ?—I could not say.

It is an interesting point. I was wondering whether you had intentionally limited it to New Zealand ?—No. I think I am right in saying that New Zealand is a debtor nation, and I was just using the point to show that, as a debtor nation, the weight of debt is a heavy load. I was not saying we are the only debtor nation.

I was particularly interested in your proposal to issue manufactured money direct by the State. That is a fundamental point is it not ?—Yes.

The backing for that money issue would be the national credit ?—Yes. Is that not always the case ?

Really it is, but, unfortunately, it has become a controversial point apparently. I just wanted your views on that. The manufacture and issue of that money would be completely unjustified if the nation were producing no consumable goods—that is to say, if the money could not be spent ?—Of course.

Supposing the nation goes on increasing its production of consumable goods there should surely be a progressive increase in the volume of money ?—Yes.

So that, whilst you have on the one side national appreciation you have on the other side national depreciation ? So long as the appreciation is greater than the depreciation there should be a progressive increase in the volume of money ?—You fire these things at me and you have had time to think them over. Is the answer to that question vital ?

No. I am trying to get at the necessity for the redemption. I think the necessity for redemption would only come in when you have a falling-off in the product of your consumable goods ?—No.

Personally I think it is necessary. If you are going to put any of this printed money into circulation I think you have got to get it out. And the process of getting it out of circulation is a slow one.

When money was entirely metallic it was manufactured by the Royal Mint. It was minted free of charge, and became the permanent property of the owner of the bullion ?—Yes.

That was put into permanent circulation ?—Yes.

There was no question of redeeming the money ?—No.

It is only with the advent of printed money that this idea of redemption has arisen ?—Yes.

I suggest it might be worth while pursuing that a little further ?—All right.

The issue of that money by the State instead of borrowing it from the banks means that it would be practically costless to the State ?—Yes. The cost would be infinitesimal.

It has been suggested that this would be an inflationary measure. Your economist friend suggested it would mean a twenty years' boom ?—Yes.

Supposing for the moment we agree that the putting of that money into circulation would be an act of inflation causing rises in prices, would not that rise be almost immediate ?—No. I do not think so. I do not think it would be as immediate as I would like it to be. I think it would be rather slow.

Over a period of twenty years ?—Oh yes, then.

When you mentioned that, it struck me as being quite an impossible proposition to spread it over twenty years. The inflation if it were to exist would be over a much shorter period than that ?—I do not see how it would. I think the inflationary period would be directly in ratio to the time it takes to get it into circulation.

At present there is a mountain of debt behind almost everybody, and the first claims on that money you put into circulation would be to repay debt ?—No, I do not see it. I say that the people who hold Government stock are principally mortgagees or holders of overdraft.

I was not thinking of that so much. You take the wage-earners. They all have their commitments ?—Yes. I do not think there is as much debt as that. People to-day generally live within their income. In going among those people last year it was remarkable to find the number who managed to keep the roof above their heads.

You have evidently not had a chat with the Superintendent of the State Advances Office ?—No. Possibly the State Advances Office does not advance money on the class of house I saw. I was amazed in connection with that relief work last year to find the number of men who are paying their rent. In one instance a man had paid his rent a fortnight in advance and he did not have 3s. worth of food in the house.

If there is any substantial amount of individual debt in the country, then the tendency would be for the increased money to be paid over in liquidation of that debt ?—Possibly it would be.

If that happened there would not be any extra claim on consumable goods and you would not get a rise in the price-level ?—That is right.

Mr. Lye.] I want to get a little clearer conception of Mr. Holland's scheme, and it will be necessary for me to ask a question or two. Your proposal is by issue from the central Reserve Bank to meet these loans and pay them off ?—Yes.

You say that the Government is taxing the people to the extent of £4,000,000 a year to pay interest on the present debt. Now, as the loans mature and you issue central Reserve Bank notes and pay off those loans you still continue to tax the people, but under your scheme you reduce taxation immediately ?—Yes.

You only collect £2,000,000 a year in place of the £4,000,000 a year formerly collected ?—Yes, when it is in full operation.

Is that £2,000,000 a year that is raised used to cancel out the notes on an average of, say, approximately £2,000,000 a year ?—Yes.

Mr. Langstone suggested that if that were sound as far as the payment of our national debt is concerned would it not be sound to pay off the mortgage debts of the private individual, and I took it that you meant to convey in your answer that it would not be sound to apply it to private debts because the mortgagors of the Dominion would not have the right which the State has of issuing money ?—That is quite true.

Mr. Langstone suggested that the Government to-day issued Treasury bills to pay off Government stocks, but that I suggest is not correct. The Government, when it issues Treasury bills issues those bills in anticipation of revenue to meet current expenditure and to provide a fund now, also to meet any losses which may occur in raising the exchange-rate or under the Bank Indemnity Act, but the Government does not issue to-day Treasury bills for the purpose of paying off debt, so that there can be no real truth in the suggestion that the Government does do that to-day. Now, from time to time it has been suggested that it is necessary to increase the volume of money in circulation as the volume of production increases. Do you take that to be necessary ?—I should think it almost follows. I am sure it does.

Have you any opinion on this question that the great volume of exchange of goods and services, particularly of goods, is really conducted not so much by money or even currency, which is wider in its sense, but that it is largely conducted by carrying out the transfer of credits from one to the other. The money factor does not enter into it very largely. In the last analysis goods pay for goods. Would you agree with that ?—Not altogether. I am not quite sure that I thoroughly understand your question. When I sell goods somebody pays me.

I mean in international trade. It is not a transfer of money. It is a transfer of credits from one to the other ?—Yes.

Have you any definite opinion as to whether it was right and necessary to increase the volume of currency in circulation as the volume of goods increased ?—No. I have not any definite views.

I take it, though, that when you realized the necessity for the cancellation of the issue by the central Reserve Bank of notes to meet the loans that were maturing you believed that it was wise and necessary to cancel those notes out in a period of time ?—Yes.

I should take from that answer that you think it is necessary to materially increase the volume of money or currency as the volume of goods increases ?—I think my answer to that would be that it is not possible to get rid of the internal debt without doing it this way.

You do not attach a very great deal of weight to the statement that your plan would ultimately mean inflation with corresponding increases in the price-level and an increase in the exchange-rate ? You do not attach a great deal of importance to the opinion of your friend the economist ?—I do, but, I also attach equal importance to the opinions of the other people.

You think the position would not definitely get out of hand, while at the same time the net result of your scheme would be of material advantage to people ?—Quite.

Would you not agree that the difficulties the people have had in regard to the two 10-per-cent. cuts was the effect of the falling-off of the national income brought about by a fall in the exchange of our goods overseas ?—I do not know about the two 10-per-cent. cuts. That is a Government measure and I do not think that I should be asked to assume the responsibility of saying why they did it.

Mr. Langstone suggested that the decrease in the wages paid which was practically universal, because once the State reduced wages of Civil servants that was rapidly followed by the private employers of labour throughout the country, was the effect of the falling-off of the national income, but it was not the cause of the falling-off of the national income ?—No, I do not think so either.

In the repayment of these Government loans the people would find themselves in a position of having in their hands a certain amount of purchasing-power of money and there would be as a result a definite competition then for investment ?—Yes.

You say, of course, that the people in New Zealand, whilst they are good spenders, they do not spend their capital—they spend their income ?—Yes.

Now, if there happened to be that great competition for investment you believe as a result of your scheme there would be a corresponding reduction in the interest-rates ?—Yes.

And that it might be a good thing to release the moneys which are now owing to the Government. Pay them back to those people who are entitled to receive them and then there would be immediate competition for investment at lower rates of interest ?—Yes.

Of course, interest, which is a first charge upon the State or upon an individual, is a material factor—particularly high rates of interest—in making the position difficult for either individual or nation ?—Yes.

And in that respect you say your scheme has very substantial merit ?—Yes. I think it would greatly reduce interest.

Dr. Sutch.] Who would issue the Reserve Bank notes in the first place for your scheme ?—The Reserve Bank.

Would they lend them to the Government ?—I think they would have them produced and simply handed to the Government.

But the Reserve Bank would have certain objections to that. The Government have no legislative right to issue the bank-notes, so that if they handed the Government the Reserve Bank notes it would have to be a loan ?—No. I think it might be done this way: That the Reserve Bank would have them available. Right, oh! Say, I have £100 of Government stock maturing, my instructions are to apply to the Reserve Bank and get my notes.

But when the Reserve Bank has paid out its £100 of Reserve Bank notes what has it in exchange ?—It has nothing. It has the backing of the State behind that issue.

But as far as the book-keeping of the Reserve Bank is concerned it is up against a difficulty ?—It has issued those notes. Where is the difficulty ?

You are going to redeem the notes ?—Yes.

The Reserve Bank has nothing to show that it has a claim on the redemption. The Government is not compelled to pay anything back to the Reserve Bank ?—No, but it cancels them.

The Government would get them back in taxation ?—Yes.

And would pay them back to the Reserve Bank ?—No. Cancel them.

The Government has not paid out these notes. The Reserve Bank paid them out. The Government is getting them back. Is there not a gap somewhere ?—I think that gap is easily filled by anybody who wanted to fill it in.

There is no evidence of any relationship between the Reserve Bank and the Government in this ?—I think the relationship should be proved.

It would probably mean that this was a non-interest-bearing loan ?—Yes. The necessary machinery would have to be provided.

The Reserve Bank notes also are a basis for credit in our trading banks—that is, they will in future look to the Reserve Bank as to how they can expand their credit. Might it not mean therefore that they would get many more Reserve Bank notes than they would otherwise, and could pay those to the Reserve Bank and could count them as a credit ?—No, I think not.

This reserve does not have to be sterling, it is a certain percentage of their payment on long-term liabilities. These notes could be just reserve ?

Mr. Clinkard: They would be part of the currency.

Dr. Sutch.] The position then arises if you have a big reserve you can advance credit much more freely than if you have a small reserve ?—Yes.

It might so happen that our trading banks would have all those notes issued to redeem Government stock as a reserve for their issue of credit ?—Yes.

There is a possibility therefore of a great expansion of credit on the strength of this reserve ?—But who wants it ?

Oh, that is another thing too. I grant you that the bank would not necessarily lend unless it is able to ensure that the money is going to be paid back. Another factor is that Reserve Bank notes will be issued in millions and can be paid by the trading banks into their account at the Reserve Bank. They have at present to keep a reserve with that bank—in fact, this is one of the methods of monetary control. If these reserves are huge the control of the Reserve Bank is by so-much the less. So that you weaken the control of the Reserve Bank, you give the trading banks huge reserves to work on and give them the possibility of expanding credit enormously ?—Yes.

Then the point arises, why have these notes ? Why not issue Treasury bills ?—They are interest-bearing.

I am not suggesting that it could be done. Why did you not put that suggestion up ?—I will change it if it suits you. It suits me just as well.

Taxation was merely the transfer of purchasing-power in the community. We are taxed now to pay interest on our internal debt ?—Yes.

That is just a transfer from the people who pay the taxes to the ones who get it ?—Yes.

The purchasing-power of the community has not been less because of taxation ?—Oh, has it not ? I do not think that.

The net result to the whole community is just a transfer of the purchasing-power ?—Yes.

Even though you are remitting taxation you are not increasing purchasing-power by doing that ?—That may be, too.

Mr. Langstone.] On that point if taxation is used for paying salaries and other things how can it destroy purchasing-power.

Dr. Sutch.] I say it does not. The moment we have plenty of credit available in a bank you ask me this question, Why should not that credit be lent ? The reason is in many cases that the borrower has not sufficient security, and does not feel that he can borrow with advantage ?—And the rate is too high and the basis of lending is wrong.

Under your scheme we will have increased deposits ?—Yes.

It will not be a question of borrowing from the bank, the money will be there and it will be yours ?—Yes.

People will tend to spend more because they will not have to repay ?—Yes.

So that as far as the man in the street is concerned he would rather have a deposit than an increased overdraft ?—You think he would be more inclined to spend a deposit than an increased overdraft ?

He has to pay back an increased overdraft if he spends it ?—It would not be increased.

He has the same increased overdraft facilities and a deposit ?—Can he have both ?

He can have both. Take two different men. You have an increased overdraft. I have a deposit. If you spend yours you have to repay it. If I spend mine I do not have to pay it back to the bank. You spend the bank's money and you have to repay it, whereas when I spend my deposit I do not have to repay it ?—Actually I am sure that you have to repay overdrafts. I do not think the banks want you to pay an overdraft off.

The condition of the lending is that ultimately you have to repay it ?—I have had an overdraft as long as I can remember.

But your overdraft is repayable on demand ?—Yes.

The point I want to make is that as far as available purchasing-power is concerned it is easier to spend a deposit than it is to spend an overdraft, because I do not have to repay my deposit ?—I cannot go with you that distance. I do not agree with that. I think you know your deposit is capital and therefore you do not spend it.

But if I have a current account (not necessarily using that for capital), but even if I am, I want to invest it. You said you would not spend your money, but would invest it, but that is just somebody else spending it ?—If they spend it, you have the security.

I am not worrying about that security. I want to clear up this : You say this money would be more purchasing-power, but you are not necessarily going to spend it at all. If you invest some of it, it is still being spent ?

Captain Rushworth : It could be invested in overdraft ?

Dr. Sutch.] Yes, it could be invested by being put on fixed deposit, and the net result might be the purchasing-power might not be increased. Normally the tendency would be to increase the purchasing-power. If you invest, generally there is more spending, so that even if you do not want to spend very much, your investment would be expenditure for some one ?—Yes.

You used the argument that you did not want a house ?—I did not use that argument. I told my friend I did not want a house. I combated an argument with it.

Your friend was suggesting that there were many things available that one might buy, and picked out an example ; that example did not suit you ?—I have got most of the things I do want. We want a little bit more security, that is all.

Let us get back to our argument on what you want to buy. If there is to be this expenditure and there is a limited amount of goods that could be produced at a certain time, you are going to have an increase of expenditure on a limited amount of goods, and the result will be that prices will rise. The point is, that might get an even greater rise than the amount of money that is issued. The position in Germany and other countries shows that a certain amount of money was issued, but there was a rise in price more than proportionate to the amount of money, because the people thought there was one thing that was not going to depreciate, and that was property. They wanted property quickly, and when you have a very quick turnover of money, the result was a greater increase in prices. While I do not want to agree necessarily with your economist friend and say a 250 per cent. increase, I can envisage a very great increase in prices ?—What class of goods would he want to buy overseas that he has not got now ?

That makes the position worse. There is a limited amount of goods and there is a pressure of purchasing-power on those goods ?—What things would he have then that he has not now ?

That does not necessarily affect the situation ?—He could not buy them. If a man has a motor-car, he does not throw it over a fence and get another one.

If you would say there would be more goods coming into consumption to balance this increased purchasing-power, you might make out a case where inflation would be absent ?—If they are going to increase the imports, the exchange-rate would go up to 250 per cent.

Not necessarily imports ?—10 per cent. or 15 per cent. of the capital would be exchange, and it would be inflationary to that amount.

What about the other 90 per cent. or 85 per cent. ?—I do not think that would be spent in capital expenditure.

Put it in a sock ?—I think there is a good deal in the sock to-day.

Yes. You have got to hoard it to keep it out of the ordinary channel of trade ?—I do not think so. Take the people who export stuff to-day; they are holding on such short date that the banks do not dare lend it out.

It is hoarded there ?—Yes, I suppose so.

AUCKLAND, WEDNESDAY, 21ST MARCH, 1934.

Witnesses: Mr. W. G. RUSSELL and Mr. W. S. LANG.

Mr. Lang: Mr. Chairman and gentlemen, my friend, Mr. Russell, has asked me to say a few words preparatory to what he has to say. With your kind permission, I should like to endeavour, very briefly, to sketch a background, which, if I am not too presumptuous, might be called a philosophic background. I approach the task with humility, and fully conscious of the possibilities of error. But, I should first like to take the opportunity of saying that, having attended several sessions, I am impressed with the work, and the manner of doing the work. I feel hopeful that reports of value to any civilized community will be issued, redounding to the credit of this Dominion. One point that has struck me is that, although we all by means of a system of compulsory education have a knowledge of elementary mathematics, we so seldom make use of the convenience. And I plead guilty myself. To illustrate: If it be said that outwards goods and services are equal in value to inward goods and services, then it is evident that we could express ourselves with some saving in time, by using a formula thus $G + S = G^1 + S^1$. So doing, places a visual object before us, and facilitates the focusing of thought. If a tariff measure, or a change of tariff is proposed, we may refer to the formula. If the object of the measure be that of reducing the amount of the imported goods represented in the equation $G + S = G^1 + S^1$ by the symbol G^1, we can inquire what G^1 means. It occurs to us, at once, that it is made up of components, quantities of goods and prices, a sum of a number of products. What about S^1 ? That represents values received in services—shipping services, for example. That being so, if G^1 be reduced, S^1 may also be reduced, and the sum of $G^1 + S^1$ will be reduced. But the right-hand side of the equation $G^1 + S^1$ must equal, by hypothesis, the left-hand side $G + S$. If S is not affected, the reduction must fall on G. The exporters must then alter the components, or *a* component of G. If the component which is the physical quantities of goods is not changed, then the component which is the prices of the exported goods must be reduced. And so on. Supposing we say $Q\ V = a$ constant. Then, as above suggested, if Q be reduced V must be increased. If V be decreased Q must be increased, so that the multiplication or product of Q by V will always give the quantity which we have called a constant. Now if Q represents the quantity of currency, and V represents the velocity of that currency, it would seem that, if the quantity of currency is reduced, the velocity must be increased, and *vice versa*. What is the constant in $Q\ V = a$ constant ? It may be related to an index price, but at that stage we are well advised, no doubt, to consult the trained economist. It will be sufficient, if we have used the convenience of our schoolboy mathematics, to help us to save time, and benefit from an easier and clearer conception of issues. One witness gave figures of astronomical dimensions relative to the amount of a penny invested for a millennium or two at 5 per cent. interest. I consulted my old algebra book, and met with the exhilarating information $M = PR^N$. Without working the formula with the date supplied, I saw that, very likely, there would not be anything to question in the witness's mathematics, but I said, "The gentlemen on the Committee have a reputation for common-sense, and will ask themselves the questions, 'Are the premises correct ? Can 5 per cent. on 1d. be collected ? If collected, can it be invested at 5 per cent. ?'" Some, in seats of authority, say with impressive gravity, "Money doubles itself in fifteen years." We have to consult our formula $M = PR^N$ to find out what the rate of interest is, and compare that rate with the current ruling rate. Not merely that, but we come to wonder if the present ruling rate will prevail for fifteen years. Common-sense, also, asks, "Who has the desire to be a slave to saving, and who can avoid spending at least a portion of the interest received ?" The reply may be, "The banks and the insurance companies." No doubt the directors of these institutions have persuaded their shareholders in many cases to deny themselves the spending of a portion of the increments, but did the borrowers of these savings borrow for the benefit of the shareholders, or for their own benefit, and to a large extent, has not that which has been borrowed, fructified in the pockets of the borrowers, as some one has put it picturesquely rather than accurately ? You have been much concerned round about that question. Leaving the interesting topic of the more frequent employment of mathematical expressions, pray allow me to quote Thomas Carlyle. Much as I should like to read the entire passage, I refrain, and merely quote, "Man is a tool-using animal." You may be thinking of man as a voting, taxpaying, interest-paying,

interest-receiving, or any other kind of functional animal, and no doubt quite rightly ; nevertheless, it may be true, that—man depends on the tool-maker ; civilization, in its present mode, on the machine-tool maker. Does it not then seem somewhat odd, when objections are raised to machinery, for example, if used, by the relief workers ? I propose taking you on a journey back in time, starting at the period in time when money was invented. That invention was no doubt according to the adage " Necessity is the mother of invention," trade being the necessity. I cannot help remarking, in an incidental way, that engineers have often found invention to be the mother of necessity. Trade, of course, came about through the division of labour. Continuing our journey backward in time, primitive man was anxious, for the sake of his peace of mind, to have an explanation of phenomena. It was assumed that powers greater than man must be propitiated. Magic was invented, imitative and contagious magic. I should not have been surprised if one or other witness had burst forth with something of this nature, " Behold the high priests, in the temple of Mammon, who with spell and incantation have paralysed the populace," or made some reference to " Any mighty magician, who can charm the people with a theorem." We now have arrived at the utmost limit of our journey, at that period in time, when one sole organism inhabited this planet. That superficially simple entity, scientists tell us, must have been fearfully and wonderfully made, organs functioning in the conquest of the environment. Somehow, there were two entities, probably very soon, and at that period in time I suggest, arose the great problem, the interest of the one, as against the interest of the many. One plus one make two, so says arithemetic, but with the statement " One and one " is it not necessary to inquire what " and " means, as well as to analyse each of the " ones " ? What about the problem of the one and the many to-day ? Men are more or less selfish. Men are more or less public-spirited. Civilization may be measured in terms of public-spiritedness, and I confess that I feel unable, in this here and now, with any show of common-sense, to propose a system which does not incorporate the incentives—position, power, and possession. An organization must have a head, an authority. Is there some best method of appointing an authority, for a time, or indefinitely ? Some best method for replacing the authority ? For, alas ! our governors, being human, may err, their errors being those of omission and commission, which are breaches of responsibility. Lord Hewart has written a book called " The New Despotism." You are no doubt familiar with it. The subtle methods of the bureaucrats, skeleton Acts, Orders in Council, ousting of these bulwarks of justice—the law-courts—all is eloquently submitted. Parliamentary government is threatened or has actually been overcome by dictatorship. Truly, eternal vigilance is the price of liberty. Assuming that the Civil Service does not rule this country, it may—I say it may—be agreed that in New Zealand Parliament shall remain supreme, and shall decide who shall be the authority, who shall be the Government. Is the function of Government not to govern ? Does governing include the Government engaging in the production of goods ? Some say, " Yes. " After much consideration and investigation I venture to suggest that the limit of connection between the Government and production should be set at financing enterprises, which will soonest be independent. I hold that the foundations of trade are good government, national character, and natural conditions. I remember asking an old friend, a clever engineer, with several valuable inventions to his credit, if he made himself familiar with *all* that had been done as a preliminary step. He said, " By no means. That would cramp my style. Investigations may come later." I have found by experience that there is much to be said for this procedure, and it is the procedure adopted when preparing the pamphlet " Time-Society," which is before you. On pages 5 and 6 I suggest an ideal, which few, I imagine, will disagree with, so far as it is an ideal. The ideal is that each citizen should have : A preparatory period which I have called t_1, a junior working period which I have called t_2, a senior working period which I have called t_3, a period of retiral from production which I have called t_4. With adequate means, civilization implies an extension of the t_4 period generally, and well distributed. Should the matter interest you, and should time permit, I feel sure my friend Mr. Russell would be pleased to demonstrate that the financial policies followed in Great Britain and in New Zealand have curtailed the t_4 period. Old men are clinging to their jobs, young people are experiencing increasing difficulties in getting started. I can only agree to disagree with those who would eliminate the t_4 period. Supposing, however, that this were done effectually, and we all had to die in harness. Supposing, of course, also, unemployment were somehow eliminated, and that labour-saving devices were retained or even improved, then it would be a matter of reducing the number of hours worked daily, would it not ? A continual process of adaptation as to proportions of periods, is of course in mind, in regard to the time ideal. On page 30 will be found a topic entitled " A subsistence rate to all." The reason for introducing this topic is largely, but not entirely, technological unemployment. We must not allow our human assets to depreciate. It may be clear to some who have read " Time-Society," that production and the t_4 period may be controlled. It is less clear, I must admit, that by the operation of the whole system, including the R.-L. Plan, production and consumption might be equated. The whole system depends upon production for profit, and on obedience to laws of supply and demand, conceptions which I understand are much abhorred in some quarters. If man be one-half million years, or even one million years old, and if the term of the whole span of man's life on this planet be several thousand million years, is there a possibility of a state of rational bliss for the overwhelmingly larger portion of the span ? Or may we prejudice this possibility, for example, by squandering or scattering some natural resource in such a manner as to make it unavailable in the future ? Is our method to be one in accordance with the highest intelligence we can produce, or is it to be after the manner of, shall we say, rabbits on an island ? Let us open the ledger and turn to the account " Current Generation." On the debit side we observe, " To the Past—Cultural Inheritance." On the credit side must appear, " By the Future—Cultural Inheritance." Is the balance, the achievement, is it to be a credit or a debit balance ? Before resuming my seat, may I say the pamphlet " Time-Society " was prepared with the object of sending it to men of a philosophical turn of mind, whose books I have enjoyed. Acknowledgments are now arriving. May

I read two brief letters received this week, particularly as these refer to the R.-L. Plan in regard to which Mr. Russell appears. The first letter is from a gentleman who has studied psychology :—

There is a consensus of opinion pervading the evidence given before the Monetary Inquiry that a large factor in our present financial troubles is lack of confidence in the future. I think it is generally agreed that psychologically confidence is created by the leaders expressing it in their programmes for the future. It seems to me that the R.-L. scheme, in planning something extending one hundred years into the future, has accomplished something of great psychological value, far greater than appears at first sight—that is, a very strong practical expression of confidence in the future. To those who realize the enormous importance of psychological values in the present crisis this unique merit of the scheme should appeal strongly. I think both this confidence factor and the appeal to the lottery element will be very favourably received by the Monetary Inquiry Board if it is fully enlarged upon to call their special attention to it.

The second is from a Professor in an English University :—

Thanks for your work on "Time-Society." I have found it interesting and suggestive. Any rational method for liquidating public debts within a reasonable time is bound to be of the highest advantage to a society. Your plan appears to me to be sound and attractive, though I am unable to express a judgment on the practical possibilities of putting it into operation. I will pass on the work to our economic department and ask them to consider it, and I have no doubt they will give it their attention. You ask about possible readers who might care to have a copy. Probably you have already thought of sending review copies to the *London Economist* and other similar journals. The Secretary of the Statistical Society, London, would, no doubt, also be glad to see a copy and probably also the editor of such a journal as the *London Statesman and Nation*. It will be interesting to see if the Dominion of New Zealand, which has always advanced in its policy, decides to make an experiment in the direction of your plan.

Mr. Chairman and gentlemen, thank you very much for your attention.

Mr. Russell : Mr. Chairman and gentlemen, I thank you for the opportunity of appearing before you in regard to the R.-L. Plan. I have been present at some of the meetings, and early saw that you were showing forbearance to the witnesses, but I will make my remarks brief. I also noticed that you allowed them to express what I call benevolent generalities. If I use this privilege, it will only be to lead up to my subject and show my line of thought. I have no intention of expounding the plan, as that would take hours, but as the plan has been in your hands I will only read the introduction. The R.-L. Plan reduces the burden of taxation immediately. By the R.-L. Plan the public debt becomes less each year. Each year the burden of taxation and debt is less. The idea, then, is either useful or not. If useful, then the plan should be examined. If now it is examined, then the matter to be decided is : Whether the method suggested is good or bad. It will be clear then, that my subject is "*Debt.*" I would like to say a word about *debt*. The physical forces of nature let loose a flood, but it requires intelligence to provide a system of irrigation. To-day we are suffering from a *flood of debt*. Most men, after they have food, clothing, and shelter, seek for *some one to be indebted to them.* Banks and insurance companies are : *Seeking some one to be indebted to* and *then seeking to be indebted to some one else.* By the aid of *debt* we have hastened the day of obtaining benefits. *Debt* then, must be of some use. When we think of *debts* our thoughts lead to "money," and when we think of money the banks come to mind. There are three principal things about banking : banking principles, banking policy, banking practice. I am seriously of the opinion that money was invented for the purpose of *discharging debt.* I should like to make one addition to the plan, as I am putting it before New Zealand. See page 14 of the R.-L. Plan and page 20 of "Time-Society." In regard to the overdrafts on security of R.-L. debentures, there would be no bank charge for keeping an account, and the banks could not call up the overdraft.

Dr. Sutch : I have read only the R.-L. Plan, I have not seen "Time-Society," so perhaps any comments I have to make may have been answered in "Time-Society." I think most of us realize that those astronomical figures that were given to us were not a serious application to the present situation, but your mathematical comments on that are quite useful. Yours is a study in the political science more than in money system ?

Mr. Lang : I think so.

Dr. Sutch : It is just on the fringe of our order of reference rather than in the centre of it ?

Mr. Lang : I think so.

Dr. Sutch : At the present time we often finance by short-term loans from the banking system, not necessarily in New Zealand, but it can be done sometimes at 1 per cent. What advantage does your plan offer over that method of financing ?

Mr. Lang : I think that Mr. Russell would answer that question ; he might make a reference to the short-term rate in New Zealand.

Mr. Russell : What is your question.

Dr. Sutch : Not necessarily, but in many countries the Government can finance on short-term borrowing at 1 per cent., and could carry this on for some years. In Australia they have a big floating debt of many millions not at 1 or 2, but between 2 and 3 per cent. What advantages does your plan hold over that method of financing ?

Mr. Russell : I understand this Committee is a Committee of inquiry to find the truth. You say that the short-dated loans can be carried on for some years. Would you explain what you mean by that ? What is the length of a short-dated loan ?

Dr. Sutch : They are probably borrowed for perhaps three months ; they are renewed.

Mr. Russell : Let us get at the truth. If it is a three months' loan, is it paid back at three months ?

Dr. Sutch : No ; it is renewed in the case of Australia.

Mr. Russell : That means that you pay off one by making a new debt ?

Dr. Sutch : Yes.

Mr. Russell : I have not been interested particularly in the short-dated loans. I am not prepared to go into it, because I do not think it would lead us anywhere. First of all, one would require to look up the p oportion of long-dated and short-dated.

Dr. Sutch : Yes.

Mr. Russell : Therefore if I am beginning to deal with the millions of long-dated debt, that would be a start : would you agree ?

Dr. Sutch : It would be a start.

Mr. Russell : Let us consider the R.-L. debentures : are they all long-dated or are some of them short-dated ?

Dr. Sutch : In the R.-L. they are all long-dated, but the position of the Australian Government is this : They may have £13,000,000 of this floating debt which they will want to fund. They are waiting till the rate of interest gets low enough, say 2½ per cent. While I cannot speak for the Australian Government, we will assume they did fund that debt at 2½ per cent.

Mr. Russell : You mean you have converted it into a long-dated debt, therefore you are back to the R.-L. Plan ?

Dr. Sutch : Yes.

Mr. Russell : But you say that the R.-L. debentures are all long-dated ?

Dr. Sutch : No.

Mr. Russell : The R.-L. debentures are not all long-dated debentures ?

Dr. Sutch : No, I quite see that some debt can be paid off the first year.

Mr. Russell : Would you call it a short-dated one or longer than a short ?

Dr. Sutch : You have a new species here, but for our purposes I think it would be called a long-term loan.

Mr. Russell : I am suggesting as long-dated as you like to put it ; you appreciate the misnomer ?

Dr. Sutch : I appreciate that.

Mr. Russell : If you begin to discuss short-dated loans, are we discussing them from the concrete or abstract ? Are we going to look at it mathematically or just the ordinary way ?

Dr. Sutch : It depends on what you mean by the ordinary way. The general principles would perhaps be the mathematical principles also.

Mr. Russell : If I go to London, there are some short-dated loans less than 1 per cent. ; you admit that ?

Dr. Sutch : Yes.

Mr. Russell : If you came to a smaller country like New Zealand, what do you find ? We all wish to find the facts.

Dr. Sutch : You mean that our short-term loans are 5 per cent.?

Mr. Russell : Yes. Might I ask, is that a banking principle or a banking policy, or a banking practice, or is it a political one ? If it is a political one I do not wish to talk on it, but it seems strange to me. This is just my way of putting it—it is my own thought. Why should the banks get 5 per cent. or 5½ per cent. when you are in the position politically of compelling the citizen to take 4 per cent. I do not wish to enter into that, but that is the reason I want to ask what you mean by short-dated loans ; is it low interest that makes them short-dated, or high interest ?

Dr. Sutch : It is purely the term that makes them short-term. The point is we are going to found the Reserve Bank in a few month's time, and it is anticipated that the rate for short-term loans will drop a good deal from 5 per cent. ; we hope that will be a thing of the past.

Mr. Russell : That means that the central bank is going to know what short-term loans are ?

Dr. Sutch : I am not prophesying what the central bank will do.

Mr. Lang : Is the short-dated-loan market not a convenience for the temporary use of money ?

Dr. Sutch : Not in New Zealand. We have not a very big market in New Zealand. Not in the usual sense. We have a few firms who lend £10,000 or £100,000 to the Government on short term, in competition with the banks. It is generally known, but we have not a short-term market.

Mr. Russell : Would three years be a short-dated one, or five years ? That is the reason I asked if we could do it mathematically, and show distinctly whether six months, or six days, or six years. Has any particular time ever been fixed ?

Dr. Sutch : In practice it is a matter of months for the short-term loans.

Mr. Russell : And if it is not paid off or renewed, it might run on for years ?

Dr. Sutch : Yes.

Mr. Russell : I am trying to see if my line of thought is correct. I think we can leave those short-dated loans, because there are any amount of millions of long-dated ones.

Dr. Sutch : The point is this : Australia has over £13,000,000 of short-term loans at the moment, and is finding it is better to finance at the current rate of interest by short-term loans rather than long-term loans.

Mr. Russell : That is a question that has not been decided by the biggest bankers, whether it is safe to do it as much as a certain number of millions. I am giving my own views and my own line of thought. Some of the bankers I read say that Australia is playing a rather risky game.

Dr. Sutch : The bankers would.

Mr. Russell : We are finding out the truth. You agree with me that some people say that ?

Dr. Sutch : Yes.

Mr. Russell : We are agreed that they are playing a game with short-dated loans on too big a scale ?

Dr. Sutch : I would agree that some people say that.

Mr. Russell : Yes, I say that some people say it, and you say it.

Dr. Sutch : I do not say that they are playing a game.

Mr. Russell : We are both agreed that some people say that ?

Dr. Sutch : Yes.

Mr. Russell : We have found that fact out ?

Dr. Sutch : Yes. There seem to be one or two general questions ; I am sorry, I dislike generalities as much as you. In this mathematical scheme, not necessarily the borrowing part of it, do you envisage such things as social change and the psychological reactions of people. These things alter all mathematical calculations.

Mr. Russell: I do think they are going to be changed. A well-known man has said that the only thing that is permanent is change.

Dr. Sutch: If we have t_1, t_2, and t_3, do you think that change may possibly alter also the contents of those symbols?

Mr. Russell: That is what I am aiming to change.

Dr. Sutch: Can we have any mathematical calculation of the future if at the same time we do not know how symbols are going to change in the future?

Mr. Russell: I am making a plan to increase the t_4 period.

Dr. Sutch: You are doing it mathematically?

Mr. Russell: You are talking about mathematical calculations; I do not think we are quite agreed when I use the word "mathematical."

Dr. Sutch: Have you defined your term? We will see how far we have got.

Mr. Russell: I know that "Mathematics is thought moving in the sphere of complete abstraction from any particular instance of what is being considered." Do you agree that that is a reasonable, simple, comprehensive definition?

Dr. Sutch: Yes.

Mr. Russell: It is not necessary to make a mathematical calculation?

Dr. Sutch: Not at all, but you assume one factor to be the same right throughout your reasoning.

Mr. Russell: I do not assume it. I am making a plan to increase the t_4 period—that is what I am trying to do. It is not for me to say whether life is going to change later on; I am making a distinct plan to increase the t_4 period.

Dr. Sutch: Is that going to be done by mathematical rate?

Mr. Russell: I do not know whether it will be progressive or mathematical. I cannot tell you.

Dr. Sutch: I thought you could tell us if there was something wrong?

Mr. Russell: I do not think I could tell you, because so many factors would affect it.

Dr. Sutch: That is my point, too.

Mr. Russell: We agree again. We are both agreed that the aim in life just now is to increase the t_4 period?

Dr. Sutch: We agree that that is your aim.

Mr. Russell: Yes.

Mr. Lang: I thought when you were referring to social changes that you were referring really to the R.-L. plan.

Dr. Sutch: To the speech you made this morning. Of course, I am not wanting to limit you in any way, but the R.-L. plan is the first step, and there are so many things to ask about it.

Mr. Lang: When you referred to social changes in regard to the R.-L. plan, what I had in mind was a little experience Mr. Russell related to me. During the war, saving certificates were issued and the authorities came around and said, "The men are earning big money. Would it not be a good idea to ask them voluntarily to allow a portion of their wages to be deducted and invested in war saving certificates?" The men agreed, and after the war the office staff said, "This means a terrible lot of work and the firm is getting nothing for it. Could you not get it into a voluntary association?" A notice was put up on the gate, and from every department men came forward objecting to the stopping of the deduction from wages. They said, "It is the finest thing we have ever had. We do not miss the money, and we are gathering savings." That is one social change.

Dr. Sutch: Yes; I see their point.

Mr. Lang: Take, for instance, the co-operative movement at Home. I suppose in many cases there is a little extra charge for the goods, but there is many a person at Home who has bought a suite of furniture and paid for it out of the co-operative dividends. I am referring just at the moment to the benefits of compulsory saving.

Dr. Sutch: To come back to your plan. You say that this will help us to reduce our debt overseas. You mean that this compulsory borrowing here will help the Government to pay off overseas debt? Is that right?

Mr. Russell: You are on the international part of it, now.

Dr. Sutch: Yes; a good deal of our national debt is domiciled overseas?

Mr. Russell: A good deal of it, yes. How much is there in New Zealand?

Dr. Sutch: Say, £115,000,000 in New Zealand.

Mr. Russell: Would you call that national debt?

Dr. Sutch: It is part of the national debt. Yes.

Mr. Russell: Would you say the municipal debt of £200,000,000 was national debt?

Dr. Sutch: I do not know, but the figures are available.

Mr. Russell: Would it matter very much what the figures are?

Dr. Sutch: Not for the internal debt. The external debt——

Mr. Russell: For the internal debt the plan is quite easy to do.

Dr. Sutch: Yes, I see that, but it is the external debt?

Mr. Russell: That is like a great many other things, and would certainly require some agreement to allow the New Zealand Government to have a loan like this in London; is that right?

Dr. Sutch: Would you go over that again?

Mr. Russell: This scheme would naturally require some agreement so that the British authorities would allow a loan to be floated under the R.-L. method in London.

Dr. Sutch: That meets my point: that is quite clear. Apart from the compulsory part of this, a man has a choice in New Zealand of investing here or overseas; would you get any export of capital, flight of capital, from New Zealand to Australia to get a greater rate of interest than you can get on long-term loans abroad?

Mr. Russell: If a man wants to invest in New Zealand just now, am I to understand that he is not allowed to ?

Dr. Sutch: Yes, he can.

Mr. Russell: Therefore if the rates are greater in London than they are here, I presume he will do it just now ?

Dr. Sutch: Yes.

Mr. Russell: That is a very interesting problem. If there were any arrangement between Britain and New Zealand, probably these R.-L. debentures could be shipped back and forward instead of shipping gold.

Dr. Sutch: True. On the other hand every investment will not be an R.-L. debenture. There may be some long-term loan floated in Australia, not necessarily a Government one, and you may have the choice of, say, 4½ per cent. against what is offered in your plan in New Zealand. Assuming that I have £1,000 to invest and there is a greater rate offered than that I can get under your plan, will not my tendency be to invest in Australia ?

Mr. Russell: My advice to you is, if you can invest your money in any country to get a bigger rate of return, do so. From the financial point of view, every man should be allowed to invest his money where he wishes; I am not entering into that.

Dr. Sutch: That is not my point. We will assume that a man invests where it pays him best; if it pays him best in Australia we quite possibly have a limited market in New Zealand and the capital we have in New Zealand to invest would be invested in Australia, and not in New Zealand. We would have a flight of capital from New Zealand ?

Mr. Russell: Is not that what is raising the trouble in the whole world just now ?

Dr. Sutch: One of the factors.

Mr. Russell: If that is one of the factors, and has defeated the bankers, I am afraid we had better leave it. We cannot find the facts.

Dr. Sutch: It is part of the normal working of the capitalistic system; in fact, it is one of the essential factors.

Mr. Russell: And how does my plan make the position worse ?

Dr. Sutch: It does not necessarily do that. If I have £1,000 to invest and one alternative is to invest in R.-L. debentures, I calculate my prospects under that and the return I get; my other alternative is to invest in Australia. I find what return I will get there. I then find I prefer the Australian investment. Many people in New Zealand will probably come to the same conclusion, and the result will be a flight of capital from New Zealand to Australia ?

Mr. Russell: Because they are R.-L. debentures ?

Dr. Sutch: Because the R.-L. debentures offer less advantages than the Australian investment.

Mr. Russell: And if the R.-L. debentures offer a better investment, then the money will come here ?

Dr. Sutch: Yes. Certainly that is what will happen. We arrive at this, then: Can you calculate mathematically the inducements that the R.-L. Plan will offer to an investor ?

Mr. Russell: Can I calculate what they will be ? Yes, I think I can.

Dr. Sutch: It can be reduced to a figure ?

Mr. Russell: Yes, I think the inducement can be calculated. There are three components of every loan; there is the issue price, the rate of interest, and the rate of redemption. As well, there are a great many other inducements which can be put into loans. I might just mention one to show you what I mean, so that I am quite clear. In January, 1917, there were two loans offered to the public. On one of them the interest was 4 per cent. and on the other 5 per cent. They were issued on the same day in January, 1917, probably you know that. There must have been some other inducements.

Dr. Sutch: Those are the ones you have mentioned ?

Mr. Russell: I said there must be some other inducements to get some people to take the one at 4 per cent. and other people to take the one at 5 per cent.

Dr. Sutch: You mean it is the term for which you borrow ?

Mr. Lang: There are two loans offered at the same time at different rates of interest. Some will subscribe for one and some for the other.

Mr. Russell: I am saying that there are other inducements.

Dr. Sutch: We have agreed on that. We want to arrive at this: Was the 4 per cent. loan for a longer term than the 5 per cent loan. Repayable at the end of what term ?

Mr. Russell: The conditions were totally different. Would you like to know what they are ?

Dr. Sutch: Yes, that is what I wanted ?

Mr. Russell: One loan, the 5 per cent. one, was a war loan. It was issued at £95 per cent.

Dr. Sutch: When was it repayable ?

Mr. Russell: 1929–47.

Dr. Sutch: Optional maturity dates ?

Mr. Russell: That is the £2,000,000,000 loan I am speaking about and that was issued at £95 per cent. The 4 per cent. loan issued on the same date, the redemption period was 1929–42, but in the one case, the 4 per cent., the loan was issued at par, but there was no income-tax; there is one difference.

Dr. Sutch: We recognize all those factors ?

Mr. Russell: What I am bringing out is that you were talking about inducements. There are always a great many inducements. There was one drawback about the 4 per cent. loan to those people who thought it was a drawback, and that was that the Government could pay it off on giving three months' notice after October, 1929.

Dr. Sutch: That is what I wanted to get at.

Mr. Russell: That is what I am saying. You are asking what are the inducements, and I say you can have a tremendous lot of inducements. Some loans in Britain can be utilized as money to pay

death duties at issue price and some can be utilized for death duties at par price. All these factors have to be taken in.

Dr. Sutch: Getting back to your plan, my point is that with the average investor the plan, with all its inducements, must have greater inducements than another investment elsewhere. Would you agree with that general principle ?

Mr. Russell: You alter the issue according to the conditions at the time.

Dr. Sutch: So that we might have to have a rate of interest higher than the one you say ?

Mr. Russell: At any time, certainly. What I want to bring out is that at the present time the aim throughout the British Empire is to reduce interest-rates. That is the policy ?

Dr. Sutch: Yes.

Mr. Russell: Whether it is right or wrong is another matter, is that not so ?

Dr. Sutch: Yes.

Mr. Russell: You will agree that if you screw down the interest-rates you are having an effect on the t_4 period ?

Dr. Sutch: Yes. Another question arises which you no doubt have answered many times—*i.e.*, that this compulsory saving is a sales-tax of 1s. in the pound ?

Mr. Russell: It is a forced loan ; it is not a sales-tax.

Dr. Sutch: It corresponds in action to a sales-tax ?

Mr. Russell: No. We have in this country to-day a sales-tax which is called a 5-per-cent. sales-tax. Am I right ?

Dr. Sutch: Yes.

Mr. Russell: I am told by the big merchants and people in authority in this city that it is not a 5-per-cent. tax ; that it is 5, 6, 7, 8, 9, 10, or 12 per cent. tax ; 12 per cent. is the highest figure I have been told.

Dr. Sutch: Have you been told any lower ones than 5 per cent.

Mr. Russell: No, have you ?

Dr. Sutch: Yes.

Mr. Russell: That means that the competition is forcing people to overcome the tax ?

Dr. Sutch: There are other factors operating ?

Mr. Russell: There are other factors again ?

Dr. Sutch: Yes.

Mr. Russell: But the present sales-tax is not a 5-per-cent. sales-tax if it is less and I have taken your word for it.

Dr. Sutch: I agree, yes.

Mr. Russell: It is a misnomer ?

Dr. Sutch: From the point of view of the Government they get 5 per cent. on the sale price of the article ; that is as far as they are concerned ?

Mr. Russell: The difference between what I suggest is that it is bound to get less than 5 per cent. in my case.

Dr. Sutch: You mean you will increase sales to such an extent that you will lower profit and so enable the price of the goods to be lowered and still include the 1s. in the pound ?

Mr. Russell: I say that competition and the reduction in rates and taxes will bring it down.

Dr. Sutch: The reduction in rates and taxes that this scheme will bring about ?

Mr. Russell: Yes. Therefore, the competition will bring it down. It will be less than 5 per cent.

Dr. Sutch: I see that point.

Mr. Lang: As far as the Government is concerned, the amount of money depends on the sale of goods, 5 per cent. on that, but as far as the public is concerned, the incidence of reduction in rates and taxes and competition, means that 5 per cent. will not be put on.

Dr. Sutch: You are assuming that this forced loan is to be used in the reduction of taxes ?

Mr. Russell: Yes. To be invested in R.-L. debentures, and with that loan you will be able to cancel the present loans.

Dr. Sutch: I agree, but knowing the public as you do, do you think they will connect a reduction in rates of a few pence with the R.-L. debentures ?

Mr. Russell: That is my impression.

Dr. Sutch: And you think also that a 1s. in the pound forced loan from me over all my purchases is going to make me willing to pay it, knowing that my rates are going to be reduced by a few shillings. I am a man in the street earning a few pounds a week ; my rates are commensurate with the place I own ; I have not high rates as far as my salary is concerned. My rates will be reduced, but if I am in the habit of buying a great deal for every £1 I spend there is 1s. forced loan from me ?

Mr. Russell: Yes.

Dr. Sutch: It is possible that I may have a £5 forced loan in a year ?

Mr. Russell: Yes.

Dr. Sutch: That is a very conservative estimate ?

Mr. Russell: That is what I estimate.

Dr. Sutch: But my rates may be reduced only 5s.

Mr. Russell: But you increase the confidence and increase the business in the country.

Dr. Sutch: I may have spent that £5 on more goods. I wanted goods, I did not want to save. It was forced out of me ?

Mr. Russell: That is so, that is what I am suggesting.

Dr. Sutch: That £5 may have been spent on consumption goods ; it may have been spent anywhere. I cannot, therefore, say that I have increased trade and industry in the country or decreased it. I do not know and cannot tell what would happen.

Mr. Russell: Let me put it this way: The gradual redemption of interest-bearing national debt is one beneficial way of introducing money into circulation.

Dr. Sutch: The money was in circulation.

Mr. Russell: All right, if we do not agree we will leave it until you find out the truth. I say that is true.

Dr. Sutch: That the redemption of loans introduces money into circulation?

Mr. Russell: Yes. I am aiming to reduce the debt, therefore we are getting near the position that we will get more purchasing-power.

Dr. Sutch: Yes.

Mr. Russell: I cannot give you the calculation because this working-man has had £5 taken from him. I cannot give you the calculation, if it is £5 he has spent, how much that will be on his rates. I do not think there are any means, but putting a sales-tax on a working-man for the purpose of helping him, how much does it help him?

Dr. Sutch: I think it is a very good point you are making that the sales-tax is a poor type of tax. The Government admits that it was an emergency tax. Revenues were down; there was no other revenue apparently open, and they had to do it as an emergency measure. It did not add to strength and confidence and business revival.

Mr. Russell: Therefore that 5 per cent. was taken from them. I presume that reduced the purchasing-power for goods?

Dr. Sutch: Yes.

Mr. Russell: You say it was an emergency. So far as I know in a time of emergency, say, for example, 1914, there was far more money in circulation.

Dr. Sutch: You mean to say that our Government should have issued Treasury notes to tide over the period?

Mr. Russell: No. I am suggesting the R.-L. debentures to keep on reducing the debt.

Dr. Sutch: The position of the Government was that they could see their revenue shrinking from week to week. What were they to do? Other sources of revenue appeared that if they increased the percentage of taxation then the net return might decrease. Therefore, they had to seek other avenues and the principle of equity had to be thrown overboard to some extent, Therefore, in this extreme emergency they imposed the sales-tax.

Mr. Russell: I said in my short speech that we are suffering from a flood of debt and I have been at this plan since 1916 to endeavour to get the debt reduced. I have again asked that this Committee of inquiry do something to reduce it, and you are trying to confuse the issue in my mind that it is bad of me to suggest taking £5 off these men and giving them Government securities.

Dr. Sutch: I do not want to suggest that it is bad of you. I want you to tell me how this doubt that has arisen in my mind can be solved.

Mr. Russell: What doubt?

Dr. Sutch: My doubt is this: That I, the poor man we envisage, do not want to save. I do not want to do it; my wants are so much that I must spend all my money.

Mr. Russell: We seem to be at cross purposes again. We are drifting into an argument. I want to keep clear of arguments. Let us look at the trouble; let me get my facts clear. There seems to be some doubt to-day as to what anarchy and liberty mean. There seems to be a difficulty in knowing which is which, and if there is a difference between them. I read in the papers a few days ago that a Cabinet Minister of New Zealand said that he abhors restrictions. The High Commissioner in London says that we must come to some agreement or regulation of matters. The first gentleman, I gather from the context, was speaking about quotas. He abhors them, and the High Commissioner for the same Government says that we must come to some agreement. Let me put it another way. Neville Chamberlain says that the anarchy of this unregulated production must cease.

Dr. Sutch: One is a Conservative and the other is a Liberal.

Mr. Russell: I am concerned that they are saying different things. It is bound to have some effect, therefore I say to you, Would you allow me to put in my words what Neville Chamberlain said? He said, "The liberty of this unregulated production must cease." Which one do you agree with?

Dr. Sutch: While I am willing to give you a personal opinion on that, as a member of this Committee it is difficult for me to commit myself.

Mr. Russell: I would like the Committee to consider that, and then when there is any question about compelling anybody to do something, find out whether it is anarchy or liberty.

Dr. Sutch: I see your reasoning if you say it is a point of compelling; that there is a national emergency and we must have a compulsory loan. If that is your reasoning my doubts are resolved.

Mr. Russell: I think there is an emergency to-day, and a very serious one.

Dr. Sutch: I was thinking you might say one or two words to clear up the difficulty I may have raised?

Mr. Russell: I would just like to clear up the point about the hardship on the poor working-man who will lose this 1s. or 2s. per week. I can best explain it by saying that I was in a tobacconist's shop in this city the other day, and they told me that there were three working-men, regular customers, who came in once per week. It cost them a little more than 6s. 8d. to buy a ticket for Tatts. These men were thus making a deduction of fully 2s. each per week, but under my scheme although they have lost their £5, as one might put it, they find that they have got Government securities for £10. No one will ask me if that security will realize £5, or £6, or £4 in the market. I cannot tell you.

Dr. Sutch: But it will realize some money?

Mr. Russell: It will realize some money, yes. Now, after he has made this slight sacrifice he finds that the £5, as well as getting 3 per cent. interest on it, has a chance of being drawn for £10. Is that clear?

Dr. Sutch: Yes.

Mr. Russell: And he may decide to hold on to it, but apart from that, I presume that those 1s. tickets that Mr. Lang and I suggest will also have a saleable value.

Dr. Sutch: They would be worth approximately 1s. ?

Mr. Russell: Yes, they are worth 1s., so the man who cannot afford to hang on is the man we want to help, because if he gives it for 1s. to a workman who is a friend of his, getting a much better wage, the mere fact that his friend is able to do it, and hold on, is helping the man who has not kept his 1s. ticket, because he is going to get his rates on his house down. It is not only the rates on houses but the shopkeepers' rates will come down, therefore that might materialize in cheaper food, so this man at the beginning of the scheme who could not afford to retain his 1s. and has sold it, finds very soon that he will begin to hang on. Let us take the case of a single man. There is always one man with no family to provide for, and he can afford to hang on, and at the end of the first year he suddenly finds that one of his £5 debentures has become £10. I say that that would be a tremendous inducement. We are back to inducements again.

Dr. Sutch: I think you have completely answered the point I raised this morning.

Mr. Russell: If it would not take up too much time I would like to run over the benefits of the plan, so that if there are any questions arising, it would be simple to refute my claims. These benefits are: (*a*) Money would be raised internally by a simple procedure; (*b*) the money would be to a large extent collected by the public at no expense; (*c*) every individual would be interested personally to see that the money was raised, and would see that the seller gave the receipts and the tickets; consequently, an army of Inspectors would not be necessary; (*d*) the public would not grudge the temporary sacrifice, as it would be making a loan by which it would benefit individually and collectively; burdens would at once begin to be relieved, and every citizen would acquire a stake in the country's finance; (*e*) the individual trader would have an opportunity of inducing sales in his own business, which, without regard to any improvement in trade by reason of the effect of the plan, would compensate him for any slight increase of work or attention over what he gives at present. Thus in the passing trade a purchaser of 17s. 6d. worth might easily be persuaded to spend a further 2s. 6d. so as to get his 1s. ticket promptly; (*f*) the incalculable benefit to hospitals and other charitable institutions would relieve the rates; (*g*) in countries where old-age pensions are provided by the Government, the amount of taxation required to be raised would become less, and where a country has not yet provided pensions the necessity would become less. Now, these are very big claims, and you will notice what I am really trying to do—that is, to leave the money in the pockets of the citizens, because I firmly believe that it is far better for a man to have, say, 18s. of his £1 to spend instead of 17s. to spend. I think it would do far more good to the purchasing-power to leave the money in the hands of the people. I say this to the Committee: That it would be much safer, when you budget for a deficit, if the R.-L. Plan was in operation than it is to-day. I am not here to discuss that question; there have been many men in big positions who have said that it pays to budget for a deficit. I do not wish to enter into that controversy, but if it is necessary to budget for a deficit, then it is much safer if the R.-L. plan is in operation.

Dr. Sutch: I have one or two more questions. You do not want to discuss budgeting, I take it ?

Mr. Russell: No. I would rather not. That is a very big subject, and would take too much time.

Dr. Sutch: Could these debentures be used as purchasing-power ? I mean could they pass them round as £5 notes ?

Mr. Russell: If anybody took them, and the Government in power at the moment decided to make them bearer, then they certainly would be money.

Dr. Sutch: And as they approached the time when the interest had to be met, they would get more valuable as money ?

Mr. Russell: It would all depend upon the attitude of the man who wanted to get them, and the attitude of the man who wanted to dispose of them, and the chances of getting the capital appreciation. Let me now use my disinterested fact-finding. What has happened with the Victory Loan in Britain ? Do you know it exactly ?

Dr. Sutch: No. I do not know it exactly ?

Mr. Russell: Well, just let me say what the Victory Loan in Britain was. It was issued at £85 per cent. One of the conditions of that loan was that, for estate duties, the Government accepted it as being valued £100. That was the face value. Every year there is a drawing in September, and it is paid off at par. So that if you subscribed for £100 worth of Victory Loan in Britain you paid £85. That was issued in July 1919. Some people say that seeing it was issued at £85 and you get £100 for it, that was a 15 per cent. capital appreciation, and the number of financial papers and newspapers that talk about it that way shows that their mathematics is bad. It is about 17½ per cent. capital appreciation. I am only pointing this out to show how loosely people talk of things. Now, every year some one gets £100 for their £85. I cannot remember at the moment the percentage. I think it was ½ per cent. of the total value every year, but it does not matter. Now, at the same time as that loan was issued (now remember it was a 4 per cent. loan) at the same month, same day, same year, same Government, there was another loan issued, a 4 per cent. funding loan, but the issue price of it was 80 per cent., so that people had the choice of either paying £80 or £85. Therefore, the other conditions and terms must have been different. Now, in the funding loan of 4 per cent. there were people represented by £409,000,000. In the case of the Victory Loan there were people represented by £360,000,000, so there must have been some reason.

Dr. Sutch: Was it taxation ?

Mr. Russell: Well, you see, the Victory Loan was 85 per cent., but then you had a chance of capital appreciation. In the 4 per cent. funding loan, if it was surrendered for death duties you only got £80 credited to you for death duties. In the case of the Victory Loan you got £100 credited to you, so you can

quite easily see that it appealed to different sections of the community. Now, let us see to-day what has happened with this Victory Loan. The price of it to-day in the British market owing to the conversion of the 5 per cent. to 3½ per cent., if you go to buy Victory Loan to-day, for the certificate of £100 you will have to pay in the market £108 or £109. Now look what happens. Every September the Government still do the drawing, and any individual goes into the market to buy them and pay £109 for them, knowing that in Setember he may only get £100 for them. I presume that looks very peculiar. What do those people who pay £109 do? They have to take another chance, and what do they do to cover the risk? They go to the insurance companies in Great Britain, and they say to them, "I want to pay a premium against being drawn." Therefore, I come to R.-L. debentures. Those people who have vision can see the tremendous benefit this will be to the insurance companies. Those who have vision can see how I am endeavouring to increase the t_4 period. If I increase the t_4 period, I am providing more work for the t_2 and the t_3 period. I trust that is quite clear. One of the things we are suffering from to-day is the fact which Mr. Lang touched upon, as I know in my own experience to-day, men of sixty, sixty-five, and seventy who are hanging on to their jobs because they do not know what is going to happen with their investments. I spoke to one gentleman in this town some years ago, to be exact, 1930. I told him then, that his 4½ per cent. free-of-tax Government securities would be down in New Zealand to 3½ per cent. and they would probably require to pay tax. The gentleman laughed at me. He said no Government would do a thing like that. It would destroy the confidence of the whole country. Therefore, he was not interested in the capital appreciation that I show in my way of doing. I then said to the gentleman that I was astonished that the capital appreciation did not appeal to him, and he said, "Why?" "Well," I said, "I understood that you were investing money every year, and you were making the condition that you would get no interest on your money, and you wanted nothing but capital appreciation." Again he smiled, and said, "I do not know where you can get information like that." I said, "I know why you are doing it." Again I could see by the shrug of his shoulders he thought I was talking nonsense. "You are doing it to provide ready money for your death duties, or to make provision for those coming after you." And he said, "You are talking about an insurance policy." I said, "I have never mentioned insurance. You invested the money every year for those two purposes." Then he admitted it. He was perhaps thinking of his own t_4 period or the t_4 period of those depending on him, and he did not seem to realize it. Gentlemen, I do not know how to impress it more. You may take another case to show what is being done. I think this is an interesting case. Last year the British Treasury announced an unlimited issue of 3 per cent. Treasury bonds at a minimum price of £97 15s. per cent. The bonds will be redeemable at par by annual drawings and their maximum length will be ten years. Now, let us look at that. One of the conditions happened to be that the British Government would only accept a minimum tender of £10,000. I ask you, gentlemen, was that a loan to suit the working-man? It was not even made to suit the man in the street. Now, look what happened. If there were 10 per cent. of it to be drawn each year it meant that those big banking institutions, the big insurance companies, or the wealthy men, who had paid in £97 15s., would have a chance of getting £100. Is there anything wrong with everybody getting a chance with their £5 in a glorious little country like this, where you have got a million and a half people, where the thing can be watched, and where it could be seen what happens? A suggestion was thrown out here. I thought it was an exceedingly good suggestion, that we try plans in a limited area. I throw out the suggestion to this Committee: Why not try it in the South Island, and leave the North Island alone, and see whether it will reduce rates and taxes. But if the experiment is too big, why not try it, let me say, in a South Island city that I had the pleasure of visiting a few weeks ago. Let us try it in Dunedin.

Mr. Schramm: Why not try it in the Kaipara district?

Mr. Lang: Do you come from the Kaipara and want the benefits first?

Mr. Schramm: No. That is the Minister of Finance's district.

Mr. Russell: Well, I am disinterested. I am not suggesting any particular place. Here is a chance of an experiment to try on one city. One will find that it will reduce rates, and if there should be any doubt I will make this suggestion: If there should be any doubt about asking the working-man to make the sacrifice, let the wealthy man be asked to make the sacrifice, and if you do, you will at once have the other classes saying, "Why should the man with £100,000 get this benefit?" One might say, if one were looking at it from an interested point of view, "Let the working-man get the whole benefit if you like." But that would not be a right way for me to look at it. I want to take the disinterested view. I am even going to help the man who does not subscribe.

Dr. Sutch: That raises a point. By this method you would certainly reach the working-man, but do you think we could get sufficient borrowing for all Government purposes, repayment purposes, and include the wealthy man who may not be concerned or worry about this very much?

Mr. Russell: But he is worrying about it. The wealthy man to-day is worrying about the position. A gentleman spoke to me over the telephone three nights ago. I have the impression that he is a very well-off man, and he is very anxious about the position to-day.

Dr. Sutch: But you would have £1,000 debentures, rather than £10 debentures?

Mr. Russell: I am disinterested, remember. Let me be quite clear. I am disinterested whether the Government in their wisdom think that there should be one issue for big amounts or small amounts, but so that my plan is quite clearly understood, because Mr. Lang and I have thrashed every point out. Take the man who has £100,000, and that is all he has. I think you will agree with me that £100,000 is a wealthy man, but all he has is in 5 per cent. New Zealand Government loan and it is suddenly brought down to 4 per cent. by the present policy. The position to-day is generally that precedent has been made. It might be 3 per cent. next year, because the people of this country stood it so well; then why not have another go, whereas I say, the man with £100,000 the first year might only put £100 or £200 in R.-L. debentures.

Dr. Sutch: Would you have to alter the Post Office Savings-bank rate in order to ensure that sufficient of the savings of the community went to the Government in debentures.

Mr. Russell: Now, let me see if I follow you. Let us take the Savings-bank. The people of the country are those people we are sorry for, who are putting their 2s. or 3s. away. They are putting it in the Post Office and they are getting 3 per cent. Naturally the Government get this money at 3 per cent. Is that right?

Dr. Sutch: Yes. Of course, the Post Office Savings-bank has investments of its own which are not necessarily the Government investments. The Government is selling over the counter Government stock at a higher rate than 3 per cent.

Mr. Russell: The Government are selling other loans at 4 per cent.

Dr. Sutch: Yes, $3\frac{3}{4}$ per cent.

Mr. Russell: $3\frac{3}{4}$ per cent. is it just now? There is a big difference between them. For the $3\frac{3}{4}$ per cent. they get a certificate, but they have got to sell it in the market. Probably to-day you are finding that the ratio is $3\frac{3}{4}$ per cent. for a fixed term and 3 per cent. when it is on call. He can get it to-morrow. I do not admit that 3 per cent. is correct, because, again, by my fact-finding I notice in the press that the Auckland Savings-bank wanted to pay more than 3 per cent. Now there has been a good deal of discussion about this changing from one to another, and getting the whole thing confused. Here was a savings-bank—one has only got to read the balance-sheet to see how well run it is—and they wanted to pay more than 3 per cent., and the Government said, "No. That would compete with the people's own Savings-bank." I am not questioning that. Therefore, what is the Auckland Savings-bank doing with the money that it wanted to throw into the people's hands. It must either be keeping it for a certain time, or, would, I say, the Government make a tax on it. I say it is better for the money to go into the hands of the people, and the people spend it than for the Government to spend the same money.

Mr. Clinkard: I think I understand that. You agree with the opinion that the world's trouble and our country's trouble is really that we are sinking in a sea of debt. You agree with that?

Mr. Russell: Our opinion is that one of the main troubles, not all of the troubles, but one of the main troubles, is this flood of debt.

Mr. Clinkard: That is so. The next question is, instead of asking for a sales-tax equivalent, would it not be perhaps advisable to pass a debt-reduction Act reducing all debts annually by 5 per cent. Just simply that all creditors should write off annually 5 per cent. for a period.

Mr. Russell: I have looked into that very carefully, and that brings me to the point that up to the present there are very few known methods of reducing debt.

Mr. Clinkard: Is not this a time for finding methods?

Mr. Russell: Well, I am finding a new one, but I have been doing my fact-finding to see what are the methods that have been in force.

Mr. Clinkard: Well, I congratulate you on your efforts.

Mr. Russell: The first one I came across was Lenin's method. You know that method, the Russian method. Wipe it out, and if anybody grumbled, wipe them out too. That is the quickest way I know. It is even quicker than your 5-per-cent. levy. An eminent man once said that the best way to reduce debt was to pay it off. I question whether it is the best way. There was then the German method.

Mr. Clinkard: Is it possible to pay off the world's debt?

Mr. Russell: I say this: That we have had the Dawes Plan and the Young Plan, and, personally, I think it was a good way. First of all, the debts were X and after it was finished it was X — Y. They wiped some of it off. They went on a new scale and made it less. Then another plan comes along and we have a lot more talks and meetings round the table, and they reduce it again. I personally think that was quite a good way to do with *these* debts. Let them have a meeting once a year and come to a new arrangement, and each time, until they get the arrangement, have a moratorium. That is one way of doing it. Now, let me proceed. I have mentioned the Lenin way of paying it off and the German way. Now, the other way that is in general use is the sinking-fund method. We all know what that method is. It is certainly to-day falling a little bit into disrepute. Then, there is the table-mortgage method. That is a most interesting method, and it is coming into force in New Zealand a little more. In fact, I have been struck by that fact.

Mr. Clinkard: So that I may take it you are not shocked at my question?

Mr. Russell: No. I am not shocked, because I am looking at it disinterestedly. Now, the other thing with the table-mortgage way, it is a very interesting way, and I am only going to draw the Committee's attention to it. It will not take up any time. The Auckland City were going to make a loan at $4\frac{1}{4}$ per cent. The Loans Board decided it should be $4\frac{1}{8}$ per cent. Under the table-mortgage system that looks as if it were 2s. 6d. per hundred less. I would like the Committee to take a note of that, and find out exactly what was the difference in annual payments to the Auckland City Council. In both cases it was for thirty years, but when they reduced the interest they made it half-yearly payments. I would like the Committee to check that. Then, the other method that I am suggesting for debt reduction is the R.-L. method of reducing debt. Is that what you wanted, Mr. Clinkard?

Mr. Lye: You say that the prime cause of our difficulties to-day is the indebtedness of the people of the world.

Mr. Russell: That is near enough. I said it was one of the main difficulties.

Mr. Lye: The real burden is the burden of the weight of debt. As far as New Zealand is concerned we have not done a great deal towards reducing the amount of money owing, but we have given relief to the people by the 20-per-cent. reduction of rent and interest and the conversion of our internal indebtedness at a lower rate of interest. We have eased the burden of the debt by reducing the interest-rate.

Mr. Russell: I would like to answer that question. I say that every country in the British Empire that I know of has increased the debt in the conversions. That is the facts as I find them, so that the debt has been increased. You say, Have we not assisted the people by reducing the interest?

Mr. Lye: Yes.

Mr. Russell: Which people did you help, might I ask, so that I can get your line of thought, because I know the reducing of interest has made it worse for some people.

Mr. Lye: Exactly, in some instances. I was speaking generally.

Mr. Russell: You were talking about the reduction of interest.

Mr. Lye: Yes.

Mr. Russell: So far as I know, and my whole talk has been about debt, when you speak about debt there are always two people. If you take from this one, then I cannot see that by the method you are pursuing you are doing good, because you are making the debt more difficult to pay.

Mr. Lye: I am quite satisfied with that. Yours is a plan to eliminate debt, if the policy is put into operation and remains in operation sufficiently long, is it not?

Mr. Russell: No. That is not what my plan is. My plan is to reduce the present debt, the debt to-day.

Mr. Lye: Just to-day?

Mr. Russell: Yes; because I cannot deal with debt that is going to be created next week. When that comes out, apply the R.-L. Plan to it.

Mr. Lye: By this plan, which appears to be similar to a sales-tax of 5 per cent., you propose to get sufficient money to reduce the creditors, is that right?

Mr. Russell: I estimate by this that I would probably raise in a country like New Zealand somewhere about £5,000,000 or £6,000,000 per annum.

Mr. Lye: What would you do with your result?

Mr. Lang: That is in the plan. The plan tells what to do with that money.

Mr. Lye: For the redemption of debt?

Mr. Russell: I buy out the present loans. What do the people do with the money when we buy out the present loans as they mature?

Mr. Lye: I presume they will invest?

Mr. Russell: Therefore the £5,000,000 in the second year becomes £10,000,000. I want to make this clear to you: Can you visualize that there will be any amount of people who will come in voluntarily, and will apply for this loan with new money? Can you see that outside the compulsory part?

Mr. Lye: Yes.

Mr. Russell: The reason I am mentioning that point is: A well-known banker in this country said that he would put in as much voluntarily as he could, and I asked him, "What is your reason for investing it under the R.-L. way?" "I am doing it to safeguard my other investments, because if I do not do something to help the redemption of debt, probably my present investments will go bad."

Mr. Lye: Would you say that there is no shortage of credit or real wealth in New Zealand?

Mr. Russell: I think there is a good deal of credit in New Zealand to-day.

Mr. Lye: No shortage of credit or wealth. Is it the distribution that is at fault?

Mr. Russell: Both, I think. I think the distribution is very bad.

Mr. Lye: Supposing a section of the community in New Zealand held a very large parcel of war-loan stock and by your system put into operation you raise £5,000,000 and pay them off, you raise that money from the people, including the average working-man?

Mr. Russell: Yes.

Mr. Lye: Is not the net result this: That you take it away from the poor who are in the majority to pay off the loan indebtedness to the wealthy?

Mr. Russell: No; that does not happen financially.

Mr. Lye: I will accept that answer because time is limited.

Mr. Russell: I am putting into the hands of the working-people a good investment that is going to help them individually and collectively.

Mr. Lye: By doing what?

Mr. Russell: By reducing taxation.

Mr. Lye: I will accept that. I want to go back to the suggestion made by Mr. Clinkard. Having agreed that our real trouble is the dead weight of indebtedness, if according to the suggestion made by Mr. Clinkard that by statutory authority we compulsorily reduce for a period of five years by 5 per cent. the amount of money owing, at the end of five years the public indebtedness would be down by 25 per cent. and the justification, we will say, for doing what I have just said was the fact that the wealth that was represented in war loans or in the debt was largely community-created wealth due to war and public-works expenditure in this country; a reduction of 5 per cent. would have the same net result of reducing rates and taxes as you aim at, but it would have the superior advantage of reducing our total indebtedness permanently.

Mr. Russell: No; you are not looking at the thing from the disinterested view. If I could be allowed to put it this way: First of all, your idea is to cause hardship to many and especially those who are in the t_4 period just now. Your idea is to punish them.

Mr. Lang: There is also the question of confidence.

Mr. Lye: That is a very important point. I want to show what this and other countries have done. We are doing exactly the same by a process of exchange manipulation or by any process of inflation which has the effect of doing two things: First, of depreciating the currency within the country and enabling people to meet their obligations to pay off their debts with the depreciated currency, so that must be repudiation just the same as if by statutory authority we take away 5 per cent. or compulsorily reduce the debt for a period.

Mr. Lang: It is a question of the interest of the rentier and the interest of the entrepreneur.

Mr. Russell: You are forgetting the principal thing—the difference between the reduction of the British loan from 5 per cent. to 3½ per cent.; that was one thing; and the reducing of the interest from 5 per cent. to 4 per cent. in New Zealand. You are forgetting the difference; it is all a case of confidence.

Mr. Lye: What I am concerned about in asking this question is this: That having the acknowledgment that the real source of our trouble is the heavy burden of debt, instead of playing with the position, is it not better by a definite course of action to do something to relieve the person from this heavy burden that we all complain of and we all acknowledge?

Mr. Russell: That is what the plan is trying to do.

Mr. Lye: We all know what happened in Germany, who paid off her internal indebtedness by an inflation of the currency. That is morally wrong.

Mr. Russell: Yes.

Mr. Lye: In every case of inflation which achieves the same results, thus the measure of repudiation is morally wrong?

Mr. Russell: I am not repudiating anything. I am endeavouring to get out of repudiation.

Mr. Lye: Can you suggest any way other than the R.-L. Plan and a plan in simpler terms which can be more readily understood by the man in the street without exhaustive study? Can you suggest any method of alleviating the position that we are in, that heavy burden of indebtedness, other than this plan?

Mr. Russell: I know of no good way that is simple and easily understood by the working-man other than the R.-L. Plan. For some reason, the working-man can understand this plan and accountants cannot.

Mr. Lye: They cannot?

Mr. Russell: No, and they will not reply to me.

Mr. Lye: You would not describe the accountants as simple men, the ordinary average individual?

Mr. Russell: I would expect the accountants to understand this plan. They do not or will not. I cannot get any criticism from accountants and lawyers.

Mr. Lye: The ultimate outcome of your plan in operation is to pay off the existing debt and create another debt at a lower rate of interest?

Mr. Russell: Yes, that is what it will do, so that they will be automatically paid off without people appearing to pay for it.

Mr. Lye: By creating another loan at a lower rate of interest, you reduce the people's interest?

Mr. Russell: Yes, but there is no time to amplify.

The Chairman: I may say the Committee are indebted to you for this very fine plan you have prepared. The Committee will give every consideration to it and the evidence that has been given to-day. I would like to express our thanks to you for coming before us and giving us the talk.

Additional Statement submitted by Messrs. Russell and Lang.

Table Mortgages.

The methods of reducing debt were referred to in Mr. Russell's evidence. A further word might be said regarding the table-mortgage method. With this method there is no direct reduction in taxation, as the sinking fund is paid to the investor, instead of to the Sinking Fund Commissioners. There is, of course, the saving of expenses to Sinking Fund Commissioners. The method is suitable to large investors, or elderly people to-day.

The savings with the R.-L. method are clearly indicated, for instance, on page 6 of the R.-L. Plan, and page 12 of "Time-Society."

Various Contentions and Answers.

Contention I: Government funds are in the main provided by investors who desire the upmost security, and are consequently willing to take the smaller rate of interest. This class of investor would not be satisfied with the small return under the R.-L. Plan, which low return in addition would absolutely bar what is known as the rentier class who, after all, form the main body of investors in Government or local-body securities, being dependent on this for a large portion of their incomes they must have the higher rate they now receive.

Answer: It is a fact that Government and local-body securities are held largely by banks, insurance companies, entrepreneurs, and rentiers. But, admitting the contention that rentiers hold a large proportion, that class is not in a position to recover when attacked by forced reduction of interest. Under the R.-L. method the necessity of compulsory reductions is reduced, hence more confidence.

Contention II: Immediate increase of 5 per cent. in cost of living against a problematic decrease in taxation. Present Government so absolutely discredited that the community has no confidence in their spending any loan-moneys wisely.

Answer: If there is an immediate increase in cost of living it means there has been an increase in prices, but the plan does not suggest an increase of 5 per cent. on all the costs of living, so that it is not 5 per cent. and whatever it be it will be a diminishing quantity. It was brought out in the evidence that tickets and debentures would be saleable.

The initial uses of the money raised are the redemption of debt by the purchase of other interest-bearing Government and local-body loans which would increase confidence.

Contention III: Additional burden upon the commercial community who are already collecting two taxes for the Government—viz., the unemployment-relief and the sales tax, would meet with very strong opposition from business interests.

Answer: The sales-tax as at present imposed is not satisfactory and should probably be abolished altogether. The wholesaler would not under the R.-L. Plan be a collecting agency for the Government. The retailer would have a very simple task. The effect of the R.-L. Plan is in the direction of reducing the necessity for an unemployment tax.

Contention IV: The rate of interest is too low.

Answer: What the market offered for issues—voluntarily—would influence the terms of issues under the compulsory part of the plan. An issue once made would not be subject to change, therefore, increased confidence.

Contention V: Objection to raising money for a term so long as a hundred years. Most purposes for which money is borrowed have been completely fulfilled or satisfied long ere such a period has elapsed.

Answer: If a different period than a hundred years is desirable for any reason, then select the preferable term as per page 5 of plan and note pages 28 and 29, "Time-Society."

It might be as well to recall to mind the immense quantities of irredeemable, perpetual, and interminable loans. Also the fact that in regard to money borrowed for war, the assets were mostly blown away during the time of the conflict.

It may also be remarked that many Government and local-body loans have been converted and the dates of termination made later, life of assets not being discussed.

Investors in many issues of R.-L. debentures would of course have in effect short-dated and long-dated loans.

In a primary producing country, the assets in the shape of land have what life—a hundred or a thousand years?

Contention VI: General scheme of debentures seems to be reasonable enough, but arrangements with banks regarding overdraft rates or advances to be made against debentures would prove difficult.

Answer: On the other hand, immediately the banks realized that they were lending to the citizen, to lend to the Government, and doing better than lending direct, they would be much interested.

Contention VII: Some people would be penalized by reason of the fact that they could not purchase a pound's worth of goods and so pay 1s. in the pound and get no benefit.

Answer: The charity-box would get many of these tickets. The visitor to a town would hand receipts occasionally as perquisite, and if receipts were destroyed, competition would ensure the retailer reducing prices.

Contention VIII: Some people think the charity-boxes would not be used.

Answer: If the charity-boxes are not used, the people are either keeping their receipts or throwing them away. If they keep the receipts they will make a good investment to help themselves and reduce rates and taxes. If they throw the receipts away, they are likely to be picked up by enterprising urchins, and if not picked up the shopkeeper either makes more profit or reduces prices.

Contention IX: Would meet with very strong opposition from the anti-gambling party—a small but extremely noisy section of the community. Would also meet with strong opposition from all Non-conformist organizations.

Answer: Let it be agreed, but we are not prepared to allow the more serious gambling, the dreadful chances which are being taken under the present conventions, to continue, if we can suggest a way of avoiding these risks to a considerable extent, even if our suggestions include a mild form of gambling such as drawings for redemption, a method approved by Governments, insurance companies, and building societies. By way of compromise, the gambling with a single ticket could be eliminated.

Contention X: Cost of art-unions and lotteries in aid of charity extremely high.

Answer: Agreed, but by the R.-L. method high expenses are eliminated.

Note regarding New Zealand Government and Local-body Loans.

At present the method of conversions includes the practice of adding together large quantities of loans of various maturity dates, with the result that there are fewer maturity dates. Larger amounts will fall due at the new specified dates, and, consequently, it may be anticipated that help from experts will be necessary to get us out of troubles. On the other hand, and it is a matter of first-rate importance, the R.-L. method plans a steady continuous reduction of debt, as it splits up the time of redemption.

Overseas Debt Conversions.

We understand funds have accumulated in London which the Government must buy. If this is the case, a proposition could be stated were all the facts available. As brought out in the evidence, the conversion would take place in London.

It may be remarked that Governments other than British have issued loans in London at less than par, with annual drawings to redeem, and the market price has sometimes been well below par. Therefore we suggest that by the R.-L. method inducements could be made attractive, keeping in view that the British Government have stock at 3½ per cent. and the market price is above par, and the present New Zealand loans in London are over 5 per cent.

WELLINGTON, FRIDAY, 20TH APRIL, 1934.

Witness: Mr. JAMES TAYLOR.

The Chairman: We understand the subject-matter of your evidence will be the monetary policy in connection with the London Chamber of Commerce.

Mr. Taylor: Before dealing with the London Chamber of Commerce proposals, there are one or two things I would like to say. With regard to local currency problems, we are so heavily indebted to Great Britain (57 per cent. of our total indebtedness of £283,000,000—that is, £161,000,000—is owing to her, on which say £8,000,000 has to be paid annually), and, in addition to this, Britain is practically the only market for our dairy-produce, and so long as the present monetary system prevails under which wool, butter, cheese, lamb, and mutton may fluctuate in price from normal to 50 per cent. below and as much and more above normal, that the benefits of any reform which we might introduce here would be nullified by these variations in price in Great Britain. I would like to suggest three alterations to our present financial arrangements: First, that the present stock of gold held in New Zealand since 1914, some £6,000,000, be immediately shipped to London, sold, and the proceeds converted into British Government securities. Had this been done in 1914, the amount would now be worth some £15,000,000. It has been stated in evidence before the Committee that the reason this had not been done was that in bad times the knowledge that this gold was held here gave a sense of security. That is, in my opinion, a striking example of the "gold fetish" which the London Chamber of Commerce holds up to ridicule. The £6,000,000 held here as compared with our indebtedness of £283,000,000 is only a "drop in the bucket" and represents 5d. in the £1. The second was the principle that the New Zealand Government take over the issue of currency. It is the inherent right of the sovereign or the Government to issue currency and to be the sole custodian and owner of the national credit. Why should the Government finance its activities with second-hand credit—*i.e.*, bank credit based on Government credit? I agree with President Roosevelt, who says—

> Permit me once more to stress two principles. Our national currency must be maintained as sound currency, which in so far as is possible, will have a fairly constant standard purchasing-power and be adequate for the purposes of daily use and the establishment of credit. The other principle is the inherent right of the Government to issue currency and be the sole custodian and owner of the reserve of precious metals underlying that currency.

As Arthur Kitson, in his book "Fraudulent Currency," says—

> What resources does the Government have with which to finance its obligations? The Government has the whole of the national credit. In other words, the pledges it gives in the form of bills, bonds, certificates in return for the loans it asks, are merely different forms of the national credit. This is represented by the national wealth. . . . Would not a Government cheque drawn on a Government bank be as good as that of any joint-stock bank? It may be asked, "What is at the back of such a cheque?" Precisely what is at the back of the cheque of any subscriber to the war loan who borrows credit from his bank on Government security?

If the Government floats another war loan to which I wish to subscribe, and I take those securities along to the bank and lodge £500 worth of securities, I have no doubt I could get an overdraft for £250 or £300 on their strength. Mr. Kitson further says—

> Government bonds, consols, Treasury bills, and Treasury notes are nothing more than evidences of the national debt and credit. If our bankers are willing to issue their credit on such securities, is there any reason why the Government itself should not use its own credit direct, for carrying on the war, and save the nation £300,000,000 per annum? The Government is using second-hand credit—viz., bank credit—issued against the national credit.

Currency, whether legal tender or bank cheque, is a social instrument. No man or group of men, outside the halls of Legislature, can create a nation's currency. This requires the confidence and consent of the trading public. It is the public and not the bankers who give currency and therefore value to paper and credit. In 1914 the use of the national credit by the issue of Treasury notes was offered solely to the banks and not to the public to whom it belonged. Germany's readiness for war was partly due to the gold and credit facilities furnished her by British cosmopolitan money-lenders. The bankers were obliged to close their doors and to save the nation from the perils which the bankers' system of overtrading had brought, the Chancellor was compelled to offer the immediate use of the national credit by the issue of Treasury notes and at the same time he declared a moratorium. The third suggestion I would make is this: That while the present monetary conditions prevail, the Government in future loan transactions abroad insist on the following clause being inserted in all loan agreements: "That payment of interest and repayment of principal fluctuate *pari passu* with the average yearly prices realized by our primary products." Under the London Chamber of Commerce proposals this clause would not be necessary. It may be said that it would be impossible to obtain this clause, but if a league of borrowers were formed among debtor nations and each nation insisted on this clause, creditor nations would be compelled to grant it, because they are just as keen to lend (if not more so) as debtor nations are to borrow. I come now to the London Chamber of Commerce proposals, and I would explain to you that when I was in London last year I received word from the Associated Chambers of Commerce of New Zealand asking me to be their official representative in England and take charge of their two remits. I had then opportunities and privileges granted to few, and I had the privilege of meeting men like Sir Geoffrey Clarke, the London Chamber of Commerce spokesman for their remits, and others. I was present at all the meetings of the Congress and discussed the monetary policy with the secretary, who said he would be delighted if I would do what I could in New Zealand to spread the knowledge of their policy wherever I could. I had the following letter from him a few days ago:—

> Dear Mr. Taylor. Thank your so much for your kind letters of the 27th November and the 14th December. It was a great pleasure to me to have the opportunity of discussing monetary reform with you. As time goes on the present monetary system will come to be more widely recognized as being the basic evil from which all our troubles flow. If you could spare the time I should be intensely interested to hear how your campaign of enlightenment progresses in New Zealand. There is, within the last two or three months, a most marked awakening to the importance of the subject in this country. I have frequently noticed that you may hammer away at a subject for months, and possibly years, without apparently making much impression, and then suddenly things begin to happen. . . .

That is written by Mr. A. de V. Leigh, an M.A. of the University of London, and also M.B.E., secretary of the London Chamber of Commerce, and also of the Associated British Chambers of Commerce. In explaining the London Chamber of Commerce proposals, I would say that that chamber, being satisfied that no permanent prosperity could be maintained under the gold standard, had in November, 1931, set up a thoroughly representative committee under the chairmanship of Lord Leverhulme, and this committee had after repeated meetings finally brought down its report in June, 1932 (in time for consideration at the Ottawa Conference, but it was not thoroughly explored there) emphasizing these three main points, first, that all international trading should be for goods and services and not for gold; second, that there should be fixed and immutable exchanges between nations, thus eliminating all speculation in foreign exchanges; and, third, that currency should be based on goods and not on gold—*i.e.*, a "goods" currency which should be "automatic" instead of a "gold" currency which is fortuitous. It was rather a coincidence that the World Economic Conference at which there were present representatives of sixty-two nations and the Chamber of Commerce Congress should both be held in London at the same time, and a somewhat curious commentary on the state of mind of the world's political leaders that while they were discussing for weeks on end as to how to get the world back to prosperity not by instituting a monetary system which would conform with modern economic conditions, but only within the limits of the international gold-standard system, our congress should carry the following resolution with only three dissentients:—

> That this Congress of the Federation of Chambers of Commerce of the British Empire, recognizing the immense changes in the social and economic conditions of the world brought about by the application of scientific discovery to agriculture, industry, and means of transport and communication, deplores the lack of any corresponding advance in the monetary system, both nationally and internationally. It calls upon the Governments of the Empire to concentrate upon finding a monetary system which will enable the people of the world to enjoy the vast abundance which technological improvements have made available.

Just the previous day, at the World Economic Conference, as Sir Geoffrey Clarke pointed out, arrangements had been made with regard to restriction because of overproduction. The London

Chamber of Commerce does not believe in overproduction. I will read the following quotation from *The Chamber of Commerce Journal* of March, 1934 :—

The object of production is consumption, and in a sane world it can have no other purpose; both terms are here used in their broadest sense. In primitive societies, under a barter economy, this fact would have been self-evident. It must therefore have been recognized when money was first introduced, that it was not an aim in itself, but that its sole justification for existence was to facilitate the production and distribution of real things. Money is not wealth: it is merely a token to represent wealth. Money is no more itself wealth than a cloak-room ticket is the same thing as the article in the cloak-room. Both are tokens, or claims, which, by a convention given the force of law, will be accepted on presentation without question. The distinction between them is that whereas a cloak-room ticket would only entitle the holder to receive a particular article, the money token will entitle him to a choice of any articles offered for sale to a value written on the face of the token. All the real things are produced by men out of the ground, and without those things money would have no value whatever, since it would then represent claims to nothing. Even credit will, on analysis, be found to be merely a reflection of what happened under a barter economy. In those days a farmer with surplus wheat who wished a man to build a house for him would recognize that the man would have to be kept alive while he was building the house. He would, therefore, feed him while he was so engaged. He would have "faith" that the man would ultimately finish and hand over the house, and he would accordingly give him "credit." Barter being an impossibly cumbrous method of trade for advanced civilization, a token or money system was introduced which enabled the farmer to exchange his wheat for tokens, and, instead of being obliged to give wheat to the house-builder, he was able to give him tokens with which he could claim wheat and other food, clothes, or anything else he wished; but the essential facts of the transaction remained the same. Money does not build houses: man does that with things out of the ground. The money handed to him by the buyer of the house is merely a more convenient method of giving him, in exchange, food, clothes, and other goods and services, none of which, in their turn, is made by money, but again by human beings with things out of the ground. Under a barter system, those who made clothes, cannon, and other necessaries for the army which fought at Waterloo would have received houses, coaches, horses, &c., in return, and there would have been an end to the matter. It is, however, a curious commentary upon the monetary system that it is possible for the nation still to owe the orginal money value of those cannons, &c., and to have paid, for over one hundred and twenty years, interest for services rendered by those since dead. Goods would still have value if there were no money, but money would have no value if there were no goods. Looked at from this point of view, it is evident that the world is almost incredibly wealthy. Its ability to produce the material things which human beings need is, for all practical purposes, unlimited. Private initiative and enterprise have been astoundingly successful in solving the age-long problem of how to create goods to consume as fast as humanity would like to consume them.

Professor Soddy says the only thing which can use up things quickly enough for the fecundity of science is that most devastating thing called war.

The problem of production has been solved, but what should be, *prima facie* the much easier problem of the equitable distribution of the abundance Providence has made available, remains untouched. In a letter published in *The Times Trade and Engineering Supplement* of January 21, 1933, the Secretary of the London Chamber wrote :—

"Having been driven out of the temple of the Gold Fetish, we are now wandering aimlessly about in the groves and avenues surrounding it. We find the twilight of the groves better than the darkness of the temple; we do not want to go back, and it is evident that we could not if we wished to do so, but we are afraid to go forward. The Governor of the Bank of England tells us that 'different directions are pointed out to us, all of which, I hope, will lead us where we want to go,' and expresses the hope that 'next year we shall see clearly where we are going.' The nations cannot remain indefinitely in the present twilit bogyland; they cannot return into the temple, because their efforts to get it swept and garnished are foredoomed to failure. They must take their courage in both hands and step out into the sunlight, when they will see their bogies for what they are."

Mr. Montagu Norman fears that we will not get back on to the gold standard, and the London Chamber of Commerce is hoping we will not get back. I may say that Mr. Leigh also gave me some data on the gold standard which I will read you so that you can compare the working of the gold standard with what the London Chamber of Commerce is advocating. At the World Economic Conference the politicians, without a single exception, showed not the slightest appreciation of the march of science and technocracy, but simply talked and voted according to the teaching and decision of their monetary authorities and advisers. Not one of them seemed to recognize that a monetary system which was instituted during and suitable only for an age of hand-production and scarcity was an anachronism in an age of machine production and plenty. Economic theories wrongly described as laws upon which the gold standard is based, do not recognize the existence of two of the biggest factors in the economic life of to-day—viz., the mechanization of agriculture, industry, and transport (with displaced human labour) and the power which that mechanization has given to backward races with a low standard of living to undercut and so destroy the standard of living of the more advanced nations. The international gold standard takes no cognizance of these factors, but as its high priests still hold sway over the nations and regard it as sacrilegious even to discuss alternative systems, it seems as though there is nothing for it but to await the further inevitable collapse of the structure built upon it. Never once, even when no agreement seemed within the bounds of possibility, was there the slightest whisper that perhaps it was the system itself that was at fault, not one politician ventured the suggestion that reforms of the monetary system had been advocated by men of note and public bodies including the London Chamber of Commerce, reforms the sponsors of which stated would bring order out of chaos. Mr. Ramsay MacDonald, that prince of optimists, refuses to admit that the Conference was a failure, and speaks of its results as "a little setback" and "just a slight check," and tries to cheer himself and the nations with the cold remains of the dead Conference. Yet his chief henchman, Mr. J. H. Thomas, Secretary of State for the Dominions, had said to us at lunch on our opening day,—

When people to-day argue that the World Economic Conference must fail, that this or that nation must dominate policy, the answer I give them is to ask if they realize that the existing system and all that it stands for, and indeed civilization itself, is at stake, and that, if they disappoint the great toiling masses all over the world, can these people be blamed if they turn to other methods? That is the fundamental issue, and, because in my judgment it is the kernel of the situation, despite the pessimism of the moment, I refuse to believe that the Conference will fail. What a commentary it would be, what a satire, if, after all the efforts which have been made by the nations in the past, not by revolution but by the slow process of evolution, the statesmen failed to appreciate the signs of the times!

Another point of view was that of General Smuts, who spoke at the banquet given in the Savoy Hotel,—

> I take the economic position of the world to-day to be one largely of psychology. We have the men; we have the machines; we have the assets. We have everything that is necessary to set going one of the greatest economic movements that the world has ever seen, but we have not confidence. There is no confidence. There in instability; there is doubt. What is needed to-day is what we have felt in our Empire, the sense of security and of confidence.

I have a great admiration for General Smuts, but do not agree with this statement. Business men, on the other hand, have no delusions about the problem—it is certainly not a psychological one—if ever a problem was a physical and material problem, such a problem is facing us at the present time. They realize the material facts standing out like great rocks in a desert—abundance of men, machines, and goods, together with shortage of purchasing-power. The "confidence" required was to give the business men confidence that when he produced goods he would be able to sell them and what was necessary for this was one thing and one thing only, "More money in people's pockets." Having evaded recognition of the real cause of the trouble, a vicious monetary system, the political leaders are making efforts to mitigate the effects, but the problems of tariffs, quotas, and exchange restrictions cannot be solved until the monetary system has been reformed, nor can prices be raised nor standards of living improved. There is just as much chance under present monetary conditions of inducing nations to modify their tariffs and exchange restrictions as there would be of persuading a drowning man to hand you his lifebelt. He must first of all be lifted out of the water, lifebuoy and all, and then, finding himself safely seated in a boat, he will discover he has no need whatever of it and voluntarily take it off. So long as nations are obliged to trade for gold which is scarce and dear instead of for goods which are cheap and plentiful, so long will it be impossible to lower tariff barriers and exchange restrictions. Only by obtaining favourable balances can a nation obtain control of gold, and if some nations have a "favourable" balance, it follows that some others must have "unfavourable" ones, and only by endeavouring by every means possible to keep out imported goods can any nation stave off an unfavourable balance. In spite of all the heartrending pleas for self-sacrifice and international co-operation and good will, nations are not likely to come forward and offer themselves as victims. As the rhyme says :—

> I loved that cook as a brother, I did
> And the cook he just worshipped me
> But we'd both be blowed
> If we'd either be stowed
> In the other chap's hold, you see.

There is such shortage of purchasing-power in every country that if imported goods are allowed in they will absorb all or most of the cash, while local goods will be unsold with consequent further unemployment. Before enlarging on the London Chamber of Commerce proposals, it might be profitable to clear up some misconceptions about the gold standard. Here are some of its theories wrongly described as "laws": First, that gold is extremely valuable and gives value to our currency. Now, gold acquires its fictitious value from the fact that under the Gold Standard Conventions, various Governments have placed themselves under legal obligation to buy it with their currency. The local currencies are then supposed to derive their value from the value which they have placed upon gold, whereas money derives its power not from the substance from which it is made, but from its quantity. It is an exactly similar condition to that of the African savage who, having set up a fetish created by himself, believes that his future condition is dependent upon the will of that fetish. The next misconception is that the money of a country is supposed to be convertible into gold. To show how absurd this is, it is only necessary to state that the paper note-issue in Great Britain is roughly £400,000,000, while the bank credit is approximately £2,000,000,000, whereas the total gold into which this is supposed to be convertible is only some £150,000,000. In ordinary times people do not want to convert their money into gold, and in times of crisis, when everybody is expected to want to convert, the nation comes to the rescue of the banks and declares a moratorium. This has been done no less than five times within the last ninety years—1847, 1857, 1860, 1914, and 1931. Yet the supporters of the gold standard say it ensures sound money. Gold is also supposed to act as a regulator for the currency by ensuring that it (the currency) shall only be expanded when the Bank of England requires gold. Apart from the fact that as a regulator, the fortuitous arrival and departure of gold is purely unscientific and has no connection with the needs of producers and consumers, the Bank of England, by purchase of securities in the open market, credits in its books the accounts of the selling banks with the proceeds of such sale, which amount is regarded by the banks as equivalent to an increase in their cash and they proceed to create and lend credit to the extent of ten times the amount which the Bank of England places to their credit quite apart from the arrival of any gold. Finally, and these are in the eyes of its supporters its most important functions, it is supposed to ensure that the nations keep their price-levels in equilibrium and it is further supposed to enable payments to be made between them. Under the first of these two heads the theory is that a nation acquiring gold should inflate its currency, so raising prices, enabling other nations to come in and undersell it in its own markets, wreck its own industries, and put its work-people out of work, thus allowing gold to flow out once more. However, the United States of America since 1913, and France since 1928 (the nations holding the most gold) issue the currency required by their trade and industry against rediscounted bills. They have not issued a lot of unwanted currency because gold has arrived, but very sensibly put it into a vault and conveniently forgotten about it—in other words, what is supposed to happen does not, nor is it likely to. On the other hand, nations losing gold are expected to contract their currencies, force down prices at which goods can be sold—although not costs of making them—so ruining industry,

putting people out of employment, and destroying purchasing-power. This piece of ritual the nations losing gold have religiously followed with disastrous consequences. One of the conditions laid down for a return to the gold standard is that in future nations receiving gold shall inflate their currencies with these disastrous consequences. While it is conceivable that the American and French monetary authorities might be prepared to disorganize their industry in this way, it is inconceivable that the industries themselves will be prepared to acquiesce. The world's purchasing-power for years has been steadily falling (as Winston Churchill has said there has been "remorseless deflation") and the monetary system has been responsible for this, directly through its policy of currency contraction and indirectly through other factors which would not have been present under a satisfactory monetary system—excessive tariffs and the right of nations to force down internal price-levels of other nations by demanding payment for gold. Some years ago the British Government set up a Commission under Lord Macmillan to go into the currency question, and this Committee, known as the Macmillan Committee on Currency, reported as far back as June, 1931, that if the then present deflationary policy continued it would end in chaos, because unless debtor nations which pay their interest in primary products receive reasonably stable prices for these products, there is no doubt about the ultimate default. That Committee looked to international agreement for the raising of the price-level, but the failure of the recent World Economic Conference has destroyed any vestige of hope in this direction —in fact recent events disclose as strong feelings of hostility and suspicion amongst Continental nations as have ever existed in the past. Viscount D'Abernon said, "If any one had said twelve years ago that America, France, and Great Britain would have so mismanaged their currency problem as to force their debtors into bankruptcy, no one would have believed it." It is a striking commentary on world affairs that in June of 1932 the London Chamber of Commerce suggested that Britain and her colonies should appeal to the United States to co-operate with them in a joint effort to raise prices and restore purchasing-power, believing that such an appeal would not have been in vain. No action was taken, however, and when just before the Economic Conference in June of 1933 President Roosevelt appealed to Britain to join the United States of America in such an effort, although Neville Chamberlain had made it the first plank in his platform, that commodity prices should be raised, he did not so much as lift his little finger to join in America's campaign to raise prices. The result of this monetary contraction had been that money had been made to measure three times as much in commodities as it did in 1925–28, so that a debt contracted then required for its settlement from three to three and a half times its original commodity value. It was as if a man had borrowed say a yard of cloth and when he came to return it the lender produced a yard measure three times as long as the original one and insisted on receiving three times as much cloth as he had lent. His excuse, "Nothing to do with him if in the meantime the measure had become elongated and was now a yard according to the standards department" would hardly carry conviction. Yet so accustomed had we become to this particular happening at frequent intervals in our measure of value that we looked upon it as a "law of nature." It was not so, but a deliberate act, carried out in conformity with the rules of the International Gold Standard. We are meticulously particular to have accurate measures of weight and length, but our measure of value, the most important measure of all, can be made to fluctuate so widely as to cause greater injustice between debtor and creditor than could conceivably be inflicted by the most dishonest quantity measures. When I went into the Guildhall I was delighted to find there standard measures of 1 ft., 2 ft., and 1 yd., standard at 62 degrees Fahrenheit, 66 ft., and 100 ft. In introducing our remit at the Congress, I said, "Your gold standard might well be a piece of ice or a piece of elastic." The President of our Congress, Sir Arthur Shirley Benn, referred to this matter in his opening address, "The course of trade during the last three years has been the reverse of satisfactory. The Empire has suffered like the rest of the world; the figures of world trade had been steadily falling." Money, the rod by which goods are measured, has become so distorted that supplying countries obtain fewer pounds for more commodities. The London Chamber of Commerce, being satisfied that no permanent improvement could be expected within the limits of the International Gold Standard Convention, set up a representative committee under the Chairmanship of Lord Leverhulme to thoroughly explore the position, and this committee in June, 1932, brought down this report for submission to the Ottawa Conference. Whether it actually saw the light of day there or not I am unable to say—all I can say is that the business men who went to Ottawa with the view of advising the political leaders were to a man absolutely disgusted with the way they were treated. This report emphasized these three main points—first, all international trading shall be for goods and services and not for gold; second, there shall be fixed and immutable exchange-rates between nations, thus cutting out all speculation in foreign exchange; third, currency shall be based on goods and not on gold—*i.e.*, a goods currency which will be automatic instead of a gold currency which is fortuitous. The interesting fact is that with our Congress looming up a further committee was appointed on the 11th January, 1933, to furnish a report on monetary reform to the Congress and to this committee Sir Basil Blackett, a director of the Bank of England, and Dr. W. H. Coates, financial adviser to the bank, were added; these two gentlemen dominated the meetings to such an extent that the terms of reference given to the committee which were: "To report to the Thirteenth Congress of the Federation of Chambers of Commerce of the British Empire on the subject of Monetary Reform," were altered to: "To consider the question of Monetary Policy in relation to the needs of the commerce and industry of the British Empire and to make recommendations." I do not know what your opinion is, gentlemen, on the matter of a committee altering its terms of reference, but I certainly think it is not within its power to do so. The result was that a perfectly different set of resolutions was submitted to our meeting advocating a return to the gold standard, but a reformed gold standard. Two members of the committee, however, would not sign the report as they held to the original one. This report was then submitted to a further sub-committee on monetary policy selected from the delegates present at the Congress, and I was fortunate enough to be appointed to

this last committee. We were given a book of thirty-two pages, containing, I think, forty-six resolutions, to go through in one night and digest. To show the lack of appreciation of actual working-conditions from which the leading economists suffer, let me read you paragraph 34 of this report,—

> Monetary policy cannot be divorced from political policy. Countries with large claims upon others must be prepared to receive payment in goods and services and must place no unreasonable obstruction in the way of such payments. Gold should be allowed to flow freely from one currency authority to another to settle temporary disequilibria in the balance of payments. A currency authority receiving such gold as a result of a real disequilibrium in national values should expand credit so as to raise the price-level, with a view to that country becoming a good one to sell in, and an unfavourable one from which to buy. The increase in imports and the loss of exports will restore equilibrium. When particular manufacturers find themselves being undersold in their own market by these imports, tariffs should not be used to defeat the normal working of the system. Conversely, when a country loses gold it should contract credit, and so force down prices. The worker should not resist a lowering of his money wages, provided his real wages are maintained. The loss of monetary purchasing-power in the home market which will result will be balanced by the lower level of prices. Only by the normal operation of the conventions of the gold standard can equilibrium be maintained between the price-levels of different countries.

Captain Rushworth: If I understand that correctly, that means that every creditor nation should bankrupt its own industries, and then start afresh?

Mr. Taylor: That is exactly what it means. When I asked Dr. Coates through the Chairman if it was not contrary to human nature and common-sense that manufacturers should sit idly by and not protest when they saw their own home markets being flooded by foreign imported goods, and their factories idle, and that workers should not resent being put out of employment, his reply to my question was, "All restrictions were contrary to human nature and common-sense." In the course of his remarks at our sub-committee Dr. Coates stated (I need not explain that he is a keen advocate of the gold standard), "That all nations were anxious to receive gold because it was an asset of value," and when I asked him, "Of what value to America was her huge supply of gold?" he declined to answer my question. I really believe the economist is more concerned with the working of his pet theories on the gold standard than with the prosperity of his own country.

Captain Rushworth: You mentioned Sir Basil Blackett; he does not support that view, does he?

Mr. Taylor: He signed his name to this report though. I might add that just as Sir Basil Blackett and Dr. Coates had dominated the meetings of the preparatory monetary committee, so did they at this meeting of our Congress sub-committee; with the exception of a delegate from India and myself hardly any member present raised a question. It is interesting to note that the Duke of York at the banquet tendered to us at the Savoy Hotel quite unconsciously touched on what is really the central philosophy lying behind the proposals of the London Chamber of Commerce, as opposed to the principles which govern the gold standard convention.

> I am very grateful to you for the kind way in which you have proposed the toast of my family and the way in which that toast has been honoured. When you were good enough to invite me to be your guest here this evening I was very glad to be able to accept, because I am sure that such an organization as your federation cannot fail to play a great part in the solution of the troubles of the world. It puts into practice the three principles of good will, free will, and fair play—on which the British Empire is based and from which it derives its strength. In the family of British nations we do not attempt to live together in one house, nor do we interfere in the internal arrangements of one another's establishments. We realize that we are likely to remain better friends, and to display towards one another those virtues connected with the word "friendship," when we each have our own establishments and run them according to our individual views and tastes. This is very widely recognized to be the case with families, and yet, unfortunately, it is fact that is very little recognized among nations.

If a central Government were set up to dictate for the British Commonwealth of Nations, there would be danger of disintegration. The continental conception, on the other hand, is one of compulsion, force, and coercion, seeking always to impose upon the individual or group of individuals a course of action suggested by some central body. The international gold standard might be said to be the embodiment of that conception of life in that it attempted to dictate internal policy for each country, to control its standard of living, the course of its general price-level, and the affairs of each nation in accordance with gold movements which had no relation to the needs and wishes of that nation. The international gold standard is the greatest, perhaps the only, menace to the cohesion of the British Empire—on the political plane the relation is one of equal partners, on the financial plane it is one of money-lender and squeezed debtor, and the British nation is often spoken of as "Shylock" in consequence of its money-lenders' methods. It seems incredible that in this scientific age nations should be content to rely upon the fortuitous arrival and disappearance of gold as the regulator to determine whether the currency should be expanded or contracted. Not only has this gold movement little if any connection with business activity, within the country, but the methods employed to put additional currency into circulation or to withdraw it are calculated to do the maximum amount of injury to the trade and industry of the country by causing wide fluctuation in the price-level. To cause such fluctuations and consequent disorder is in fact a necessary feature of the system. Additional currency is not called out as required by industry and commerce—it suddenly becomes available owing to a fortuitous acquisition of gold by the Bank of England. As the joint-stock banks can find at the moment no outlet in industry for the additional credit made available by the broadening of their cash base, it finds its way into speculation in the stock and raw material markets. A boom having been thus created in these markets, industry begins to feel the benefit of an increased demand for its products. The advances which had in the first place been made for speculative purposes are now withdrawn by the banks in order to finance the industrial boom so that before this is well under way a slump in stock and raw material markets begins, and this slump, like a rolling snowball, grows in intensity every day. This is the phenomenon spoken of as "the Trade Cycle" and is generally regarded as a law of nature. Needless to say it is not a law of nature, but solely due to faulty monetary mechanism. It is clearly evident that a reform of the monetary system is urgently necessary, a reform which will provide a more scientific regulator of trade

and industry than the fortuitous arrival and disappearance of gold. This reform must ensure that in future additional currency and credit shall not be made available in large masses which industry is quite incapable of assimilating at the moment of availability, and, conversely, that large masses of currency and credit shall not suddenly be withdrawn so that industry and commerce, as it were, are subjected to severe blood-letting. The London Chamber of Commerce recommends that currency be issued against the rediscounting with the Bank of England of eligible commercial three months' bills, the proceeds of which will be used for current production and distribution. Bills drawn to raise money for capital or financial purposes not to be eligible for rediscounting. Eligible bills would form a better regulator than fortuitous arrival and departure of gold. If, for example, the Bank of England had £500,000,000 of rediscounted bills any date, then there would be in issue £500,000,000 of currency. If next day £450,000,000 or £550,000,000, then equal currency. In other words, the currency would rise and fall automatically with trade activity. When trade was active there would be more bills, therefore more currency. When trade was less active there would be fewer bills and therefore less currency. The currency would be purely automatic and subject neither to manipulation nor management. As a safeguard customers would have to sign an eligible bill form stating that the proceeds were to be used for current production and distribution (under severe penalty) the joint-stock bank, as at present, using its discretion as to whether they would make a loan or not. The method of bringing that into force is in Appendix I of the *Chamber of Commerce Journal* as follows :—

The essence of the rediscounting system is that currency is made the servant of industry and commerce, and not its master. The currency is covered by all commodities, as represented by the eligible commercial bill, and not by one commodity, gold, which can be cornered. The volume of currency rises and falls proportionately with production, as rediscounted commercial bills behind the issue, being self-liquidating, are in a constant state of flux. The Regulations of the Federal Reserve Board of the United States of America define the character of a note, draft, or bill of exchange eligible for rediscount at a reserve bank, *inter alia*, as follows :—

(*a*) It must be a negotiable note, draft, or bill of exchange which has been issued or drawn, or the proceeds of which have been used, in the first instance, in producing, purchasing, carrying, or marketing goods in one or more of the steps of the process of production, manufacture, or distribution. (When used in this regulation, the word "goods" shall be construed to include goods, wares, merchandise, or agricultural products, including live-stock).

(*b*) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings, or machinery.

(*c*) It must have a maturity at the time of discount of not more than ninety days, exclusive of days of grace; but if drawn or issued for agricultural purposes or based on live-stock, it may have a maturity at the time of discount of not more than nine months, exclusive of days of grace.

(*d*) It may be secured by the pledge of goods or collateral, provided it is otherwise eligible.

It might, of course, be found there were not enough rediscounted bills to furnish adequate amount of currency—it would be desirable to have a fixed fiduciary issue at bottom of structure as at present. Now, while legal tender currency could, under the gold standard, be expanded only with acquisition of fresh gold, the banks were at liberty to lend as many credits pounds as good borrowers would take, the only thing being their self-imposed ratio. That this was very elastic is seen from the fact that pre-war banks kept 15 per cent. of deposits in liquid cash—that is, they lent only 6½ per cent. credit pounds for every £1 cash—now they hold only 10 per cent. They are lending £10 credit for every £1 cash held. It will be seen, therefore, that meticulously to observe regulations governing the issue of currency and to leave to chance the issue of credit, which, once issued, is equal to cash, is indefensible. The Chamber proposes that the issue of bank money or credit be controlled by the central bank, through the ratio, the maximum being £9 credit for £1 cash, this to be fixed by law, On the first sign of inflation on the financial side the central bank to be given authority to vary the ratio from £9 to £8 10s. and so on, until undue speculation had been stopped. Under this proposed regulation the more anxious would banks be to discount eligible bills, as only by rediscounting same with the central bank would they obtain the cash, against each £1 of which they might lend £8 or £8 10s. credit. The general price-level would be kept steady, and industries would not be wrecked nor men put out of employment by undue speculation, with its accompanying vicious circle. Speculators thrive on fluctuating prices, but industry demands steady prices.

Mr. Langstone: Who is to control the central bank ?

Mr. Taylor: The Government Statistical Department, I should think.

Mr. Langstone: Not like the Bank of England ?

Mr. Taylor: No; that is a private bank.

Mr. Langstone: Or our bank, here ?

Mr. Taylor: No. Only a minimum amount of alteration in existing bank machinery is necessary to give effect to these proposals.

Appendix 2.—The following are the changes which would be necessary in British law and banking practice were it decided to adopt central banking with the rediscounting of bills :—

(1) That the Bank of England should cease to do business in competition with other banks, and should become a central bank pure and simple. All the joint-stock banks and private banks which accept deposits and make advances should be obliged to become members of the central banking system.

(2) That so far as credits for current production and distribution are concerned, the commercial banks should abandon their present practice of making advances at 1 per cent. above bank rate, and should, instead, discount eligible commercial three-month bills, which would thus once more become the normal means of financing the internal trade of the country. They would be under obligation to offer these bills for rediscount by the central bank, although that institution would be under no obligation to do so, unless it was satisfied that they were fully eligible.

International payments: Under the London Chamber of Commerce proposals international payments would be on a par with what we may call national payments, or the everyday payments which you and I make when paying a small account in a retail shop. When I, as a buyer, hand a shopkeeper, the seller,

legal tender of any sort, say, a shilling or a 10s. or £1 note, I virtually hand him a claim for that amount of goods and services, and the debt is liquidated. Whether the seller (or creditor) chooses to exercise that claim to buy goods or services, chooses to keep that note in his pocket or light his pipe with it is a matter of complete indifference to me. By giving the shopkeeper the note (or claim for goods and services) I have paid my debt. I am not obliged to offer him some of my furniture at knock-down prices until he is satisfied. The same principle should be adopted internationally. The individual British exporter, having sold, say, £100 worth of goods to a German buyer, equivalent, say, to 8,000 marks, would draw a bill on him and after it had been accepted would discount it with his local bank. In this way he would have received payment in his local currency and, except in case of default of the buyer, he would be out of the picture. The English bank would then send the bill across to its correspondent bank in Germany, which would, in due course, collect the marks from the buyer. The English bank would then be in possession of a short-term credit in Germany, of 8,000 marks. This is what happens every day, and if, under the international gold standard system, there were enough importers wishing to buy goods from Germany and prepared to pay pounds to the English bank, which then released the marks, all went smoothly. If, however, there were not enough importers wishing to use the marks acquired by discount of export bills, the English bank would offer the marks for sale, and if not enough buyers of marks about, they would fall in price. As soon as they fell below gold-export point the English bank would stop selling marks and buy a lump of gold from the Reichsbank, remove it physically from Germany and so wreck Germany. Why, in the name of reason and equity, should it have this right? Under the Chamber's proposal the English bank will hand over the marks to the national central bank, in other words, it would rediscount the bill with the national central bank, acquiring pounds, and so be out of the picture. The central bank, as representing the nation, would now hold a claim on the goods and services of Germany expressed in the form of a short-term credit. England, in other words, having exported real wealth, would be entitled in exchange to the real wealth of Germany. Whether or not it chose to exercise that claim would be a matter of complete indifference to Germany. If the demand from England were not for marks, but for francs or dollars, the central bank would go to the central bankers' clearing-house and swap their claim on Germany for a claim on France or United States of America, always at the fixed rate of exchange. It is quite clear the equitable arrangement would be that Germany had discharged the debt when it placed the marks to the credit of Britain. If British importers did not choose to import German goods, England, through its central bank, would hold an unused claim on Germany. Under such a system every nation would be as much concerned with imports as exports. The question may be asked as to how the price-level could be kept stable if there were no gold standard. If a nation dropped its price-level in a vain endeavour to undercut other nations, it would simply earn short-term credits which its importers could not use owing to the fact that they could not sell at a profit goods from countries with higher price-levels, or in other words, it would be giving away its exports, and no country could long afford to do this. Under the gold standard a price-cutting country can take out its credits in gold, which automatically reduces the currency, and consequently the price-level and standard of living of every country, the ultimate result being a competition between nations as to which can subsist longest on the "smell of an oiled rag," so to speak. The country with the lowest standard sets the standard for the rest of the world to work down to, instead of the one with the highest standard setting its standard for the others to work up to. Method of exchange at central bank depot: It is suggested that all countries agreeing to accept these proposals should send their central banks into a central bankers' clearing-house (not an overriding central bank) simply a clearing-house for the transaction of business between the various countries, which would meet there on an absolutely equal footing. Exchanges could be fixed at the old gold parity, at the rate which ruled over a given period or any ratio determined upon by agreement, but once the rate had been fixed it would be unalterable. The participating countries would not be working to a sterling standard nor to a dollar standard, but to a rediscounting standard, dollars, marks, francs, kroners, all coming in on equal terms at their fixed ratios. If a country's price-level dropped below the point of equilibrium, either because it was prepared to accept a low standard of living (Japan) or because of technological improvements not enjoyed by other nations (United States of America) such a country would have an accumulation of short-term credits and its joint stock-banks would refuse to discount its bills unless its merchants were prepared to use these credits for imports, but owing to lower price-levels merchants could not profitably import—reminder to such country to raise rate of wages—it would be the first to suffer, whereas now it is the last to suffer (takes out gold and reduces currency in customer's country, thus reducing its wages and purchasing-power)—so that every technological improvement, instead of bringing advantages to the world, brought about, so to speak, competition for starvation. The cotton-worker in Lancashire is told, "If you wish to compete with Japan, you must learn to live on the smell of an oily rag." The coal-miner, "You must be prepared to make sacrifices (a phrase much used by politicians) and live like a Pole." The iron and steel workers, "You must be prepared to make sacrifices and live like a Belgian or a Luxemburger." Then, when we retaliate with cut-throat prices Japs, Poles, &c., all reduce prices until we come to this *reductio ad absurdum*, the only things worth producing would be oily rags and loin cloths, and then the country whose inhabitants would be content to smell their "rags" only every other day would win the starvation competition. The only way by which this insane competition can be stopped and made harmful to countries attempting it is by a "goods standard." An approximate stability of general price-levels would become necessary. This does not mean there would be no fluctuations in prices of particular commodities, but the average price of all commodities would remain stable. Under the gold standard people got such inadequate purchasing-power that if one nation obtains a reasonable amount others have to go without. This is one of the prime causes of "international friction." Under these proposals any technological improvement would then express itself in an improved standard of living in the country which had it, and not, as now, in a depressed standard elsewhere, with consequent boomerang effect upon the original country through the ruin of its customer. As it is

impossible, under the gold standard, to expand currency and credit in step with the ever-growing abundance of commodities, industry finds itself in a strait-jacket, and the only way it can find relief is by selling its produce at a smaller and smaller quantity of the restricted money-supply. In order that each nation may have a currency and credit system capable of distributing at a stable general price-level the ever-increasing supply of useful and desirable commodities which modern science has made available, it is absolutely necessary that its system should be capable of expanding *pari passu* with productivity, and should not be controlled and limited by the fortuitous arrival and disappearance of one commmodity, gold, which can become scarce either from natural causes or through being cornered, and of which the available supply has as much connection with the needs of producers and consumers for the necessary tokens to facilitate exchange, as had the success or failure of the shark-fishing season in past centuries, when sharks' teeth held the proud position now occupied by gold. Were these proposals adopted finance would take its proper place as the servant of industry and not as now its master. With reasonably stable prices for the primary products with which they meet their overseas engagements, debtor nations would not have the fear of having to default over their heads like the sword of Damocles, nor would their Governments and municipalities and other local bodies be forced to treat their bonds as "scraps of paper." The "sanctity of contractual obligations" (a fine phrase I got from the newspaper) would be observed to the letter both in regard to internal as well as to external loans, and all the make-shifts, expedients, and subterfuges to which our Government has been forced to resort would be a thing of the past. Summarizing: The practice of making international payments by means of shipments of gold would be abandoned. There would be no dealings in exchanges, which would be fixed and unalterable. No Exchange Equalization Fund would be needed. Temporary favourable or unfavourable balances by the nations would be the subject of book entries between them. The remedy of the country with the so-called "favourable" balance would be to raise its general price-level, otherwise it would be merely making a present of its exports to other countries, seeing that it could not import foreign goods to advantage. Thus, international price-cutting, not necessarily, of course, in particular commodities, but in general price-levels, would be eliminated. Finally, any advance in the science of production and distribution of a country would find its outlet not in forcing down the standard of living of less fortunate countries, but in enabling that country to distribute greater purchasing-power to its people in the form of higher rewards to capital and labour, in other words, a higher standard of living. Lastly, were a monetary system adopted which would guarantee stable prices for primary products, New Zealand and other dominions would be able to embark on a regular system of immigration again, and not only relieve the Motherland of its surplus population, and increase Great Britain's overseas trade, but build up bigger markets for goods grown and produced in their own territories. I have spoken about the standard of living in various countries, and I have a quotation here of a speech by Sir Arthur Samuel which I would like to read: —

> First, that the standard of living of the world is regulated by what the world produces; second, that the world cannot consume more than it produces; third, that the true standard of living of a nation cannot be higher than the standard provided by its total production divided among its population. In a word, the standard of living is merely production divided by population. The more there is produced for which there is a demand, the more there is to be divided up, and the higher the standard of living. A nation can consume as much as it desires of its own productions and services. It can then export to other nations the balance or surplus that is left over, exchanging that balance or surplus for the productions and services of other nations. That, in aggregate, gives the standard of living to which the nation is entitled. It is morally entitled to no higher standard, and is not justified in borrowing to raise it. Yet certain uncreditworthy nations, with the assistance of and encouragement, of finance houses in Europe and America, have been enabled to raise loans which were not justified by the national production and economic strength of the borrowers. They have consumed of their own products what they have needed. That is justified. They have exchanged the balance or surplus with other nations in further satisfaction of their needs. That is justified. They have in addition raised loans from other nations, chiefly Britain, without possessing an adequate additional power of production, or additional assets from which to provide interest or repayment upon such loans. Debt so incurred is not justified. That is an abuse of credit.

I agree *in toto* with him in this definition of the standard of living with this addition: Provided always, that this measure of value which converts goods into money be an invariable one, and not the present gold standard. We want to know for certain that a given number of pounds will provide us with approximately the same standard of living, in, say, twenty years' time as it does to-day.

Mr. Ashwin: You only want the same standard twenty years' hence, as you have to-day. Would you not like a higher one?

Mr. Taylor: If our production increases our standard of living goes up all the time.

Mr. Ashwin: But you said you desired to have the same standard of living twenty years' hence as you have to-day.

Mr. Taylor: I said approximately. If our production increases and our population remains the same, our standard goes up all the time. I would now like to quote Sir Basil Blackett, the leading economist and financier in Great Britain.

Mr. Clinkard: Do you agree with him on all he says?

Mr. Taylor: No.

Mr. Lye: Well, why do you accept one portion of what he says and not another?

Mr. Langstone: Mr. Taylor agrees with Sir Basil Blackett when Sir Basil speaks the truth.

Mr. Taylor: In his book "Planned Money" Sir Basil writes: "To deny the obvious fact that monetary policy is the major factor in controlling prices is to further exasperate an already aggrieved public." I quote from memory.

Mr. Lye: How long ago did he write that?

Mr. Taylor: Quite recently. Professor Taussig's law supports this. Other things being equal if you double the quantity of money on the market you double the prices of goods and, conversely, halving the quantity halves the prices of goods. I would like now to refer to a statement in the

evidence given by the banks. In answer to Captain Rushworth's question (he asked if there was any fundamental reason why the Government should not issue notes instead of borrowing overseas) Mr. Fussell said, "There is a political reason; if £10,000,000 is issued the people will say, 'Why not £100,000,000?'" I think that is a childish answer to give. It simply evaded the question. Why should the people ask for £100,000,000 of money? The same method is adopted when you speak of inflation or "reflation" to remedy the present deflation; the orthodox economist holds up his hands with feigned horror and says, "Inflation! Look at Germany! Once people get a taste of inflation there is no satisfying them!" There is no need to fear "political reasons" or even an "unsatisfied desire for more and more inflation." The Government Statistical Department would have all the necessary data, and the necessary injection of the right amount of money required would be a purely scientific operation. As President Roosevelt said in July of last year, "I am going to inflate to the extent that debts shall be repaid in dollars of equal value to those on which the debts were contracted." Were Neville Chamberlain to say the same thing our present difficulties would be solved.

Captain Rushworth: You mentioned that you represented in London the Associated Chambers of Commerce in New Zealand. Have you seen this document?

Mr. Taylor: I saw it this morning, but I would not read it.

Captain Rushworth: Can you tell me whether that really is the considered view of the Associated Chambers of Commerce?

Mr. Taylor: I could not give any opinion on it at all. It is not safe to say what is behind what anybody says.

Captain Rushworth: I have naturally formed my own conclusions.

Mr. Taylor: They are much the same as mine, I expect.

Captain Rushworth: You suggested that this new money based on bills would have to be initiated in London. There is one criticism I suggest to you. If the powers that be in Great Britain do not adopt it, we have to go on "dreeing our own wierd" here.

Mr. Taylor: I am afraid that is so, until something is done in London. I believe that, as Sir Arthur Shirley Benn said at the opening of the Conference,—

> What the world is waiting for is courageous leadership, and I believe the time is not now far distant when the British Empire—perhaps, and I pray it may be so, in co-operation with our cousins in the United States—may face, clear-eyed, the changed conditions of the twentieth century and, forgetting prejudice, preconceived notions, and personal interest, and following the dictates of good will, common-sense, and honesty, may find a way out denied to mere cleverness, fear, and force.

And I said at our Congress unless we show some symptoms of courageous leadership here, we deserve to go down to posterity with the scorn and derision which we ourselves are throwing on the other committee which was then meeting.

Captain Rushworth: You have enjoyed the congratulations that you have thoroughly earned, "Well done, New Zealand," because of the courageous action you took. Now cannot we here do something of the same sort in the event of Great Britain not taking remedial measures. Why could not we, here in New Zealand, adopt that course. We can surely set up the necessary institutions, could we not here?

Mr. Taylor: To a certain extent; but, as I say, when we export £50,000,000 worth of produce our total production may be, in one year, £100,000,000. When we send that £50,000,000 to Great Britain, out of which they take £8,000,000 in interest, it depends to a great extent on what they give us for this £50,000,000. They may give us £25,000,000 or £60,000,000. We could, to a great extent, clean up our own house here, but, as I said before, our efforts would be thwarted and the reforms which we would introduce would be to a great extent nullified. Apart from that, there is no reason why we should not do something here.

Captain Rushworth: Would not our position here in juxtaposition to Great Britain be exactly the same as Great Britain's in juxtaposition to other countries, because Great Britain exports proportionately as much as we do. She has to deal with foreign countries, and you have indicated that international trade would be dealt with. Now, would not the trade between New Zealand and Great Britain be dealt with in the same way?

Mr. Taylor: No. The trouble is this, as I explained to a lady in London. She said to me, "Why do you in New Zealand sell your butter so cheaply?" I said, "I might ask you a question: Why do you give us so little for it?" New Zealand butter I myself bought in London at 10d. a pound. I said, "When we buy from you we pay you cost-price plus a profit, but when you buy from us you do not pay us cost-price plus a profit, but you give us the world's parity." When we buy boots and snoes and iron and steel and nails from Great Britain we pay them their cost-price plus a profit, and if we could invoice our goods to them with a bill of lading and a draft attached, at our manufactured price all would be well, but when our goods arrive in London they are sold on world's parity and that is where the injustice comes in between debtor and creditor. As the London Chamber of Commerce says, we buy from them cost plus profit, and they buy from us at any old price they care to give us.

Captain Rushworth: I want to get this quite clear because it seems that you are suggesting that we must, here in New Zealand, of necessity sell and do our business in a sterling area, but that the sterling countries can deal with other countries on some other basis. Why, if Great Britain can dea l with another country with a totally different system of money, could not we here deal with Great Britain on a totally different system of money.

Mr. Taylor: I see your point. We could deal with Great Britain in that way too, but the trouble would be that these other nations would have the same trouble, because most of the goods which go into Great Britain are raw materials, are they not, which I suppose are sold on world's parity. There is no reason why we should not come in the same as other countries, but as long as they have the

present monetary system in England, under which the prices of our produce can fluctuate so that a debt contracted five years ago requires for its settlement from two to two-and-a-half times its orginal commodity value, we cannot get very far. We certainly could under this sytem which I have outlined for Britain and the other countries.

Captain Rushworth: If Great Britain, for various reasons fails to take the initiative because they have not enough foodstuffs to risk the experiment, or for any other reason, and the present trend of events is allowed to continue, must the destitution and poverty here in New Zealand inevitably keep on? Can we not take some remedial steps?

Mr. Taylor: I did not explain this to you, but when I was leaving London at the end of September I went to say good-bye to Mr. Leigh, and I said to him, "What do you think of the world international position at the present time?" And he said to me that the position of Germany in February, 1934, would be so acute that Hitler would take over the whole production of Germany. He would produce with 100 per cent. efficiency where they were only working at 25 per cent. efficiency. Germany would then flood the world with cheap goods. The present competition which we are fearing from Japan would be a flea-bite as compared with a landslide, and our financiers would, in a vain attempt to stabilize the markets, juggle with the £2,000,000,000 of short-term credits which are available at the present time, and England would be forced to adopt some other means of financing world trade, and you will notice that on the 15th March of this year it came out that Hitler had taken over the whole production of Germany. The whole system was divided into twelve different areas under Government control and production was to go ahead by leaps and bounds. I said nothing about that before, but that shows you what Mr. Leigh foretold five months before it happened. You ask me, Are we going to be for ever under the heel of some power. I believe that the time may be coming when we will have marines and others sent in here to keep order. I said in London, "Why do not the people rise against it?" "The dole keeps things sweet," I was told. It is a wonderful thing. It is the precursor of a universal pension. I said to a man in London, "Why do the people put up with it?" The people at Home have a cowed look. They are losing their self-respect. He said, "There are the police and the military and a few machine-guns and the streets are cleared."

Mr. Lye.] But you do not believe everything that is told to you, do you?—No. But I form my own conclusions. I could see it at Home and I say, were it not for the dole there would be a revolution in England. I say that without hesitation. Look at the revolutions in France, Spain, and Austria. All due to economic causes.

Captain Rushworth.] I am a little concerned about the suggestion you made that any move must be initiated in London, because, if that is literally the case, then you are wasting your time here. I suggest that if that is true it gives the very thing that so many people in this country want. They want to be able to fold their hands and say, "Thank goodness, I can stop thinking now"?—I might say that one can see that more money is being let out, that things are improving, and that we are now at the beginning of another boom, but we will topple down just the same again, and I would say to you all, "Just watch events and when they get to the top sell out all you have got and buy in when it goes to the bottom. You can make a lot of money that way. We are on the eve of an upward move in the cycle of events, but we will go down just as far again and that may be the end of everything."

The Chairman.] Is that the opinion of your friend in London?—No. It is my own opinion. I give it for what it is worth.

Captain Rushworth.] I feel very strongly that we must not throw our hands up?—Yes.

Arising out of that is the question of control. It seems necessary to have some control over the manufacture and issue of money, whatever form it may take. You have suggested the central banks, but in rather a different form to those which have already been conceived?—Yes. Quite a different form.

There still remains the question of control. Is it that, in order to preserve the democratic idea of self-government, control must really rest in the people?—My personal opinion of democratic Government is this, that I believe that the only authority that democracy has at the present time, or you legislators have, is to tell us whether we should have rolled tops to our coats or turn-ups to our trousers. That is about all the authority you people have. Mr. G. B. Shaw said there is an invisible hand, and that is my private opinion.

That is, inside the control of the money?—Yes.

Those who control money——?—Control all our lives.

So that it is desirable, if we are to preserve the idea of democratic Government for democracy to include the control of the money system?—As Mr. Kitson says, "No power on earth outside the halls of Legislature should have control of our currency and our credit."

That means that the control of any money system must be limited to the political entity. If you have a self-governing Dominion the control of the money of that Dominion must be resident in that Dominion?—Yes. But I do not profess to be an expert. I have simply come from London chock full of all these ideas, and I do not profess to be able to answer difficult questions like that.

As a matter of fact, it is not fair to spring these on you, but my own personal ideal is an Imperial monetary system, but to control that system I envisage in the dim and distant future an Imperial Parliament. But we have not got the Imperial Parliament yet. That is the point?—And if that Imperial Parliament is reinforced by a Statistical Department with all the particulars, there will be no fear of inflation or deflation. Everybody will get a square deal.

Dr. Sutch.] You said that we had £6,000,000 of gold; what was that against our national debt of so many hundreds of millions? But that gold is not held by the Government against our national debt?—No, it is not. But what does Mr. Fussell mean when he says that it gives a feeling of security?

I should assume he was assuming that the people would have more confidence in their monetary system if gold was somewhere round. He does not mean the Government owns the gold or holds it

against the national debt. I admit that the £6,000,000 is only a flea-bite. The Reserve Bank Act provides for the rediscounting of bills. Have you gone into the provisions of that Act ?—No, I have not. I have simply taken the facts which Mr. Leigh gave me, brought them together and handed them over to you.

It would be interesting, because you will find there many of the provisions you have incorporated in this report. Our Reserve Bank Act provides for production being financed by discounting and rediscounting of bills ?—That is the American system.

Yes, and the South African system. It would largely replace the system of overdrafts. That is the idea in reference to the Reserve Bank Act, so that we have a good deal of your machinery already ?—Yes.

We have not the alternative reserve requirements that your report has. The Chamber of Commerce would alter the proportion of reserves and credit ; that provision is not in the Act ?—Do you not think it would be advisable ?

I would not like to express an opinion at the moment. What happens is they hold more than their required reserves and that takes any slack that is necessary ?—Exactly. We should have £60,000,000 currency instead of about £6,000,000 or £7,000,000, and we have £6,000,000 in gold held against it.

You would not approve of an Import Board ?—No.

The State would not interfere ?—No.

Would the State control your Central Board ?—Yes, but not political control, scientific control. It would not be at the beck and call of the members of Parliament.

Our Post Office is not so ?—No, but there would be no fear of political influence or political control ; it would be purely automatic.

Do you not think the party in power which represent the people should govern ?—I question whether they do.

But you affirm the principle that the State should control in some way the banking system ?—Yes. I have no fault with the banking administration, but with the banking policy. I think the administration is wonderful.

You think that the board of directors of the Reserve Bank is a rather radical procedure ?—I would not care to answer that.

The State has three or four representatives on the Board ?—I have not considered it.

You made a good point that raw materials and natural foodstuffs generally tend in price to a world parity ; does that mean that there are other influences apart from the monetary influences on the price-level of materials ?—Exactly. If there has been deflation going on and people cannot buy the necessities of life, the price drops ; and there are other things.

You see that at the present time ?—Yes ; any one can see it.

If England adopted this system, it would not require a great change ?—Very little change, and the Scandinavians would come in, and probably America.

America, South Africa, and New Zealand already have the machinery ?—Yes.

Assuming we had that, all linked up, would it be possible for the price-level to fall ? Could there still be crises in the butter industry, for instance ?—Not the same crises.

In so far as we have solved the monetary policy, but apart from that, could we still have a fall ?—It would be difficult ; science is moving so quickly.

The production of butter in New Zealand had gone up hundreds of per cent. in a few years ; it is amazing to see the figures in regard to the production of New Zealand and Australian butter. That explains to a large extent the fall in the price-level ?—I think it is lack of purchasing-power that explains it.

In particular commodities, you might have for the moment a supply which upsets the price ?—I would answer that by quoting from an article " Produce to consume," which appeared in the *Chamber of Commerce Journal* of March, 1934, " No Overproduction : With approximately ninety million destitute people in the advanced nations, not to mention the teeming millions of Africa and Asia, who have been described as ' half-starved and less than half-clad,' there can be no question about the desire of the consumer to consume. The only sane object of production being consumption, and as millions of consumers have, for some years, and still are, with markedly growing impatience, hungrily awaiting the almost unlimited production which is either actually or potentially available, it is evident that the failure of one to reach the other is due to something being radically wrong. . . ."

I was speaking of a particular commodity, rather than a general one ?—If we once get these ninety millions in the advanced nations and the teeming millions in the other countries with a taste for butter, we will not be able to produce enough.

In the long-run, exports and imports tend to balance. Would you say the poverty in China was due to low national productivity or to a lack of the means of exchange ?—I would like to think it over.

That is another point. China, even if you gave her money, could not produce much more on her present economy ?—The Chinaman here lives very well.

He has a share in our greater national productivity that we achieve in New Zealand ; in China he cannot ; a country is rich because it has rich resources ?—Once the rich resources of China were made available by proper——

You would plan production in China ?—Yes.

You approve of planned production ?—To some extent.

Which Chamber of Commerce do you represent ?—I am a past President of Dunedin Chamber, but I do not say I am voicing their views to-day ; the present President criticizes these views as Utopian.

It would be easy to put them into operation. Their ultimate ends, of course, is a different matter, but the machinery already exists in various countries ?—Exactly.

On the average 85 per cent. of our exports go to England ?—Yes.

We are paid in sterling. There must always be a link with sterling in so far as their money must exchange at some parity with our money ?—We have been on a sterling exchange since the war.

Apart from that link with sterling, there is no need for us to be connected in monetary policy at all with England ?—I do not follow you.

Mr. Clinkard.] We could have dollars ?—Oh, yes, but they spoke frequently at this Congress of a sterling exchange, and said other nations of the world would be only too pleased to come in. They said we wanted able and courageous leadership.

You approve of the sterling-exchange standard ?—Yes. A British pound-note will take any one all over the world.

But that does not mean we need to have British pound-notes circulating in New Zealand ?—Not at all.

What do you think of the slogan, "Keep your money in your own country" ?—I do not approve of it altogether; we must buy goods from other countries. I say, as far as possible, buy New-Zealand-made goods.

But that is a different question ?—Yes; the slogan is nonsensical ? Except the money taken out by travellers, no money leaves the country at all ?

You disapprove of gold as a basis ?—It is only fit for jewellery and for stopping people's teeth.

Dr. Sutch.] We have never had a gold standard in New Zealand have we ?—I do not know, but I know we have been on the sterling standard since the war.

So that in New Zealand we have just what you want. We have the sterling-exchange standard. We have now passed the Reserve Bank Act which provides for discounting and rediscounting bills ?—And I believe the Reserve Bank is to fix a payable price for our products and all that sort of thing.

The Act does not state that ?—But one of its uses is to be that.

It is to promote the economic welfare of New Zealand. You approve of that aim ?—I certainly do.

It seems to me that you could go Home and tell them that a good deal of it is held in the Reserve Bank Act.

Mr. Schramm.] But is not the proof of the pudding in the eating ?—Yes, it is.

If it is done under the Act it does not prove that it is going to promote the economic stability of New Zealand ?—Certainly it does not. Mr. Coates said that people who invested in shares of the Reserve Bank showed that they believed in the bank. They invested in it because it was going to give them 5 per cent.

That is so. They had a better investment there even than it was at present. You think it was a good plan to let public take shares in the Reserve Bank ?—Yes, I think so; from the investor's point of view.

But I mean from the point of view of one who was against the present money system. Do you think that was a good thing ?—I have never considered it, but it was a very cute and a very astute move, I thought.

The tendency to-day is for all countries to be self-contained ?—Yes. There is a lot of froth talked about internationalism, and considering the other fellow, but I agree with President Roosevelt. Put your own country on a satisfactory footing first. A country has got to be self-contained, as I said before. A country is compelled to put up tariffs and barriers and all that sort of thing, and despite these appeals for self-sacrifice and international co-operation and brotherly co-operation, countries are not going to lower their tariff barriers, because it is only by keeping out the imported goods that they can keep their own people in work. Under our present monetary system we must, as far as possible, keep out imported goods.

Do you not think the tendency for each country to become self-contained is going to do away a good deal with the danger of future wars between nations ?—No. I do not think that at all. Rather the reverse. Present conditions are in the reverse direction. All these things lead to international friction, which results, sooner or later, in war.

But is not the fight to-day for markets and for profits ?—A country produces so much more than it can give to its own nationals and it has to get an outlet for these goods somewhere else, and a strong country which can force its goods in with a show of military force is the country that is going to get the business.

If each country is not self-contained that means that there is going to be the fight for the markets still going on, and one country will use its force against another to get control of the markets ?—But how could New Zealand be self-contained ? What could we do with all our wool and our butter which we produce ?

But you would not have all the men producing wool and butter, You would get to something else ?—I think that a country should produce what it is most suitable for producing.

But supposing you could not sell your wool and butter, what would you do then ?—When there are seventy thousand half-starved and half-clad ?

But supposing you could not sell your wool at all ?—I cannot envisage such a condition at all.

Mr. Clinkard.] Mr. Schramm says, "Supposing we could not sell our wool and butter." Would not that be owing to that nationalism. If we were at that stage, that we could not sell our wool and butter, it would be because of the ring fences round all other purchases ?—But I say the ring fence is up because each country does not get sufficient purchasing-power for its own people to buy the goods which it is producing, far less to buy goods from other countries.

But in dealing with other countries it is not a question of money. It is a question of having some other commodity to exchange with that ?—Exactly.

And maybe in India they might possibly buy our butter, though, as you know, the inhabitants of the torrid zone do not usually take much of our wool or butter, or even our meats ?—That is the folly of New Zealand and Australia sending trade delegations to these places. They do not want our goods.

I am in favour of those delegations, because I think there may be possibilities, though they would be limited owing to climatic conditions ?—Yes. They are limited.

Continuing on that question of national self-sufficiency, you would have, under those conditions, with a ring fence round the different countries, the torrid zone producing all one class of commodities which would be excluded from the enjoyment of those of the frigid zone and *vice versa*. By the comparative cosmopolitan or international circle, you are able to exchange from all those different points ?—Yes. I believe in internationalism, but I should say that we put our own house in order first. I say, God has made of one people all the nations of the earth, and the Jap and Chinese have just as much right to have a good standard of living as the white man.

But quite apart from that, the advantages of all people or of all races must be to exchange the commodities which they have in excess for those other commodities of which they are deficient and which they desire ?—Exactly. I agree with that, and that should be the ultimate aim, rather than confining our operations to a centralization.

Exactly. Provided we have an appropriate monetary system, that would be the natural course of trade ?—Of course, the right monetary system is the important thing. I agree with my friend Mr. Leigh, secretary of the London Chamber of Commerce, who says that the time will come when the present monetary system will be more widely recognized as being a basic evil from which all our troubles flow. I do not say it is the sole one, but the major one, in the same way as Sir Basil Blackett said that the main factor influencing prices was the monetary one. A great deal of logic this afternoon has been expended on the gold standard, but neither Great Britain nor ourselves are on the gold standard, but we will be back on the gold standard before very long, I fear.

Do you think so ?—Yes. On a reformed gold standard.

What do you mean by "reformed" ?—That is what they tell us at Home.

You are suggesting on the same principle as America has proposed in connection with her dollar, by reducing the gold content ?—President Roosevelt wants to arrive at a situation in which a debt will be payable in the same value on commodities as those in which it was incurred.

President Roosevelt is saying that thereafter, his is a policy of devaluation of the content. That is his mode of adjustment, and he says that that would continue for centuries. It seems to me rather peculiar for a man who is himself altering the standard, to say that when he has altered it it is to remain for a century ?—But he is only trying to remedy deflation.

Might not some one else want to remedy deflation at some other period ? History shows that all through the ages that process of debasement of coinage value has continued right through ?—I am not one of those who believe in the talk of history repeating itself. I say history should not repeat itself. It should go forward in one upward tendency all the way, and to talk about what happened in 1830 as a justification of what happens in 1930 to my mind is foolish.

You say you were characterized as Utopian, and I am only practical when I say that it does ?—Science does not repeat itself.

Science invariably repeats itself ?—But not in the errors of previous scientists.

Captain Rushworth.] You mean, when an error is discovered it is rectified ?—Exactly.

Mr. Clinkard.] I did not mean that there was an error in science. It only means that we discovered that our assessment of science was erroneous ?—And as our knowledge grows we grow with it.

Captain Rushworth suggested to you that there was a lack of thought in New Zealand, that we all wanted to throw up our hands and say, "Well, we cannot do anything. Let it go." I challenged that at the time. Is not the fact of this Committee sitting here this afternoon an evidence of that tendency. Why are we here ? Because the public has asked for an inquiry.

Captain Rushworth : I had in mind Emerson's essay on "Intellect," where he points out that the hardest task in the world is to think. I was referring to the general attitude of humanity to the problem of thought.

Mr. Clinkard : But I am afraid you were not using it in such a way that any one reading the report would take it that way. It was a suggestion that the people in New Zealand were lacking in consideration of the important questions which are affecting the public to-day, and I say that there was never a time in New Zealand when more thought was being given to general economics as there is to-day

Captain Rushworth : I know that, but that is because they think there is a way out by thinking.

Mr. Clinkard : That is all right then. They are thinking.

Captain Rushworth : Yes. But if they are to be told that no matter how much thought they may take they are helpless, they may give up thinking.

Mr. Clinkard.] Our friend here is not telling them that. You say you have no fault to find with banking administration. It is the policy you object to ?—Yes.

And that is a policy of restriction to a gold standard ?—Yes. You might say that.

A policy of restriction within what you would conceive to be unscientific balance ?—Yes.

An increase in purchasing-power would not necessarily make any one commodity a paying proposition would it ? If, for instance, you and I had a sufficiency of butter, the fact that we had an increase in our income would not make us any better off ?—No, not at all. But how many people are putting dripping and margarine on their bread in England at the present time.

In Great Britain, according to the statistics I read recently, they are using more butter now than they have ever done before ?—Quite right. Because butter is so cheap. They are buying butter below the cost of production. I bought New Zealand butter in Rugby for 10d. a pound.

Do you think it is so much the diminished purchasing-power of the people of Britain ? Is it not rather the increase in the supply of good-quality margarine and the tremendous increase in the quantity of butter, as far as the British market is concerned, that has affected the price more than the diminution of purchasing-power ? Both factors operate I know ?—I stick by Professor Taussig, but I say there are other disturbing factors.

Yes. And I think the supply is a very large factor. Supply and demand applies both to the commodity and the money ?—But you must not forget that demand means demand backed by money and supply is practically unlimited. Actual and potential supply is practically unlimited.

But if supply increases, and even though demand may have increased, it is not equal in its increase to the increase in the supply of the commodity, then the one commodity is out of relationship with the other, and that is brought about by a movement either in the increase of the supply or a diminution in the demand ?—But under the London Chamber of Commerce proposals for every pound's worth of goods which would be sold there would be a pound's worth of currency issued. People might buy more sewing-machines and motor-cars than they bought before, but it would soon correct itself.

I can quite understand that that would control the reservoir of purchasing-power, but I cannot see that that would necessarily put up the price of any one of those commodities which came on to that market ?—Have you been in business ?

I have. I do not think you can confine it to individual commodities. I think it would be the general level ?—Yes, the general level ; but if there was a particular demand for a particular object, the price would inevitably go up.

Take, for instance, wool, lamb, mutton, and beef : they have all gone up in the English market on the present purchasing-power, whereas the butter has gone down. Does that not establish my argument ?—I believe wool is being purchased for other than commercial purposes.

Take the lamb, mutton, and beef ?—I cannot understand that.

If you are going on your supposition that money is the sole factor, why is it that butter is still down while the others are on a rising tendency ?—I do not say that money is the sole factor ; I said there were other disturbing factors.

Supply and demand is a big argument ?—Yes.

You say that supply cannot be overdone ; you cannot have too much supply because of the tremendous requirements of the human family, but is that not on the supposition that the requirements of the human family are open to supply ? If, for instance, France let us put butter in there, it would fetch about 1s. 10d. a pound ?—If a country could consume what it wants and export the balance to other countries, and the monetary system enabled that to be done, these ninety millions who are half-starved in European countries would get all they want.

Is not that owing to the fact that France is unable to find an outlet for her produce, and therefore keeps her own market ?—If there were more money about, France would not do so ; her customers have not the money.

Mr. Ashwin.] In reply to another question, you indicated that you did not think this system could benefit us unless it was adopted by Great Britain. Is it considered by the London Chamber of Commerce that it could be successfully worked in Great Britain alone apart from other nations ?—Yes. The London Chamber of Commerce believes that the Scandinavians and other countries would be only too willing to follow.

It is based on that assumption ; they expect others to follow them ?—Exactly. They think once they started it, the others would be only too willing to follow them.

One of the essential factors is having fixed exchange, the idea being that in this way they would stop international competition from undercutting one another and bringing about lower price-levels ? I have a copy of Mr. Leigh's statement ?—You know how these financiers can transfer gold from one country to another, making millions on the exchanges.

To preserve this fixed exchange, do they anticipate leaving them free, or are they going to have exchange control or restriction ?—I do not think there would be any restriction whatever.

Would you still allow these millions of capital ?—There would be no inducement for any one to buy exchange if exchange were fixed.

One of the most disturbing factors at present is the millions of floating capital being transferred from France, America, and Britain, and so on. It was the movement of this amount out of Britain that forced Britain off the gold standard ?—I understood she had been borrowing on short terms and lending on long terms.

If you are going to have free exchanges, what is going to stop the same disturbing element from going on ?—It is not Britain as a nation who borrows and lends—it is the financial people ; if they succeed they get the profits ; if they fail the nation "carries the baby."

It seems to me that if they are going to have free and fixed exchanges they are still open to these world-disturbing influences of which that is only one. The second point is that, as they desire to use this method to avoid undercutting, if Britain alone adopts it, what is to stop the United States from cutting into British markets overseas, or Belgium or France doing it ?—If America cuts into British markets overseas, she then has to take the British oversea market and has to buy them at exchange.

It might so work out that they would not buy the exports from Britain, but would that not mean disaster for Britain itself ?—But we have to send Britain each year enough goods to compensate for the goods we take from her.

I am speaking of the question of undercutting. Take the case of Britain selling cotton goods in India ; if Britain adopted this policy, that is not going to stop Japan from getting that market, unless Japan is a party to this system ?—I have not gone into that question. If the exchange is fixed and immutable, I do not see how any one could profit out of it.

You cannot fix the exchange from one side only ; how can you have a fixed exchange with the yen if the yen is altering ?—But there would be enough nations in the sterling exchange to steady the market.

You cannot work the scheme until you can get the weight of the trading nations in it ?—I would not like to say yes or no.

It seems to me to be a practical point. If Britain did adopt it and Japan did not, and Japan was therefore able to get the British market in India or anywhere else, that would seriously upset prosperity in Britain ?—I will write Mr. Leigh by the first mail, and get information from him on the point.

The system is intended to be, apparently, not a managed scheme; it really works automatically by bills?—Yes.

You made reference to the Government Statistical Department coming into the scheme: exactly what part is it to play if you have an automatic system?—I mentioned that as from the political point, in connection with Mr. Fussell's remarks on inflation.

Captain Rushworth.] The Statistical Department would come in to prevent fraud, risk of counterfeiting of bills?—No. The thing would be automatic, and there would be no need for the Statistical Department. That has nothing to do with the London Chamber of Commerce whatever. I mentioned the Statistical Department in connection with inflation only.

Mr. Langstone.] Following on the question by Mr. Ashwin with regard to the position in New Zealand, if we can sell goods in London and buy goods back again, the question of the relationship between Japan and Britain is a question to be fixed up between Britain and Japan, and nothing to do with New Zealand?—Nothing whatever.

I take it your scheme is that the present banking system cannot function sufficiently; it is not broad enough in its policy to meet the circumstances of to-day?—It is not scientific enough. It is a system which was instituted in the age of scarcity, and not now suitable for an age of plenty.

But the ordinary mechanical operations and machinery of banking are quite all right; it is only a change in the policy?—Yes.

You would operate that policy through the present banking channels?—Yes. It would be more used than it is to-day.

I think Captain Rushworth questioned you about other countries outside the sterling area; but any country selling goods in Britain to Britain must sell on sterling? An exporter would sell to the bank who would pay them in sterling and they would be in possession of a short-term credit in Britain, so that it is purely an adjustment between the countries?—Exactly. There would be no loss to either party; all countries would come in on an equal level. It would be a goods exchange standard.

The question came forward with regard to a kind of Imperial Parliament, but I notice you quoted the Duke of York where he likened the British Commonwealth of Nations to a family where they are not all living in the one house. I suppose it rests with every particular householder to keep his house clean?—Yes.

There would be no interference from the others?—No. Politically we agree with that, but financially we do not.

Our object here in New Zealand is to keep our own house clean?—Yes.

A nation or an individual cannot spend more than its own income, can it?—No.

On the other hand, its income cannot be any more than it spends can it?—Oh, yes, it could save.

Your spending is the income of somebody else, and if you do not spend you stop the other fellow's income?—I say that for every pound saved, something is not sold that ought to be sold.

Is it a fact that an individual or nation cannot spend more than its income, but its income is not more than what it can spend?—I would not like to say.

Keynes and Soddy say so. Can nations save?—Individuals can save.

They think they save. If you put £100 that you do not want into the bank, and every one did that, what would be the good of it? Somebody else is using it?—Yes, but the individual is saving it.

He thinks he has saved it?—I have saved; I am living on what I have saved.

You are living on current production. I notice that Great Britain is giving a guarantee for price, and fixing a price for milk and milk-products?—Yes.

They are forced to do so by economic determinism; if they start with milk, it will probably extend to everything?—We have control in pretty well everything now, all owing to a faulty monetary system.

The banks fix their rates of interest and insurance companies fix their premiums, and shipping companies fix their freights?—I think that the people who sell things ought to fix the prices of them.

I want to come now to the dairy-farmer, whom we are particularly concerned with, and the unemployed relief worker, and the fellow who is fixing their prices is fixing it too low for them?—But were the London Chamber of Commerce proposals adopted there would be no need to fix any prices. Everything would be automatic and the prices would find their own level. Do you agree with all this fixation of prices?

You might not believe that, but that has not been our experience. It you put money into circulation and do not fix prices prices rise, and if you take money out of circulation prices fall?—Yes.

Therefore, it rests with those who are putting money into circulation and out of circulation?—But if the money is put into circulation against the goods, there is no need for prices to rise.

But there must be some definite point at which they are going to fix goods?—Yes. But the usual way in which the price of goods is fixed is the cost of the raw material, the amount spent on that plus profit.

And then you would fix them at that point?—Yes. I do not think the Government ought to fix them.

You would let the Government readjust it at that price?—No. If I sell 100 tons of beef there would be enough currency put out. When I sold the beef I would rediscount the bill and there would be enough currency put out to buy those 100 tons of beef.

Captain Rushworth.] At an agreed price?—No.

Mr. Langstone.] Would it be fair to ask farmers to grow potatoes, which takes a long time, and then at the end of the time that they have got to take a chance whether they get a price or whether they do not?—I should say that in normal times the average demand for any commodity does not vary very much. If a farmer grows 150 tons of potatoes one year and sells all those, the chances are that he would be able to sell 160 tons the following year.

No. We have found that when there has been a good price for one commodity people have done the same next year and then prices have slumped ?—The London Chamber of Commerce deals with that. That is due to the fact that there is not the money about the second year to buy the potatoes.

The Chairman.] Your reply to Mr. Clinkard in reference to a report by Mr. Schmitt when he went to the Far East was that it was useless as far as New Zealand was concerned. Now, I read that report right through and I do not agree with you ?—There was not much use in it.

There was a lot in it ?—Have we done much business out of it ?

That is not the point. Do you think Australia got any advantage from that report ?—Possibly it did. Our communication with the East is at fault at the present time.

Australia has exported about £21,000,000 to the East last year.—That is not a great deal out of their total exports of £350,000,000.

Quite true, but if we had a third of it it would mean something to us ?—We have not got the shipping facilities to take advantage of it.

But assuming that we had the shipping facilities ?—I doubt whether it would pay to put in the shipping facilities.

Do you feel that there is no possibility of a market in the East at all for us in New Zealand ?—Perhaps I have spoken rather quickly about it, but I really think that that trade is more suitable for Australia. She is more conveniently situated. Were we to put on a shipping company for that trade it would end in disaster.

Suppose we had improved methods of exporting, though ?—The only improved methods would be improved methods of getting the goods across there.

No, it would not. I am talking about packing now. Suppose we had the means of packing goods which could arrive there in a condition which would surpass even Australia ?—Can you tell me what commodities Australia is doing business with the East in ?

All classes of things—butter, wool, tinned fruits ?—Butter in tins is it not ?

Yes. And suppose we could improve upon it. Should not we be ahead of Australia ? As it is we can land a better article. Do you not think that with the white population of the East there would be a big opening for trade ?—I should not think there would be a big opening for trade with the white population of the East, if Australia and ourselves are going to divide that business.

We had a gentleman returned here a short time ago from the East, Captain Goring-Johnstone, and he pointed out that New Zealand was lagging behind considerably, that with the white population there if they could get the goods of a good quality, New Zealand had its chance to do the trade as much as anybody else ?—I wonder whether Captain Goring-Johnstone has gone into the shipping facilities.

He has lived there for some years. To-day we can get Japanese shipping, but that does not suit the Chinese. The Union Co. sends a boat up there every three months, but that is not frequent enough. We want it monthly at the very least. I admit that. But, nevertheless, that does not say that the Government should not come to light in the way of a subsidy in the matter of shipping, to give an opportunity to New Zealand to do trade with the East ?—Following that, Australia would ask for a subsidy for her exporters.

Mr. Schramm.] If we had the means of shipping at the present time I am sure we would take the whole of the butter away from Australia in the East ?—I quite believe that. When I was travelling I found no butter like the New Zealand butter.

But we have means of sending it from New Zealand to-day that they have not in Australia and you do not think it is really hopeless do you ?—When I read the report some five to six years ago I thought it was hopeless at that time.

But there has been a vast change this last year or two ?—I admit that, but I thought it was a hopeless report, and I went through it pretty carefully when it came out.

I am quite prepared to admit that it was not too encouraging as far as New Zealand itself was concerned, but probably that report has been helpful elsewhere ?—It was a very good report. I do not say that it was not a very able report.

It showed that a market was there ?—Yes. Not *the* market, but *a* market.

You were referring to the £6,000,000 of gold that we had in New Zealand, and you said it might just as well be converted into Government securities at Home. You realize, of course, that the holding of that gold in its frozen state means a loss of interest here in New Zealand ?—It does.

I am inclined to agree with you ?—It was Mr. Ashwin who first pointed it out.

Referring to the central bank, what do you mean when you said it was a very astute move getting the shareholders here in New Zealand ? Do you not think the principle was right ? Do you not think it is better to have the country having an interest in the bank, although the amount is not large ?—I meant to say it was an astute move, limiting the number of shares that could be held by one person in New Zealand.

Yes. So that the shares could not go out of the country. Provision has been made for that ?—I do not say that the holding of the shares in New Zealand was an astute move, but the limitation of the holding, so that the shares should be spread.

Mr. Clinkard.] You think it was a wise move then ?—It was more than wise, I think.

The Chairman.] We will say it was astute, then, on the part of somebody, but it was in the interests of the country and far more so than if we had issued twenty million shares in the Bank and allowed them to be sold anywhere ?—I approve of the £500,000 capital as being a wise thing and that that should be held in New Zealand, but I say that the limiting of the number of shares to be held by one person was a little more than a wise move.

Coming to the political side of the question, do you think that the fact of the shareholders having a preponderance of directors, notwithstanding that for some years it would be held really by the State owing to the Governor and Deputy Governor being the State's appointees, would make it detrimental to the State itself ?—No, not at all.

And you think the initiation of the central Reserve Bank is a step in the right direction ?—One step in the right direction.

WELLINGTON, THURSDAY, 1ST MARCH, 1934.

Witness: MR. ALEXANDER SCOTT.

Mr. Scott: Before I say just a few words about my proposals, Mr. Chairman, I would like to ask whether you would consider having a discussion this afternoon with two of my colleagues of the New Economics Research Association (Mr. C. R. C. Robieson and Mr. W. O. Beere) as well as myself. We had intended, as an association, to put forward a proposal, but, as we are here to-day, I should be very glad if you would hear the three of us instead of only one, if that would meet with your approval.

The Chairman: Well, if you three gentlemen would like to speak and take ten minutes each, say, as an opening, that would be quite in order, or when the questions are put it is not necessary that you should answer them all, Mr. Scott. Either of your colleagues can answer.

Mr. Scott: Thank you, Mr. Chairman. It seems quite clear that the greatest problem to-day is a deficiency in purchasing-power, and the reason we have a deficiency in purchasing-power is that when we increase purchasing-power under this system, we increase debt at the same time, and when we increase debt we get frightened and then we proceed to cut down purchasing-power, and so we have what we call the problem of unemployment. The problem of unemployment is really a problem of a lack in purchasing-power. Under a trading system the most important factor is a medium of exchange, and that medium of exchange, in order that the trading system might operate efficiently, has got to be constant. It must not be interfered with, must not be traded in, but we find to-day, under the existing financial system, that money is traded in. The medium of exchange is made a subject for speculation, and hence our troubles arise. To-day it is the debt factor that troubles Governments. They cannot possibly keep on piling up debt, and yet if they do not pile up debt they cannot increase purchasing-power. Now, it has come to pass, that throughout the world to-day people have come to believe that money should be free—free from the money-market—that the State and the money-market should be separated as in the past Church and State were separated. If a State or municipality has to issue bonds and pay interest on these bonds for everything it undertakes, it is a slave to the money-market. There is no question about that. Then there is only one thing to do in that case, and that is for the State to assert its sovereignty over money. The State itself bolsters up all credit, all bank credit, and the time has come when the State must make use of its own credit and make use of it freely in the interests of the entire community, instead of paying tribute to the financial system as at present. Now, in this pamphlet that I have put before you we provide the machinery for carrying that out.

EXTRACT FROM PAMPHLET.

The Act [*proposed*] provides for—

(1) The establishment of a Central State Bank with sole right of note-issue.
(2) A self-redeeming currency.
(3) The gradual redemption of all new existing bank-notes by State notes, thus unifying the currency of the Dominion in an easy-settled manner.
(4) The issue of State and local-body credits for new works, free of interest, with proper safeguards against possible redundancy and with provision for redemption by annual instalments.
(5) The gradual redemption of all interest-bearing national and local-body debts (now largely irredeemable).
(6) The immediate saving of a large interest charge, and, later, the abolition of interest as a factor in public financing.
(7) Ultimately, the abolition of interest (usury) altogether, thus ensuring to the community economic freedom to work out its own salvation and plan for a still better future for all the sons of men.

It would mean that the Government of New Zealand would be able to put every unemployed man to work at wages which would give him sufficient purchasing-power to live decently without reference to the banks or without selling its rights to or buying its rights from the banking system. The time has come when we must consider money as a social function, and not as a means of doing private business. Unless we do that or unless we are going to change the trading system altogether we are bound to fail. We are bound to have unemployment and we are bound to have periodical crises. This country is a land of plenty and we are living in an age of plenty, and it seems to me that you gentlemen have the power (I refer to the Government—it has the power) to make the people of this country happy, much happier than they are. It has the power to do away with all the evils of unemployment. As a first step in that direction we propose that the State should set up a Currency Board or a State Bank for the purpose of issuing its own social credit. But there is one point I wish to make. When some of us belonging to various monetary reform and social reconstruction organizations joined together, I think about a year and a half ago, we asked that a Committee of the House be set up for the purpose of investigating the existing monetary system and also possible alternatives. Our idea in asking for such an investigation was that the Government should first of all hear evidence and consider the question before establishing the central Reserve Bank. But that central Reserve Bank has been established, and now the evidence is called for regarding alternatives to the system, and we are just wondering whether it is not too late. The Government has already taken the step which prevents it from doing what we want it to do, and therefore we have a feeling—I have, at any rate—that we are barking up the wrong tree. I hope, however, that, notwithstanding that, this Committee will be able to make recommendations to the Government which will result in good to the whole community. Now, I suppose my time is about up, and I would like to say this, that with regard to the new Economics Research Association, we have gone into this matter and considered various schemes and plans, and we have come to the conclusion that the minimum of social reconstruction necessary for New Zealand at the present time to put it on a decent footing is contained in

this statement. I shall read this statement, which may be taken as an outline of the basic principles of our discussion :—

Mr. CHAIRMAN,—

The basic principle of sound efficient Government is that the Crown possesses the sovereignty over money (currency and credit) and land. Land is the nation's foundation and therefore must belong to the nation. Money is the machinery of production, distribution, and exchange, and its use for any other purpose is detrimental to the nation. The pledging of a nation's credit is a subordination of the sovereignty of the State to individuals. Hence, many of the major evils which beset Governments. Why pledge a nation's credit ? If it is good enough security for interest-bearing loans on private capital it is surely good enough security for non-interest-bearing State money. The accumulated pledging of the nation's credit over long periods of years has led to vast annual sums payable in interest, so vast that this volume of interest has become an intolerable burden on the people. The trafficking in land and money and the appropriation of community created values of land has placed a burden on the people which it is beyond their physical capacity to bear. The means of removal of this burden must be found if civilization is to endure.

THE REMEDY.

Land.—All mortgages on land to be redeemed by State bonds repayable over a definite period in cash by annual instalments. Rental to be paid to the State by occupiers of land on the State's equity in lands as represented by bonds and community credit values if such become in excess of bonds. The occupier of land to have security of tenure so long as he develops and makes reasonably efficient use of the soil's productive capacity.

Money.—The sole right of note-issue and control of credit to be vested in the State. For this purpose a State Monetary Board to be set up, the Board appointed to be free from political control and appointed in a similar manner to the Auditor-General or Judges of the Supreme Court. The powers and functions of the Board to be specifically determined by Act of Parliament. The basis of all currency and credit must be production—*i.e.*, goods and services. The Board to have power to provide proper safeguards against a possible redundancy, undue inflation, or deflation, thereby stabilizing values of commodities. The Board to have power : (*a*) To issue money without interest for requirements of the State, local bodies, and industrial development, all such money to be repaid over a determined period, thus providing for a self-redeeming currency ; (*b*) gradually redeem all now existing bank-notes, thus unifying the currency of the Dominion ; (*c*) the gradual redemption of all interest-bearing national and local-body debts ; (*d*) the reduction of all mortgages on land by the issue of State bonds.

Mr. Robieson : Mr. Chairman and gentlemen, I want merely to enlarge or rather give some explanation of the evils of our present currency system as they appear to me. I have seen many explanations of booms and slumps. To my mind a boom and a slump are very easily explained, and you can trace it to our present banking system. That is the privileges banks have to inflate currency at will and to deflate at will. To my mind, what really happens is (we had it in this country from 1918 to 1928, or from 1914 to 1928) a constant creation of currency by the banks. Every million of currency created by the banks at that time meant a further burden of 7 per cent. interest on that sum laid on the community. It is obvious that that sort of inflation could only go on for a limited period. That period came to an end in 1928 and for the reason that the volume of interest that had to be met by the community on the banks' inflated money (I am using " banks " as a general term, because the State and local bodies and others also contributed to that) was so great that it was no longer possible for the community to find the interest on that inflated capital. The result of that was that the banks found it necessary to withdraw in order to save the capital that they had lent out, and as they withdrew money from circulation they appreciated the value of money, depreciated the value of everything else, and made it still less possible for the community to continue paying interest. The result we have had in what we call " unemployment " and general stagnation in trade in all directions. Now, we have heard a lot about the gold standard. The gold standard is a myth, has been a myth for the best part of the last century. The gold standard does not actually exist, and has not existed. Hattersley, in his book " Poverty in the Midst of Plenty," points out that the amount of money in circulation in Great Britain in 1928 based on the gold standard was 10·7 per cent. of the total currency and of that amount one-third only represented gold, so between 3s. and 4s. in every £100 of currency in Great Britain in 1928 was based on a mythical gold standard. Now, we must consider more closely this question of currency. To my mind there are two distinct classes of currency, one is what you may call credit currency, and the other, for want of a better word, I call hand-to-hand currency—bank-notes and bullion, silver, and gold, it used to be, but we do not have any gold now. The velocity of hand-to-hand money is very much more considerable than the velocity of credit money, and the effect of the redemption of hand-to-hand money is probably one hundred times greater than the effect of redemption of credit money. In this country there is £1,000,000 of note money less in the hands of the people than in 1928. The minimum purchasing-power of one pound of hand-to-hand money is £1 per day. That is, £1 has the purchasing-power of £300 in the three hundred working-days of the year. One million of that hand-to-hand currency taken off the market, as has been done in this country, has reduced the purchasing-power of the people by a minimum of £300,000,000 per annum. Now, Hattersley in his book points out that in England the English bank-note in 1928 had a velocity of five times a day, so the purchasing-power of a million of bank-notes in England in 1928 was £1,500,000,000 per annum. I am merely pointing these matters out to you to-day because it shows how very easily and simply the banks can cause a boom and can also cause a slump. It is the banks' business to make money. I am not casting any reflection on the banks at all. Their business is to make money, and I think the banks have carried out their function in New Zealand most admirably, better than most other countries, and it is no use throwing bricks at people whose business it is to do a certain thing and say they should not do it. The banks are carrying out their lawful functions in the country, and I believe carrying them out well, and nobody can complain about that. I am merely commenting on the system. Now, I do not think I will say any more. I just thought I would outline something rather different from Mr. Scott's explanation, and something to my mind which throws a very clear light on our present troubles.

Mr. Beere : Gentlemen, if you all knew nothing about the monetary business I would say quite a lot, but as I know you all know probably more than I do I have not got much to say, but I would

like to say a word or two upon the land question. The land is what we have all basically got to live upon and under our present monetary system the land is all turned into tribute titles through the mortgage system and until that is removed it seems to me that we will never get anywhere. The amount of money in New Zealand—the hand-to-hand money—is very small, about £5,000,000 to-day. But the amount of tribute money, tribute claims, runs into hundreds of millions and the interest upon that is an enormous sum, and how we ever get that is very hard to understand ; it is only got, I presume, by wiping out money through bankruptcies and failures and suchlike processes. We have to try to free our economics from all this interest business, turning everything—factories, houses, land, and everything—into tribute claims, because the community simply cannot stand it and any new system that is brought into force must strike at the roots of this trouble. I have written out two papers which I will hand in. I think, perhaps, one member might read them through and see whether they are useful to the other members. There is one point which I brought up which I think wants going into, and that is the basis of money. We have been so used, for many years, to thinking of money as gold that we have got our minds confused. We think of money as gold and as the last speaker has just pointed out the gold basis has, for some years now, been removed. We do not really trade in gold. When money was gold you paid a sovereign for a pound's worth of goods ; you gave a pound's worth of gold for a pound's worth of goods. That is all right, I do not see anything wrong in that, but our present money is built up many times the number of gold units there are in existence and tribute is paid not on the original amount of gold, but on the magnified paper money, thus interest becomes an impossible mathematical proposition. Take land, for instance. Land becomes represented in money value through the mortgage system. Under the interest system that money is supposed to double itself in about fifteen years—we will say fifteen to twenty years. The value of the land has either to double itself in value in that period or else the money can never be paid back. Some will say that the land has only to produce enought money to pay back the interest plus the capital, but it seems to me that the land has to double itself in value under ordinary circumstances before that money can be paid back, and land cannot double itself in value. Now, as I was saying, we want to get a clear idea of what is a unit of value. If we are going to take gold away, as I have done, as a unit of value, what are we going to put in its place. I have just written it out in fairly clear language and will read it to you :—

Now, at any moment a country contains a certain quantity of wealth, but without a stable Government there could be little or no security for wealth.

Right here in New Zealand we have our law-courts and Police Force maintained by the State for the purpose of guaranteeing to the individual the right to live in peace, and the right to individual property. Wealth without State protection could hardly exist, at any rate, if it did exist it would have to be hidden away where it could be of little use. Gold itself without this State protection or guarantee would only place the holder in jeopardy of his life, should others desire it. To the State then we must look for protection, and to the State we must look for the protection of the means of equable distribution.

State guarantee then should be the basis of our monetary system, the state having behind its guarantee the custody of the whole wealth of the country.

UNIT OF MEASURE.

We now come to the question of a unit of measure. The wealth of a country is variable in amount and value from time to time. In times of economic struggle, strikes, wars, pestilence, droughts or floods, it tends to decrease. In times of economic stability it tends to increase. Generally it tends to increase with population, but at a greater rate.

We cannot measure the value of wealth with a rigid scale as we can measure a plank with a foot rule. The value of wealth depends on desire, and desire, being immaterial, cannot be measured by material. It is thought by some people that gold is a rigid scale capable of measuring wealth. But gold is a commodity, and its value is constantly varying in relation to other forms of wealth.

I need only point out that an ounce of gold to-day could be exchanged for more goods than would have been possible, say, three years ago. Is it then possible to measure wealth ? Well, perhaps not literally. But we can establish a relationship between total desire at any given time, and total wealth available at that time to satisfy desire. And the formula becomes : Sum total of desire capable of being satisfied = Total wealth.

In this paper I have worked out a thesis showing how a monetary unit can be devised. I will put this paper in in case you think it is worth going further with, but I think we must get down to what is a unit of measure for a start, and then build up on it. I would only finish up by saying that all of us who have studied this question have come to the conclusion that there is no solution to the monetary position unless the State takes control. If the State does not take control the reins are lying in the hands of some one else and the State cannot rule this country. Those who rule the monetary system rule the country.

The Chairman : I was interested in your pamphlet, Mr. Scott, and I notice on page 12, in connection with Guernsey, that you say that the total issue was £80,000, and it was interesting to note that never more than £55,000 in notes was in circulation at any one time. What would have happened if £800,000 had been issued, would the notes not have been worthless ?—It would have been quite unnecessary to issue that many. They issued only a certain amount to meet the demands of the workers who were doing the work.

Apparently they did not know that or they would not have issued more than they wanted ?—That may be so. They might have been issued without having more than that proportion in circulation at any time.

Yes. In this proposed Act which you compile on page 23, clause 16, you are going to give the Fiscal Department of New Zealand the authority to flood the country with notes for Government, local-body, and national needs. Will you not have an issue of notes far in excess of the amount required for normal circulation and thereby you depreciate currency ?—I do not think that follows. This Bill provides in clause 14 " Return demands on money issued for Government purposes shall be made and arranged through the usual channels for Government revenues so that such revenues shall, as near as possible, equal the outlay." So long as you provide for a return circuit of money you cannot have any inflationary troubles, you tax it back.

Would the municipalities, like the Government, pile up debts?—If a municipal authority, for instance, desires, let us say, to build some houses and rent them free of interest or at a very low charge to members of the community, it would be unnecessary for that municipality to go to a bank or issue bonds. They would call upon the Fiscal Department for the finance necessary and if the Department considered it a good sound scheme and that the municipality could pay back the principal in twenty-four annual instalments of principal, the credit would be advanced. The cost of anything is measured to-day in pounds and shillings, but it does not give us the true cost. The true cost of anything is the amount of energy expended in the production of it, say, the amount of food, clothing, and shelter required by those who do the work, all of them. Therefore there is no necessity for a municipality to get itself further into debt, and I do not think that under this clause, if they get their money free of interest, there would be any more tendency for them to pile up debts than there is to-day. I do not see that it follows at all.

You suggested that State currency should be created by the various Departments of the Government?—Issued by them, not created by them. All credit is created by the Board.

Yes, that was in clause 12; that is quite right. Would not the use of the printing press tend to remove from the Government any incentive to strive for economies in administration. Also, the fact that such a currency constitutes a debt, which must be ultimately extinguished?—All expenditure to-day incurs a debt, as I was trying to point out in my first remarks, but, after all, this is free money and it is a debt certainly, but it is a debt that can be paid. The Government in power would not do anything which would cause its monetary system to fail, surely, and in any case the Fiscal Department would not be likely to allow the Government to do anything of the kind. I think, with a little common-sense, there is no reason at all why social credit should cause inflation or inflationary troubles any more than bankers' credit does. It seems to me there is less likelihood.

Your proposals, in effect, aim at the elimination of interest, do they not?—Yes.

Do you believe in life insurance?—Life insurance is another subject. That comes under the heading of finance, and in my opinion, it should be treated in exactly the same way. I do not think that insurance is a matter for business—in fact, I do not think insurance is a business proposition at all; I do not think money is a business proposition. They are both national necessities.

Dr. Sutch.] I am inclined to agree with your definition of money which you quote in your book that "money is what money does." The difficulty is to follow that through. Is the Guernsey scheme the background of your philosophy in this respect?—I think it is a very good example, that is why I used it. The war finance, after all, was pretty much like the Guernsey system, except that they afterwards acknowledged a debt to the banks.

By the way, were there any banks in existence in Guernsey before this started?—Not when it started. First of all they were using old English and French coins.

And the Market Hall you mention, did it come into the market for sale or any of its materials?—They paid rentals.

While it was being made did the materials come on to the market to be sold or were wages only paid to the people who worked on the materials?—The materials were on the Island. Most of the materials were there. I believe they did not require to import any, and consequently the notes that were issued and paid to the workmen who built the place acted just exactly as money should, because it provided them with food, clothing, and shelter. They were paid wages.

So there was no actual buying of wood and stone, was it just worked upon in the natural state?—I do not think they had to buy them. I have no information of them having bought anything outside.

That would be the trouble with this Guernsey story; a great deal of our discussion would be just hypothesis, I suppose?—I have here what I believe to be a fairly recent article from a Guernsey paper——

I do not mean the existence of the scheme, the thing happened all right, but when we talk about it it is going to be difficult to decide, from some of the information, what actually did happen. For instance, I would like to know, from you if possible, did this issue of notes to build the Market Hall raise prices?—Not according to all accounts I have read. There is a book in the Library which is entitled "Communal banking (or Communal Money)," and that gives a pretty full idea of the scheme. There is nothing in there or in anything I have read to show that there was any trouble about prices at all. The place was very busy according to all accounts and quite prosperous when this was going on.

Do you know the Australian writer, R. H. Rhys, who writes on Douglas credit. I have his book here and he says, talking of the scheme, that increased prices followed the creation of the extra money. He is just talking of it, and states that they had increased prices as a result of this—that is why I asked the question?—Very likely, of course, it would raise prices a bit.

There is another writer I have come across who has talked about the same thing. You probably know him, Sidney Webb, the Fabian Socialist. He also says he thinks prices must have gone up, you think that is likely, too?

Mr. Robieson: It is a desirable thing, is it not?

Mr. Scott: It is almost inevitable that prices would go up and wages being the price of labour would go up also.

Dr. Sutch.] The Guernsey people paid for the Market Hall I suppose?—They paid for it?

Yes?—By rents.

If the Guernsey people had borrowed in England what would they have borrowed?—They would simply have borrowed the right or bought the right to use Bank of England credit.

And what would they have done with that credit?—They could not have done any more than with their own notes. After all, as I look at it, it is the right to claim tribute which the existing financial powers hold and which they can sell to or levy from others. They really pass nothing over, and, in the case of Guernsey, they would pass nothing over except the right to use credit.

I cannot speak from what Guernsey did, but when the New Zealand Government borrows it has a credit in London and calls upon that credit in London to buy goods, so that we really borrow goods ?—Yes.

If the Guernsey people borrowed in London would they not also borrow goods. They have a credit in London ; the only use for that credit is to buy something, you agree with that ?—Yes.

Mr. Robieson : They would pay interest on the goods.

Dr. Sutch : The borrowers get imports from the lenders ?

Mr. Robieson : Yes.

Mr. Scott : Another point is that having to pay interest they would have credit in London for that.

Dr. Sutch.] I am not at the moment worrying about the interest. What I am trying to get at is : If they borrowed, did they borrow goods or just the right to issue pieces of paper ?—I should say that they would get both. If they wanted the goods they would have them, otherwise the right to issue paper is a right they themselves have.

If they borrowed goods in England they would have to bring them into their own country to have any use for them ?—Yes.

So that we have this difference in the Guernsey scheme, they issued paper and brought no more goods into the country, whereas if they borrowed abroad they would issue the paper and bring the goods into the country, do you agree with that ?—They might. I do not know what the conditions were. They could have done that.

That is what happens in New Zealand, of course, I am trying to reason from our conditions here.

Mr. Robieson : So far as New Zealand is concerned we buy credits in London and we send goods to pay for those credits.

Dr. Sutch.] I would rather not go into that at the moment. I want to keep to the Guernsey scheme. If prices rose that meant that the poor were taxed by that rise in prices just as much as the rich ?

Mr. Scott : That may be so.

Dr. Sutch.] So that is a very poor method of taxation ?—Not at all, I think it is an excellent method of taxation, because they got some work done that they would not have done otherwise.

If they had borrowed in London they would have, in repaying their debt, taxed the rich people more than the poor, but by this method they raised prices, presumably, and so the poor were hit just as hard as or probably harder than the rich ?—As a matter of fact, in Guernsey there was a great deal of poverty before they instituted this scheme, but immediately after they introduced it that poverty decreased, people were working and getting good wages and the standard of living was raised according to all accounts.

Do you think saving is necessary in a community ?—The saving of real capital is necessary, but the saving of tribute claims is another matter that comes under the heading of money again.

You would finance all operations from this issue of money, I suppose ?—That is not provided here. I would finance State and municipal operations only.

And what about the ordinary private operations ?—That is a matter that could come later. It seems to me that the first necessary step is important. The same principle might apply later on to industries, but that would depend on the people of that time.

Are you familiar with the financial system of Soviet Russia ?—No, I am not.

They had an interesting scheme of currency manipulation there. They issued their own credits to build up the capital side of industry. The result was this, that consumption goods became in short supply, because all the wealth of the country was going to capital goods, but this money was still floating about, in some places people had plenty of money and very few consumption goods. The result was that prices of consumption goods went up. Would that happen under your scheme ?—No, under my scheme it is necessary to have a certain amount of control. Prices must be controlled and some action must be taken to synchronize production with distribution. I think we frighten ourselves unduly with the possibility of prices going up to the sky simply because we use our own money instead of the banks' money. Other steps would have to be taken.

Soviet Russia took other steps ; they fixed prices and made it an offence to sell at other than the prices fixed, so that you had this spectacle of people with money and no goods to buy. Soviet Russia went further. This money was there, why not use it, and they offered 7 per cent. and even up to 10 per cent. in some cases to the people of Russia if they would give part of that money for the use of the State. In fact, in Soviet Russia now I could lend them money and get 7 per cent. on gold bonds ?—I believe that is so. In some instances they paid as high as 10 per cent. I thought that the idea was to increase loyalty to the State—that is, by making every one a shareholder in the State. I thought that was their object, otherwise I could not understand it.

The object mainly was to take that purchasing-power away from the pressure on consumable goods and use it in capital industry in order to stop further inflation. You agree that when we borrow we borrow goods from abroad ?—Yes.

Germany, after the war, needed to borrow goods to build up the nation, but under the Peace Treaty she had to pay out goods or gold, so she adopted the method of printing notes and issuing currency, and you know what happened in Germany by this internal financing ?—Yes.

Do you think that was due to the fact that they issued claims to goods, but did not have any goods available ?—Yes. I think that was so, but I believe the real object of that inflation in Germany was to wipe out the internal debt.

You think it was deliberately done ?—Yes, I do.

You mentioned that New Zealand in 1928 stopped advancing credit. Do you think that might be due to the fact that New Zealand tapered off her borrowing about that time, her external borrowing ?—I could not say that. Some members of the Cabinet will know more about that than I do.

Mr. Robieson: I made that statement, I would like to reply to it. I do not think your question has any bearing on the situation at all, except this, that the State, having ceased to borrow, was called upon to tax the people more in New Zealand to provide the necessary interest. If my memory serves me correctly, from 1922 to 1932 the interest bill for New Zealand to London was £54,000,000. Exactly about that sum was borrowed in England to meet it. We do not pay any interest for ten years, we capitalize our interest. Now, the fact that the Government had to find the interest in New Zealand may have influenced the banks in calling in money, because the extra demand by the Government would reduce the capacity of the banks to get interest from the people.

Dr. Sutch: You put it all down to interest?

Mr. Robieson: Undoubtedly, it is a question of interest.

Dr. Sutch.] You have not traced the ups and downs of deposits and advances over the last few years?—Just what do you mean by that?

You have told us about advances, increasing and then ceasing?—Yes.

You have studied it over the last few years; have you seen any relationship between the rise of deposits and subsequently of advances and the sterling funds made available to New-Zealanders?—By borrowed money?

Not necessarily. Sterling funds made available includes borrowed money and values realized for our exports?—When I speak of banking and the effect of banking inflation and banking retraction of issue, I was speaking of what happened not only in New Zealand, but particularly abroad.

Yes, but that was not my question. Did you see any relationship between the decrease of advances in New Zealand to the sterling funds made available to New Zealand?—I do not quite get the hang of your question now.

New Zealand farmers sell their products in England, and have sterling funds made available to them in payment. The New Zealand Government borrows in England and has sterling funds made available to it; the sum of these two is roughly what I mean by sterling funds available to it. Do you see any relationship?—Yes, I do see it, but you have to remember that the Bank of England withdrew £800,000,000 and went back on to the gold currency and that increased the purchasing-power of money and reduced the price of all commodities, therefore giving us less sterling credit in London.

That is quite beside the point; I am not worrying about what happened in England, I am trying to trace the connection.

Mr. Ashwin: Mr. Scott, in the course of your remarks, you said, "Money is made a subject of speculation." I am interested in that. How?

Mr. Scott: Money itself is bought and sold like any commodity, and although money may not be a commodity, it has all the faculties of a commodity.

Mr. Ashwin.] In essence, you mean it may be borrowed?—It is bought and sold; credit is bought and sold. When you go to a bank for an overdraft you are buying some of the bank's credit, and the bank gains its credit from the depositors.

Mr. Robieson made a remark that the withdrawal of notes in New Zealand has led to a withdrawal of credit.

Mr. Robieson: I said the withdrawal of purchasing-power; they are vastly different things; they are related, but not the same.

In other words you say there was a fall in the note-issue and that was a withdrawal of purchasing-power?—Certainly.

Do you mean purchasing-power in use, or available?—I refer to any bank-notes in the hands of the people of which there are one million less now than in 1928.

Is not the amount of notes in circulation entirely dependent in relation to trade activity on the banking habits of the community?—Let me get that point quite clear.

I suggest, of course, that the amount of notes in circulation is due to the state of trade activity in relation to the habits of the community. I mean, the amount of payments that are made by notes and the amount of payments made by cheque?—Let me ask you a question by way of reply: What increases trade? Is it not the purchasing-power in the hands of the people?

Well, yes and no; that is a big question; I wanted to stick to the point?—We have seventy thousand registered unemployed in New Zealand on the "dole." That is not nearly the number of unemployed; I know a dozen or two young men of my own circle who are not registered. If you limit the desire by the lack of purchasing-power of one hundred and fifty thousand people—that is what it means really—you have certainly cut down consumption, and therefore cut down trade.

Do you mean that the banks withdraw some of the notes?—Yes.

How do they withdraw them?—Call in overdrafts, &c. Notes are returned to the bank practically daily and they put a million or so into cool-store.

If you hold deposits at the bank, or an overdraft, you can get notes at will; how does the bank withdraw them?—What is the basis of the bank overdraft? Obviously it is some equity which you possess which is capable of returning, mostly, twice the amount the banks lend. The withdrawal of bank capital has wiped out the equities of most of us and left nothing further for the banks to lend on, so that advances have been greatly reduced. A lot of people think that banks lend only on deposits; as a matter of fact, the deposit is created after the lending.

Assuming that the Act set out in your pamphlet were passed by Parliament, I would like you to trace out how it is going to be put into operation. First of all, under sections 12 to 14, where you are dealing, I take it, with budgeting needs really, if I follow the purport of your sections correctly, you are going to pay out what is required for Government expenditure and it is to be recovered afterwards, I assume, through ordinary taxation channels?

Mr. Scott: It has got to be taxed back, or paid back. If the credit goes to a municipality the municipality will pay it back in instalments free of interest; if it goes out in State expenditure it can be taxed back through the usual channels.

Mr. Ashwin.] You would maintain, in essence, the present form of budgeting; you would balance your Budget as far as current expenditure is concerned?—Oh, yes, quite easily, too.

In subsequent sections you provide for extraordinary outlay, which I take it would be mostly capital. In section 15, for instance, you say "and for which the Government has heretofore issued interest-bearing bonds to obtain funds." How much do you think you would have to issue for that at the present time in New Zealand? How much would you suggest?—Well, I do not know exactly how much might be required just now. Certainly there would not be much sense in my laying down any definite sum when less might do, or more might be required. It all depends on the circulation of what is issued, but certainly enough should be issued to pay every unemployed man the equivalent of a decent living.

You could not do that through public works; that means about £7,000,000 a year; you would have a public-works programme running into about £7,000,000?—That would be all right.

On top of that we have got local-body works; you have to supply the municipalities with capital too. I suppose that they, even at the present time, might be spending £2,000,000 or £3,000,000 a year. Your idea is that, instead of them borrowing, we should supply them with currency?—We should not have to buy bank credit because the assets of the State and the local body are much greater than the assets of the combined banks, and it seems altogether preposterous that the greater should have to borrow from the lesser. As an example of the work that could be done by local bodies if their money were free of interest, I might give an example of what was about to take place in Glasgow just before the war. Most people do not realize the toll that interest is responsible for; they fail to understand that interest is responsible for about 6d. in every 1s. that we spend, and we come to a point every now and then where it is impossible to find that extra 6d., and as a result of the tribute system requiring to operate, all activities have to stop. This example I want to give you is interesting as showing what can be done with interest-free credit: In 1913 the Municipality of Glasgow which, as many of you know, is a very progressive city, but it has a tremendous number of slum dwellings, a heritage of the past, decided that the only way to improve the housing position was to build new houses, for the municipality to do it itself, and to tear down the old slums as the new houses went up, and they decided to do this without paying interest. In that city they happened to have many lands that they could get without having to buy them, old bishopric lands, belonging to the municipality, and they decided to put up municipal dwellings on these lands. They got their Public Works Manager to work and the engineers, and they drew up a scheme. If I remember rightly, the houses were three-roomed with kitchenette and bathroom, and the cost with free land and interest-free funds was so low that they could rent these cottages at £8 per annum. They were on the point of doing that when the war broke out and the profits of the Tramway Department, which they intended to use, were put into war bonds instead.

I do not want to pursue that, and waste your time. That really was not the point. Let us stick to the Act. Under section 16 your idea is to gradually repay the internal debt?—Yes.

And also the municipal debt; how are you going about it? How much should we pay off? Do you suggest we do it all at once, in one operation?—I think it would be better to redeem it gradually; instead of repudiation, redemption of the internal public debt. I think the best way would be to do it gradually, or as Mr. Beere and Mr. Robieson suggests under the land scheme, possibly issue non-interest bearing bonds.

We would pay it off over a reasonable period, say fifteen years?—Yes, I think that would be better.

If there were no interest, that would take about £10,000,000 a year, the debt being about £150,000,000?—The same thing would apply to local body debt; I do not know the figures.

Mr. Clinkard: About £72,000,000.

Mr. Ashwin.] Well, that is going to absorb a bit more. Now, mortgage bonds: I see in your statement here that you are going to discharge mortgages by issuing bonds, I think you are going to apply the same principle there and redeem the bonds. The amount of mortgages is about £200,000,000. If you work on that basis, you want at least another £10,000,000 a year there. You speak, too, of industrial development: Are you going to advance the capital required for that?—Not under my particular scheme, but it would have to come. There is no doubt that the State would have to provide credit for useful industries. When it reached that point, in my opinion, it would certainly have to have some degree of control, so that they would be economic, and so that our productive system would synchronize with our distributive system.

Starting on that programme, I want to see how the Act would work out. You would have public-works expenditure about £7,000,000; local body, £3,000,000; repay public debt, £10,000,000; local-body debt, £4,000,000; mortgage bonds, £10,000,000; and allowing nothing at all for industrial development. This makes a total of about £40,000,000 a year, outside the current requirements of the people; I mean the current expenditure. What is going to happen? You have a provision here for return demands, under section 14, and I gather the idea of that is that these sums shall be recovered over a period, through ordinary taxation methods. In the meantime, of course, you have got all this additional currency in circulation. Bank deposits at the present time total about £50,000,000. The net effect of your proposals would be to bring those deposits up to £90,000,000 in the first year, and repeated in the second year to £130,000,000, and so on. Have you considered what is going to be the effect on prices in New Zealand?—You are assuming that these expenditures are going out and not coming back, not being cancelled; and yet provision is made for it. You are assuming, also, that these expenditures that you yourself figure out (I have not done so) are going to continue for a period of years, that it is going to be the same five or seven years hence.

Mr. Ashwin: I understand you wanted to pay the debt over a period of fifteen years?

Mr. Robieson: That is too short.

Mr. Scott: There is another aspect; the debt is rather a bad thing to have, but when you create a debt which you owe to yourself it is a different thing. So long as you make provision for

the cancelling of that debt gradually. So far as inflation is concerned (I expect that is what you are getting at) you mean there will be too much money in circulation, but then your Government would be a very poor sort of Government if it could not provide against that.

Mr. Ashwin: There is a limit to what you can collect by taxation. We will say a Government's normal expenditure is £25,000,000 per annum and on top of that you put £40,000,000, you cannot collect £65,000,000 in taxation.

Mr. Robieson: It is too short a period. Do you realize that your present interest bill is not cancelling anything?

Mr. Ashwin: I am talking about the total Budget.

Mr. Robieson: I am talking about your present interest bill; it is at least £22,000,000 or £25,000,000 a year.

Mr. Ashwin: You are not getting relief. Supposing you paid off £10,000,000 of a debt in the year, you are only going to save £500,000 out of your interest bill.

Mr. Robieson: Next year there would be another £500,000 and ultimately it would be wiped out automatically. No one suggested fifteen years.

Mr. Ashwin: In the meantime what is going to happen to the currency? If you are going within a period of two or three years to double the currency, the bank deposits and other forms, I suppose that would have the normal effect and your prices are going to rise?—I do not think so.

What about your exchange-rate?—What is the position of the exchange-rate between Egypt and Britain the last two years, where they have State control of currency?

Egypt is not doing what you suggest?—Egypt has done a similar thing, and the result is that there has been less fluctuation in exchange between Egypt and Britain than between any other countries.

Is Egypt paying off her debt by issuing currency?—Not that I know of, but she is providing for exchange.

Mr. Munro: We will say that we have seventy thousand unemployed on our register to-day. We will give them about £4 5s. per week. That would approximately amount to £15,000,000 per annum. Would you simply create notes through your local authority?—Yes.

Mr. Robieson: But you would not create £15,000,000 per annum.

Mr. Scott: You would not need anything like that.

Mr. Munro: Because of the velocity of the circulation of the notes?

Mr. Robieson: That is so.

Mr. Munro: Those notes would be issued and paid to the unemployed for a certain work, and would eventually come back to the Government and be destroyed?

Mr. Robieson: They have fulfilled their function.

Mr. Munro: It would not create a debt?—No.

Mr. Munro: Another point; take the whole of the State employees; they had a 10-per-cent. reduction, some of them more. It would be quite possible, I take it from your scheme here, that these percentages or reductions could be given back to these State servants, and still would not affect the actual position of the country?

Mr. Scott: It would not add to the debt of the community, to the money-market, and it should be done. That is the vicious circle of the present system; every time we increase the purchasing-power, we pile up an irredeemable debt, but under the system where a country issues its own credit and does not have to pay a tribute claim, that is avoided, and it can raise purchasing-power.

Something similar to a postage-stamp?—Yes.

Hon. Mr. Downie Stewart.] I want to ask one or two questions. I was interested in the fact that you referred to Mr. Harris's book on Guernsey as an example of communal currency: have you read the book yourself?—No, I found the book after I had got this information from another book.

You will notice that Harris's book has an introduction by Sidney Webb, and he puts down there three possibilities of what happened in Guernsey. The first was that the paper money was displacing gold, the gold going abroad and being replaced by paper money, in which case he says, "But Guernsey could not have gone on equipping itself with endless municipal buildings as out of a bottomless purse. The resource is a limited one. This is a trick which can only be played once." This is on the assumption that the gold is displaced. The second assumption he makes is the popular one—that the public paid for it by increased taxation, but he admits that no one yet has studied the Guernsey prices, and he assumes that that was possibly the explanation. He says, "Such a rise would seem, to the ordinary Guernsey housekeeper and shopkeeper, as inevitable, and at the same time as annoying as any other of those mysterious increases in the cost of eggs and meat that Anthony Trollope described with such uneconomic charm in 'Why Frau Frohmann raised her Prices,' a work which I do not find prescribed, as it might well be, for undergraduate reading." He puts forward a third hypothesis that there was actually a shortage of currency at the time, and that though prices did not rise the prices which would have fallen were prevented from falling. He says one of these three things must have happened, and ends his preface by saying, "But we must beware of thinking that the issue of paper money offers some magical way of getting things without having to use capital, or we may find ourselves one day, to the unmeasured hardship of the poor among us, stupidly burdening ourselves as consumers with higher prices and increased cost of living all round." That is Mr. Sidney Webb's summary of what happened in Guernsey. You would think he is quite correct in assuming one of those three things must have happened?

Mr. Scott: I did read that preface, and I noticed that Sidney Webb really said nothing very definite. He qualifies everything he says. He said on the one hand it might have been so and so, and on the other hand it might not have been. That is the tone right through. He had never studied the matter until that book was brought to his attention.

Hon. Mr. Downie Stewart: Mr. Harris, who went there to make the study, confined himself to the actual facts, to what happened to the currency, but he does state in his conclusions that there is no miracle by which you can do things simply by creating paper money.

Mr. Beere: You say that nothing can be done without capital. Now, what do you mean by capital. That is what I would like to ask. Is capital pieces of paper, entries in bank-books, or is it our factories and our buildings and our machinery. I take it that capital is our machinery and our buildings that we have got in any case. You are only speaking of book entries and paper money when you say capital.

Hon. Mr. Downie Stewart: I do not mind what definition you take of capital. I am only saying what actually happens. However, I do not wish to question any further.

Mr. Schramm: When you were being questioned by Dr. Sutch, Mr. Scott, he said to you, "Leave out the interest part of it." Well, of course, I put it to you that that is the vital part of the present thing?

Mr. Scott: It is of course. That is the defect in our social and economic system. It is usury which is the fundamental defect. That, and also the conception that we must buy and sell everything we produce. That, to my mind, is an anti-social conception too.

Mr. Schramm.] And that is the reason why, in this proposed Bill of yours to deal with currency, you have a special clause dealing with the ultimate extinction of the laws relating to interest and usury?—Yes, it would lead to that. After all, the Bill is only intended as the first step.

Is that Bill a copy from anywhere else?—I copied it. I state so in the pamphlet. A somewhat similar Bill appeared in an American publication, and I thought it very good and I went over it and altered it a bit to suit New Zealand conditions. I put in one or two of my own ideas, but mainly it is a copy from a proposed Bill drawn up by Mr. Clay, of Chicago.

You propose that the State take over the whole of the banking business altogether?—No. I think it should be done, eventually, but we must first of all get control of this device of money and this seems to me to be the easiest way to do it, and it would create less disturbance and, after all, it is more direct than running the banking system, because the State might run a series of banks, it might run all the banks, it might nationalize the banks, and none of us be any the better off. That is, if the State did not alter the principle of banking, it would not be any use to us. I do not think that a State bank operating exactly on the same principle as a private bank would be any better. In fact, I am inclined to think it might be worse.

You believe in altering the principle?—Altering the principle of finance altogether.

We have heard a lot about what might have been the evil effects of the Guernsey system, but I suppose you would say, Mr. Scott, that, knowing the evil effects of the present system they are 100 per cent. worse than the Guernsey system?—Yes, I should think so.

Mr. Lye.] Mr. Scott, to put your plan into operation, I presume the first step would be to establish a State bank. Is that right?—Yes.

With the sole right of note-issue. Well now, would you say that the establishment of the central Reserve Bank just recently in New Zealand was a step in the right direction?—No. It is a step in the wrong direction. It is a step away from what we require, and I may say that we look upon the introduction of that Bill as a definite move in the direction of preventing the reform in the monetary system along the lines that most monetary reformers advocate—namely, the first step being a State bank.

Your proposed State bank would proceed to issue State and local-body credits for new works free of interest?—Yes.

What would you base your currency or credit system upon?—On the needs of the people plus our productivity—our capacity to produce goods and services.

You do not think there is any importance to be attached to basing the currency and credit of New Zealand on sterling exchange?—No, I should not think so. I should think that would be a disadvantage to New Zealand. We want to be as free as possible in my opinion from control by London.

Under your scheme, do you propose to finance private enterprise by credits issued from this Bank?—No, it is not provided in that Bill.

Does your system, then, oppose private lending?—No, not necessarily, as a start. This Bill actually frees the State, the community, from control by private financial institutions.

If, in the early stages of the operation of your bank of issue, that bank did not provide the necessary finance for new works and fresh enterprises, if you are going to eliminate all interest, do you think there would be any inducement for a private individual to lend his capital, place it at risk without any remuneration for that risk?—Lend it to whom?

Lend it to people who wanted private loans?—Well, I do not know that there would be much difference then. It would not be much different from what it is now.

Well, if an individual wanting money to develop country or to develop business was not able to get it from the bank of issue, what prospect would he have of getting it from the private individual who would be asked to lend his capital, place it at risk, and get no reward for undertaking the risk?—I cannot say. You are going a bit too far ahead. You are going beyond our plan. If you would apply that to your farm mortgages or land mortgages and so on, then I would say that in our plan—the plan of the new Economics Research Association—and I may also say the Legion, because it seems they have adopted it, that mortgages would be socialized.

One of the first steps after establishing this bank of issue would be to proceed to nationalize the land. Is that right?—Yes.

That is, to discharge all mortgages and debts and take over the land and farms of the Dominion, and tenants would be given a reasonable long-term loan for the purpose of reimbursing the bank of issue

for repayment of all mortgages. Well now, in view of the fact that land-values to-day were and are still established on war-time prices, will you admit that land-values to-day are altogether too high in relation to the price-level for our exports ?—Decidedly.

Now, the next step is this : If I own 200 acres and it is mortgaged to the extent of £30 an acre, would you take over the mortgages on my property and give me a long-term credit to enable me to pay it back by instalments over a period of years ?—Yes.

If you are prepared to do that, you are prepared to admit that you would be possibly fixing for a period of years a false standard of value on the farm which is now mortgaged at the rate of £30 an acre, but which, according to the market value to-day, is below £30 an acre, and you would be perpetuating a false standard of value for the properties which were taken over by the bank of issue ?—No. I think that I answered that in the affirmative too readily. Surely, if land-values are inflated altogether out of reason, the State would take the mortgage at what is considered to be a true value. In the matter of taking over mortgages, of course, little troubles no doubt would arise, but the Government of the day handling the questions would have to tackle them, but the principle remains sound nevertheless.

Have you ever discovered a person who was able to determine the actual value, the producing value of the land ?—No, I do not think I have.

I do not think you have either, because I remember a case that was before the Supreme Court, where Sir Robert Stout said that the productive capacity of the land was determined by the capacity of the person working the land. So that it is a very difficult matter. While one man may go bankrupt under the same range of prices another man comes in, takes over the responsibilities and liabilities, and makes a success. So that you will admit that it is a very difficult matter, if, under your scheme, you proposed to assess the value of the farm at the time that you released the mortgagor from his obligation to pay, it would present a very difficult problem to arrive at a fair economic value ?—Yes.

The next question is this : If you admit that that is difficult to arrive at, your scheme would to a certain extent (I want to be quite fair) under present-day conditions and under present-day values, as I said previously, established during the range of high prices brought about by heavy expenditure during the war period, it would mean that the mortgagor would be unable to meet his obligations in respect to the demand on all the mortgages that were owing on the farm. There would be a certain amount of repudiation ?—Mr. Robieson would like to answer that.

May I suggest that I am dealing with a question which would immediately arise as soon as you started to put your plan into operation.

Mr. Robieson : What I was going to explain is this : That necessarily this outline of general principles has not been intended to cover the whole machinery of operation. Now the position to-day, as we realize it, is that if there are mortgages in existence on the land which are greater than the value of the land, there must be an adjustment between the mortgagee and the mortgagor, and the mortgagee must be prepared in some cases to lose some of his mortgage if he has advanced a greater amount on the land than it is worth. I think it is quite fair that they should share the loss, and the mortgagor should lose a ratio of that loss, and the State currency bank must take into consideration that there must be some drop in some cases in value. In our discussions on the matter, I think I can safely say, we have come pretty much to the conclusion that these bonds would not be on a hard-and-fast basis of repayment. The amount that a man could pay back (after having determined the reasonable value of his property, as assessed between the mortgagee and the mortgagor), must be based on the productive value of the farm. That productive value must have a bearing on the amount that a man would pay per annum in liquidating the bond—that is to say, that he might be given in some cases a greater term to make the repayment easiest for him. We realize that it is not possible to lay down a hard-and-fast rule which will apply to everybody under the present abnormal conditions. There must be an adjustment of affairs all round on a just basis both to the mortgagor and the mortgagee.

Mr. Lye.] As far as land ownership is concerned, what you propose, under your scheme, is a usehold tenure is it not ? That there should be no securing to any individual the benefit of community created wealth as a result of trafficking and dealing in land or dealing in money ?—Yes.

You are opposed to private ownership ?—No. Private ownership of improvements and an absolutely fixed tenure.

Exactly. As far as improvements are concerned they belong to the individual. The State would, for all practical purposes, own the land, for which, of course, the farmers or the tenant would pay rent. Now, would you agree that that was in the direction of controlling the means of production. State control of the means of production ?—I hardly think so, because the farmer would have just as much freedom as he has now. Only one thing is mentioned there, and I think rightly, that a man should not monopolize land, but use it for the benefit of the State. He must make reasonably good use of his land or he should not hold it.

Would there be anything to prevent a farmer from handing over to his children his right and his interest in the property ?—None at all.

If you are going to control the currency and next the land, are you going to do anything in the direction of controlling the distribution of goods and services ?—There is no proposal of that kind at present. The problem before us to-day is to provide consumption for what we call overproduction, but what I call underconsumption. The world has not yet produced more than the people need and would consume if the facilities were there for consumption.

Mr. Scott : There would have to be some sort of co-ordination.

Mr. Robieson : But naturally that will come. There will be a co-ordination. There must be a planning.

Mr. Lye.] If you eliminate the right to charge interest by the individual who lends, would it not have the effect of permitting or inducing people to have a little flutter and a little gamble. They get the money readily. They have got no obligation to pay for the use of the money, and many questionable undertakings would be commenced, due to the fact that money was available and there was no charge for the use of the money ?—What questionable undertakings have you in mind. Because if speculating in land is cut out, and as we claim that prices of production will be largely stabilized under the currency system, where would a man get the opportunity for illicit or evil speculation ?

Well, of course, a man could undertake all sorts of schemes for improvement on false economic values or prices ?—Well, they would only succeed in losing their money.

Yes, losing the other fellow's money. That is the trouble. Either the bank of issue's money or the private lender who put his money out without interest ?—But you cannot lose the bank of issue's money, because when you lose it it only goes back into the bank.

Mr. Scott : Under our scheme we have not laid it down as part of the plan that interest is to be abolished.

Mr. Lye : I presume that from time to time you have watched the operations, the rise and fall in the price-level in Great Britain, and you have noted its reflection upon the amount of currency and credit in operation in New Zealand ?

Mr. Robieson : I cannot say I have.

Mr. Lye.] You have not seen graphs showing that when there was a rise in the price-level of New Zealand exports in Britain that after a period of time it showed that there was an increase of credits available within New Zealand ?—That was undoubtedly the case under the existing banking system. The bank can advance with the security of getting interest when prices rise.

Well, you agree that inflation and deflation is really a phenomenon brought about by the exchange values of our exports in overseas markets. As a result of the rise or fall we get a decrease or an expansion of credit immediately. Well, within a reasonable time ?

Mr. Robieson : That is only a reflection of a special circumstance. In my mind the real cause of booms and depressions is the power which the banks use in increasing the issue of currency and decreasing it at will. The banks will increase the issue of currency all the time so long as there is a reasonable possibility of them recouping their loss and getting their interest. It does not concern the banks how much currency is in circulation so long as they can see their way for repayment with interest. There is practically no limit to what the banks may inflate currency, and they do inflate currency.

You say then definitely that if there happened to be an immediate rise in the price-level of our dairy exports overseas, that there would not be additional credits available to the producers in New Zealand ?—Oh, no. The rise in the price-level of the produce of the dairy-farm naturally increases the equity which the dairy-farmer has to present to the money-lender for his loans. The money-lender will lend more money when the price of produce makes his interest more likely to be secure.

Do you believe that it is unnecessary, then, that our freedom of currency and credit should be in any way associated with sterling exchange ?—I think it is quite unnecessary. Our currency does not circulate outside New Zealand and sterling does not circulate in New Zealand.

Mr. Beere : I would like to put in one remark here, and that is that it seems to me that we can have one of two things. We can have stable money in our country or stable exchange. We cannot have both. And which do we prefer. I take it we prefer to have the stable money in our own country, and let the exchange regulate how much we can buy from overseas, because our products are not paid for in New Zealand money.

Mr. Lye.] How would you stabilize the currency of this country and would it be necessary to stabilize on a fixed price, the goods and services which we in New Zealand have for exchange ?—Let me put it this way : There are three factors which influence prices. One is the amount of goods or property for sale ; second, the amount of currency or money with which they can be purchased ; and, third, the speed of circulation of the money. Now, we were taught in arithmetic at school that in any formula if you alter one factor you alter the rest. Well, if there were only one issuing authority for currency in New Zealand they could issue the amount and that would influence the other two. The Government Statistician already compiles a price index and if the issuing authority keeps its eye on that it can stabilize prices. It has got the money going out and it has got the money coming back in taxation so that stabilization is no trouble.

Will you agree that the price-level is determined very largely by factors outside of the Dominion, that is, for our exports ?—It is at the present time, because our money is worked through a banking system whose exporters are mostly outside this country.

In stabilizing the price-level to the New Zealand producer you would first have to stabilize, I presume, the measure of value, the monetary unit in New Zealand, would you not ?—Yes.

And how would you do that ?—I will just read the last sentence that I have written down here : "Is it then possible to measure wealth ? Perhaps not literally, but we can establish a relationship between total desire at any given time and total wealth available at that time to satisfy desire and the formula becomes the same." Total of desire capable of being satisfied equals total wealth. Now, both sides of this equation are unknown and variable quantities, but we have been taught in mathematics that we can multiply and divide unknown quantities and that an equation remains true, provided both sides of the equation are multiplied or divided by the same figure. We can therefore divide both sides of the equation by the population. Now, taking New Zealand at the present time with a population of about 1,500,000 as an example, the formula becomes : Average individual desire capable of being satisfied equals one over £1,500,000 of total wealth. Both population and wealth vary from day to day. We cannot, therefore, have a rigid scale. In physics an elastic scale is a

commonplace, and I illustrated an elastic scale. I submit that it is easily possible to devise a monetary scale capable of measuring a varying total of wealth between the units of a varying population. In some future state of man's development it may be found possible to distribute the wealth evenly, but we have not arrived at that state. Some day man may rid himself of the possessive instinct, but man, as we know him to-day, has the desire for private possession of material wealth and man's incentive to effort in our day is dependent to a large extent on his desire for possession. Well, then, our monetary scale must be capable of preparing the wealth of the country so that it may be distributed as evenly as possible amongst the units of the population. Taking into account the creative effort of each unit (some of the units of our population are incapable of creative effort, the children, the aged, and the infirm) the wealth which represents the necessities of life should be distributed according to the need, and that part of wealth which represents luxury should, in time at least, be dissipated as a reward for and an incentive to constructive effort. Now, under our present monetary system, the wealth of New Zealand at this present moment is considered to be worth, say, £600,000,000 and our population is 1,500,000. Then each unit of the population has, on the average, £600,000,000 divided by 1,500,000 share of the total wealth, which equals £400 each. We can therefore call £400 a unit share, and I propose that the bonds shall be represented by writing on a piece of paper—that is, a pound-note. I emphasize the word "writing" as it is the writing which represents the value, not the piece of paper.

Can you give me any indication as to how you would arrive at the amount of currency and credit that was necessary to be available at any one particular period ?—There is a story told, if a man was driving along in a motor-car and he came to a hill and he had to calculate exactly how much benzine he would require to get to the top of the hill, he would probably never get there. But it is quite easy. Put your foot on the accelerator and up you go.

Is that inflation ? Is that by an indiscriminate issue ?—No.

Mr. Langstone: There has been a lot said about world parity prices and internal prices, and that prices have fallen. What makes prices fall ? Why do they fall ?

Mr. Scott: Lack of purchasing-power.

Mr. Langstone.] That as the banks take the credit and money out of circulation prices fall ?—That is so.

What I would like to learn, if it is possible, is why the price of an article in one country is higher in price, necessarily higher in price, than that same article would be in another country ?—That depends upon the definition of price. After all, price is simply the demand that exists for a certain article. Price is an artificial factor.

Let me put it this way: Supposing that a farmer was getting 6d. a pound for his butter in London; that is the world parity. That credit in London will only buy that amount of goods in London, that is all. But when it comes to New Zealand we have added on to it Customs duties, exchange-rates, sales taxes, importers' charges, that are all local, and they have all to be recovered in the price. The price, then, for that article is possibly double what it was at world parity. I mean the internal price-level of the article is double what it was in world parity, but the farmer, owing to exporting at world parity prices, plus the exchange-rate, is not able to buy. If the article that was bought for 6d. is 1s. owing to internal charges and he has only 7½d. to buy it with—that is his total income, 6d., plus the exchange-rate—how can he buy for 7½d. an article priced at 1s. ?—It cannot be done.

That is the fault with our financial system to-day; it creates that void ?—Yes. There is a gap between total price and total purchasing-power.

Therefore there can be no such thing as international money; money is purely domestic and purely national ?—Absolutely.

When people talk of international money, international finance, they are talking of something that never existed and never can exist ?

Mr. Robieson: May I put that in another way: That question resolves itself very largely into a question of international exchange of goods. The international exchange of goods is really what makes exchange rise or fall. The Egyptian Government seems to have solved that question. They have stabilized their internal currency and they have their representative of State currency in London. If a farmer in Egypt wants to ship 1,000 bushels of wheat to London he is paid for that in the internal price, and the wheat is shipped to London and sold for sterling. The sterling remains in the hands of the State currency representatives in London, and only that amount of money can be spent in London for the purchase of goods.

Exactly ?—Therefore we get back to the place where the real and only sound method of international trade is barter. There must be an equal exchange of goods between all the countries exporting and importing between one another.

And all the talk of our Government and people complaining that because world prices have fallen, the reductions in wages and everything else must take place, is pursuing the wrong policy ?—Absolutely.

You cannot accomplish anything that way ?—No.

Now, you propose under your Bill to have no more interest-bearing money. Well, there can be no more capitalism there; you will not be able to capitalize anything. If there is no interest it is impossible to capitalize, is that so ?

Mr. Scott: It provides only for State and local bodies' enterprises.

Mr. Langstone.] You are going to have two kinds of money ?—No, the money will be uniform; it is all provided in the Bill. There will be one note-issue—a unified note-issue—but national credit will be used for national purposes.

But you say in your pamphlet "ultimately abolish all interest" ?—It would follow ultimately to the abolition; it would lead ultimately to getting down to what the people of New Zealand desire

to have. If we want a planned economy we can have it, but if we do not pass some such Bill as this and regain control over our money we cannot do anything. As a first step, it proposes that the State shall be free from financial domination.

A lot of people assume that if you do that you might destroy incentive. Is that so ?—We think it would increase incentive.

Consumption is a dynamic force. If people do not consume they would die, but before they can consume they must work to purchase the things they need to consume ?

Mr. Robieson: Exactly.

Mr. Langstone: The Chairman asked you about the question of the £80,000 notes that had been issued in Guernsey. Of course, some of those notes were issued to pay off other notes that had matured, and, although there was £80,000, some of them were used to redeem others, so that, really speaking, there would only actually be £55,000 in operation. While one lot was in operation they would be cancelled and another lot would take their place ?

Mr. Scott: Yes.

Mr. Langstone.] So that under that system there could be no such thing as inflation ?—There is no inflation ; that is a banker's term. I think that it is best described by Hattersley. You will find that on the cover of the pamphlet, as follows :—

> Expansion of money is not by itself inflation, but nowadays (so regularly does a rise in the price-level follow any considerable monetary expansion) people have grown to regard monetary expansion and inflation as synonymous terms. This, of course, is due to mental confusion : expansion of the amount of money in circulation unaccompanied by a rise in the level of prices in not inflation.
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> While inflation as such is not in itself a desirable thing, its consequences are far less deadly than those of its opposite, deflation. And yet inflation carries with it implications of unsoundness and untrustworthiness—implications sedulously fostered in obviously inspired quarters. The industrial prosperity that accompanies a period of monetary expansion is generally regarded as false and "too good to last." On the other hand, deflation, in spite of the obvious discomforture of industry which accompanies falling prices, is often credited with the virtue of honesty, simply because it is the opposite of inflation. Why this should be—why, in fact, it should be considered honest for a creditor to accept payment in tokens more valuable than those he lent (which is the result of deflation) and dishonourable for a debtor to pay in tokens of less value than those he borrowed (the result of inflation)—is a problem of financial ethics which the writer has never yet solved. Popular and unreasoning disapproval is the meed of inflation : equally unreasoning approval is accorded the virtue ascribed to deflation. It is yet another example of the power of propaganda.
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> By an easy confusion of thought, the popular disapproval of inflation attaches itself to any conscious expansion of money. Germany and Russia are pointed out in the press and elsewhere as horrible warnings—and there is acquiescence on the part of all who prefer to have their thinking done for them.
>
> —C. M. HATTERSLEY, "This Age of Plenty."

I notice that one gentleman said that there was a million less notes in New Zealand to-day than there was in 1928. What is the relationship ? I mean to say on the percentage basis what is the relationship of the currency notes to the general credit and price system ?—About £50,000,000 or £100,000,000.

Would it be 5 per cent. ?

Mr. Beere: I do not think any one knows. There is apparently £40,000,000 registered by the banks, but then there is about £200,000,000 represented by mortgages, and a whole lot of other things represented by tribute claims in all sorts of forms.

Mr. Langstone: The point I am trying to get at is this : That under our credit system to-day money—what we call cash, notes, and half-crowns, &c.—is purely till-money ; it is not a big thing in the nation ?

Mr. Robieson : It is a very big thing.

Mr. Langstone.] But it has its relationship. I mean to say, suppose it is 5 per cent. of the total and there has been a contraction of £1,000,000 in notes, there is demand for a million less notes. Then the contraction of the total business has been £20,000,000, not £1,000,000 ; or, if the contraction of a million represents 2½ per cent., it would be £40,000,000 ?—That is so.

So that the contraction in notes is only an indicator showing the contraction of the general business owing to the slump in prices ?—That is so.

That is what it tells us ?—That is so. That the purchasing-power of notes issued is infinitely greater than what I call credit money.

There is one other thing I cannot understand. You say desire is the basis of values. How do you arrive at that desire ?—Demand, the necessity of the people.

Is not the value of an article inside the article itself ? Say we were to take different articles, a piano, a carpet, a house, what is the difference in those articles ? It is not desire is it ?—It is demand for the article. Value and price is rather mixing. The price of a thing is not necessarily the value. Price is determined by demand, the intrinsic value of the thing may be the same when prices fluctuate 100 per cent.

In each article, in everything, it is only a crystallized form of human effort ?—That is so.

And in time and material it has so much labour or social effort crystallized in it and that is the basis of values ?—Yes, but it is not necessarily the basis of prices.

Would it not be then the basis of values, not desire ?

Mr. Beere: The value of anything depends upon the desire. You will have seen, for instance, in the papers lately that the people of England have subscribed £33,000 to buy a very old dilapidated manuscript. Now, what monetary value would you put upon that ?

It was scarcity ?—It was desire, some one wanted it.

No, it was scarcity. That is the only one of its kind that exists, and they want it—that is scarcity, not desire. Anyhow, people do not live on old Bibles. We are dealing now with the ordinary economic life of the people—food, clothing, shelter, as primary essentials ?—Then, take another case. Suppose Wellington was short of water and some one had a well giving 100 gallons of water a day, that

water would be very valuable ; but if rain came and filled up the tanks and reservoirs, then it would not be so valuable. It is just a matter of desire ; the thing is wanted.

Well, we will assume that I want a house and you want a house. We both desire a house and we go to a carpenter and we tell him what we desire. What does he do ? He calculates the cost on the amount of material and labour that is going to be used. If after he has worked out the cost you think it is too much you have to alter your desire and if you do that he has to alter the house, so there is something more definite than mere desire underlying it, something more material than mere desire that determines the value ?—We were speaking of a method of measuring wealth. You have to measure it with something, and you cannot measure wealth.

I put this question to a witness yesterday. We have measures of weights and length. How do we formulate them ? There is a process that we follow. We have 16 oz. to the pound, but somebody must have determined that. It must be determined somewhere because, if it was not, some one else might come along and say we will make 17 oz. or 20 oz. to the pound. How was that determined ?—By a very simple method I believe. For instance, with a measurement the first man who made a measure made an inch ; that was the first measurement ever stabilized.

Mr. Clinkard.] A span ?—It may be a fraction of a span. Some final thing was decided upon as a standard. I have made a search through all the sciences to see if there was any possibility of finding a method of measuring wealth in terms of matter, but I could not find anything that would make money tie down to matter ; you cannot do it. It is the value of everything depending on desire. You can make a ratio and measure it that way.

Mr. Langstone.] You believe with Arthur Kidson that value is an ideal and can only be expressed in principles ?—I should be inclined to say he was right.

Mr. Clinkard : I took notice of some remarks by Mr. Robieson. I think it was stated that our depressions or booms were very largely created by the banking system. Could you tell me when those cycles of boom and depression commenced ?

Mr. Robieson : There have been various cycles.

Mr. Clinkard.] They have been in operation for a very long time ?—One man published a chart which went back a number of years before 1872 and right up to the present time showing these inflations and deflations.

Of course, you are aware that there are very many theories for the cause of those rises and falls. Do you think they are wrapped up in the banking system ?—I know they are.

Do you think there is anything in the psychological question that there is a mass tendency to optimism or pessimism ?—I think your optimism is created by the banks inflation of money, making money.

Is not the issue of money by the banks rather the result of that optimism ?—No, it pays the banks to issue money, so long as it is safe and they are able to get it back and so long as the people can pay interest.

Does it pay the banks to create a depression ?

Mr. Scott : They never lose anyway.

Mr. Robieson : Banks do not lose by depressions as a rule, but I want to make this question clear to you ; it is another phase of the matter. When a bank creates inflation or issues volumes of money it creates equities for private individuals. The increase in the value of land is, in effect, due to the bank issuing money. In 1920 land boomed in this country and has not gone back yet, but a lot has gone back. The result of that boom was to create equities in the hands of private people which immediately became a tribute charge on the rest of the community. The period of deflation is for the banks to get rid of those tribute charges on the community, so they can have another inflation.

Mr. Clinkard.] They have not themselves lost by that transaction ?—They have not. The banks usually lend not more than one-third of the equity ; the security is usually on one-third and they can deflate the other two-thirds and still lose nothing. Let me give you an illustration : I am speaking from memory only. Hattersley in his book points out that during a period of sixty years in England £9,500,000,000 was invested in joint-stock companies. At the end of that sixty years only £4,500,000,000 of that capital remained in existence. In other words, £5,000,000,000 of that capital had been dissipated in bankruptcy, writing down, or liquidations. Hattersley points out this : That that was the only thing that saved the financial system. The destruction of accumulated capital was the only thing that could possibly have saved the financial system, because had all that money remained in existence, plus interest, in a period of sixty years the charge on the population would have been greater than the production of Great Britain could meet.

There was one other point which Mr. Langstone elaborated somewhat fully, and that is the question of the contraction of currency. He suggested to you that the contraction of £1,000,000 in notes would be reflected by something approaching £40,000,000 in ordinary credits ?—About £40,000,000 of purchasing-power.

Would you be prepared to support that ?—I would say that is a low estimate ; loss of purchasing-power would be greater than that.

Then, according to that, if we had in note-issue something over £6,000,000 and each million represented £40,000,000, six times £40,000,000 would represent the fall in purchasing-power ?—When you consider the purchasing-power you have to consider not only the wealth of the country as a whole, but every exchange made of that wealth.

I quite realize that. I think you, at the commencement, indicated something along those lines in connection with a single pound and its possibilities of circulation, and you gave some figures as to the possible circulation of the liquid currency ?—Possible purchasing-power.

Yes, but would you suggest that it ever attains that velocity ?—Hattersley in his book compiles statistics in 1928 in which he suggests that the Bank of England pound-note's actual purchasing power was five times per day of three hundred days in the year.

But does it ever attain that ?—According to Hattersly, those are the actual statistics and that was the actual velocity.

Of the note ?—Yes. I put my estimate at one, not five. I do not know how he compiled his statistics, but he makes that statement.

One of you gentlemen referred to a tribute through a mortgage. I have had more experience with mortgagors than mortgagees, but I think he was rather severe on the mortgagee. For instance, in my fairly long experience the thing worked out like this. Two of us combined to purchase a property. I was the purchaser, had all the knowledge, stood to gain any profits, also stood to share the losses, and I agreed that my associate should get a certain proportion for the amount of actual cash he put in. Would it be fair to him to say that that was an unjustifiable payment which he received from me ?—No, under the present system, but we do not agree with that system.

You would not say it was unjustifiable at the present time ?

Mr. Scott: No.

Mr. Robieson: For instance, we can accept certain standards of behaviour as being correct. Under any particular plan of life they are correct, but the plan might be all wrong.

Mr. Clinkard.] I think you suggested that increased prices were very desirable, is that always so ?—Out idea is to stabilize prices, not to increase or decrease them.

In your proposals you suggest a number of purposes for which you would issue currency. I do not see how you can control prices by the issue of currency. If you were basing your system on the issue of currency to maintain stability of prices, I can understand that. If your issue of currency is dependent on something else, how are you to maintain your stability of prices ?—Obviously stability of prices must be your main objective and your currency must be regulated in order to maintain that stability.

You would not issue these big amounts that you speak of for all overdrafts ?—They issue them now. The banks have already issued them.

Not in currency ?—A mortgage is currency ; a bank overdraft is currency ; a bill of exchange is currency.

A mortgage is not a currency, I am quite sure of that ?—Oh, yes, it is.

I agree with you when you said that the main point is exchange of goods ; particularly in international economics the whole job is in the exchange of goods. Do you not think that the trouble is that while one section may have a great deal to exchange other sections have nothing ?—The old classic economics tell us that the proper thing to do is to buy in the cheapest market and sell in the dearest market. That really means that you want to sell as much more as you can than you bought and have what they call a favourable trade balance.

That is so ; that is economics ?—The question has really resolved itself into this : That the country most able to produce a certain class of goods would produce them and exchange to another country which produces another class of goods to greater advantage than the country offering to exchange.

There are in every community, in every country, under every flag, individuals having nothing to exchange and others having a great deal to exchange for which they would like to receive some recompense. I think it has been said that with our present world's productive capacity the Hottentot should be able to live as the millionaire does, but the Hottentot must have something to exchange. Is not that the difficulty rather than the question of actual money ?—In international exchange it would be.

You were speaking of measure. Is not money, after all, the weights and scales by which you have measure ? Your effort or your goods against my effort or my goods ?—It should be, but it is not.

And the multiplication or substraction would not really affect the position. The thing is that we should have separate commodities to exchange, one for the other. Do you recognize that ?—The unemployed, for instance, have only their labour, and their labour is not wanted and they are unable to get an exchange of goods which are available for exchange. They desire those goods and services and they want something to exchange for them. They have nothing to exchange because they are unemployed. It is our duty to see that they are employed.

That is going on to a different subject ; I am looking for the one point. The thing is the exchange of goods and services, and there must be the available goods or services on one side in order to make it possible to do business with the other side.

Mr. Beere: That is quite right.

Mr. Clinkard: Secondly, it is not so much the quantity of the measurement as it is the stability and acceptability of the measurement, and you say that the difficulty is that you have been trying to find some mechanical method of measurement and have been unable to do so. I agree. Was not that the reason why gold, as being the most difficult substance to increase, was taken not for the purpose of actual exchange but for the purpose of—— ? I may say that it was taken for the purpose of actual exchange.

Well, it was a medium of exchange. I do not see anything wrong with it, but when paper credit is built up, what is its measuring-capacity ?—Its measuring capacity is gold, which is to-day about £8 8s. per ounce.

How are you going to arrive at some stable measurement ?—I propose to take the price index at a certain date, say, at 1927.

Supposing we were continuing our present system. I do not say it is perfect by any means, but if the issue of currency to-day was regulated on the price index in the way you want, would that not bring about uniformity in price, but you could not bring about uniformity in exchange ?—You cannot have both things. You can have stable exchange or stable money in your own country, but not both. When we send goods to England they are paid for in English money in England, not in New Zealand money ; all our business in England is done in English money, and the thing does not trouble

us. The exchange is the only governor, just as in the case of a steam-engine if the speed is too great it is automatically controlled; so the exchange goes up when we have been buying too much, and if we have not bought enough the exchange goes down. That is the only way in which exchange works.

But I think you would agree that it makes it more difficult for us to have separate currency owing to the very excessive interchange between the other parts of the world and ourselves?—I do not see that. In New Zealand we are dealing mainly with England and we probably make exchanges with other countries through the London banks. That is all right. There is always the problem, and it is easy enough to see the exchange between two countries, but when a third country comes in. If one ships part of its goods to two countries unevenly and buys unevenly, there is a roundabout. That is all done in foreign money.

Captain Rushworth: I apologize for keeping you so long, but there are one or two questions I want to clear up if possible. The Chairman suggested to you that it would be unwise to entrust the Government of the country with the duty of printing notes, because there would be no incentive for economy; if that is the case, and if notes are to be printed, do you think it would be better to have a private corporation doing it?

Mr. Scott: I think the question answers itself.

Captain Rushworth.] I would prefer to put it that way. The next question is relating to the Guernsey Market Hall: Is it not a fact that the Government of Guernsey made it quite clear that the money that was issued would not pay for the wages but paid for the materials. I think the words are used by the Governor in his speech when he declared the hall open?—I think that is so, but I also remember reading somewhere that most of the materials were on the island, though I do not think all.

Was that point not made clear by the fact that he set up a committee first of all to investigate the problem of unemployment, and the committee recommended that this Market Hall should be built, and the recommendation provided for the borrowing of the money in either London or Paris?—No, that is not quite correct. According to Harris's book, which contains the authentic story of Guernsey, the first issue was not in connection with the Market Hall at all. It is a minor detail, but still it is as well to get it right. A Committee of the States on the 12th April, 1815, made a recommendation that, instead of trying to raise a loan in London or Paris at exorbitant interest rates,——

That is a second meeting. It was then made quite clear that they were going to use their own materials. They said, "You have your skill and you have your materials, why go to Paris or London"?—That was so.

The question arises as to whether there was necessarily an increase in prices; that was put to you by Dr. Sutch. Supposing with the increased money there was increased effort, and an increased production of food, clothing, and shelter at that time, there would have been no rise in prices. Supposing there was an increase in price (and I agree there is no evidence to show whether that was so or not), but supposing there was that increase, it would be true to say that the people of the island paid for the erection of the hall during the course of its erection as the money was put into circulation. Whether there was an increase in price or not, we can say that. If there was an increase, they paid in money; if there was no increase, they paid in increased effort. Is that right?—Yes, that is obvious.

This is the point I wish to make quite clear, and I think the illustration of the Market Hall is very valuable for this purpose alone. Having paid for the Market Hall, when it was opened they let the stallholders pay rent for it. The stall-holders recouped themselves for that rent by the increased prices they charged for the goods they sold. The people who purchased the goods paid for the hall a second time?—A second time.

They paid twice, did they not?—I would hardly say that.

May I suggest you give it your consideration, Mr. Scott, because there is a very valuable question underlying that. I suggest that you should follow it out; I think you will find that the people of Guernsey paid twice for the hall. I make that as a suggestion only. The question is valuable, because it raises the whole question of debt; our present system is really a debt system, is it not?—Yes, it is; I tried to make that point clear.

And I suggest that if you follow that through, the same idea is operating now; people are paying twice?—Yes, but how the Guernsey people come to pay twice is something entirely new to me.

It is an interesting line of thought?—I would like you to explain further to show how they did pay twice.

I put it to you that they paid for it either in increased prices during the course of the erection of the building as the additional money was put into circulation, or if there was no increase in prices, there must have been increase in effort. So they paid for it one way or the other. The hall is erected and is free of debt. They then proceed to pay for it again through the stall-holders' rents.

Mr. Robieson: They proceeded to recoup the money.

Captain Rushworth.] The question I want to ask is, Whether it is necessary to take money out of circulation, and if so, when?—I do not quite understand that. The State issued money; that was a debt on the whole community. Well, it was a promise by the State to pay so much money.

Whom to?—To whoever bore the document. If the State issues money, it is against the State's holdings, the State's assets. It is a promise to pay, and when the rents were collected it was the rents that redeemed the note-issue.

But was it necessary to redeem the note-issue?—It might have been and it might not. If you are inflating and the prices are going up, it might have been necessary to redeem it.

Mr. Robieson: For the purposes of stabilization only, it would be necessary to take portion of that money for cancellation.

The question of interest was raised: Is not the payment of interest merely the transfer of purchasing-power from one individual to another?

Mr. Scott: No, it is not always that. A certain amount of interest may become purchasing-power and a certain amount of it does actually become a further tribute claim.

Captain Rushworth.] But in the first instance, what interest payments are not available as purchasing-power ?—Well, I should say that portion which is invested.

When money is invested what happens to it ?—When money is invested it simply registers a tribute claim.

But surely it is producing power for some one ?—Probably it is, but in addition to the interest charged on money, in addition to transferring some purchasing-power from one individual to another, it does something more. It increases debt. It increases the debt which must be paid by the community, and if not paid by the community, and it generally is not paid, at any rate only a tribute claim on the interest itself can be paid, that acts as a brake on the wheels of our industrial system.

It is not that you claim that the payment of interest is a reduction in purchasing-power, but that it may become a part of further debt ?—That is so ; it does.

Mr. Ashwin asked you whether money could be a subject for speculation. Could this sort of thing happen in our present system ? Is there, first of all, a monopoly of the manufacture of money ?—Decidedly.

If there is a monopoly of the manufacture of money, and the manufacturers of money lend it out on collateral security on farm lands of a whole district, and then the money is short-supplied so that prices fall, and they then resume possession of the collateral security, put it in the hands of a Realization Board, and then issue more money, the value goes up and they can speculate ; is that right ?—That is the approximate position.

It could be done under our present system ? Money could be manipulated ?—It is done.

Mr. Ashwin also referred to your suggestion which might involve the putting into operation of £40,000,000 a year, and it seems rather a big figure, does it not ?—Yes.

But the Hon. Mr. Downie Stewart could tell us—the Minister of Finance told us officially here—that the national income has fallen from £150,000,000 to £90,000,000 during the last four years ; it has fallen by £60,000,000, so that £40,000,000 is a comparatively small figure in the circumstances ?—Yes.

One question Mr. Beere suggested—the tribute in regard to land : Supposing one were to overcome that—the levying of tribute so far as land is concerned—would it not also be necessary to take into consideration the lines of communication ?

Mr. Beere: The State should control both the lines of communication and other means of production. Now, the State has got to issue money and make a circuit ; it has got to reissue it to keep the circuit going, and the method by which the State should get the return circuit. It would be better to go back to the prime source, and put a charge on the land and on the machinery.

You have not got my point clear. The illustration I have in mind at the moment is to be found in the United States principally. There you have the American Meat Trust in monopoly control of the means of transit from farm to consumer, and in accordance with American business methods they appear to charge all the land can bear ?—That can be done.

So that the levying of tribute on the land is not alone a cause of difficulty. If we consider that that has to be looked after, is it not also necessary to regard the levying of tribute on the means of communication as well ?—I should rather put it on the means of production than on the means of exchange. The State would have to make the means of communication as far as roads are concerned free, and they would have to see that carriers did not overcharge.

In fact, the State would have to deal with any robber barons on the highway or otherwise ? Your idea really is that New Zealand should be made a self-contained monetary or banking area ?—Yes, that is so.

AUCKLAND, THURSDAY, 15TH MARCH, 1934.

Statement submitted by Mr. W. GATENBY.

In response to the published invitation of your Committee, I have the honour to submit proposals for the improvement of our monetary system. I am a graduate of the New Zealand University, B.A., LL.B. For thirty years I was a teacher in the public schools ; for over eighteen years I have been practising as a barrister and solicitor in Auckland. Ever since the depression made itself felt, I have been a keen student of economics, especially of the financial part of the subject. I have read most of the recent works of orthodox economists, as well as of those who have broken away, including Major C. H. Douglas, Falconer Larkworthy (an eminent banker), Professor Irvine (Sydney), Professor Soddy, Baxendale, &c. As a result of my wide reading and deep study, I am convinced that it is becoming increasingly impossible to maintain the present British system of debt-money, which postulates that we must owe for all we do. All money reformers are agreed on one necessary change—that is, that money must not come into existence as a debt : all money must be *certificates of service* entitling the holders to receive goods or service. They should therefore never be subject to cancellation as long as goods and services are available for exchange. The present bank-overdraft system regards money as something to earn interest, with the result that unprinted and unminted money (more than 90 per cent. of our total of money) is loaded with a tax before we can use it, and it is cancelled before goods and services have been consumed. The only issuing authority for money must be the State, but the people through their services will determine the quantity of money necessary. The actual calculation of the amount of new money to be issued will be done by Government experts who may be statisticians and Treasury officials. New money will be issued when new assets are to be created, and all public works, including permanent improvements by local bodies, will be

financed by new paper money to remain in circulation as long as the assets endure. Taxation for public works would be unnecessary. The Guernsey money scheme used after the fall of Napoleon should receive the fullest consideration of your Committee. The following outline is based on the principle that money is only certificates of service, and as such should not be subject to an initial tax or permanent charge in the shape of interest. As the State issues coins, to be consistent, it should issue all new money, and as our coins (strangely late in the day) are to be New Zealand coins with no value in other parts of the world, we shall entitle our outline "New Zealand Money."

1. New Zealand money shall consist of copper and silver coins of the denominations now in use, and of paper certificates issued by a State Department for value received.

2. The paper certificates shall be issued to the trading banks in return for national-debt securities, for Treasury bills, and for gold and silver bullion.

3. The paper money shall contain no promise to pay, but shall be in the form of certificates, as, for example,—

£1. NEW ZEALAND STATE MONEY. £1.

THIS is to certify that the holder is entitled to goods or services to the value of ONE POUND.

Signed—

Date: . ....., Secretary to Treasury.

....., Comptroller of Currency.

Or, more simply,—

£1. NEW ZEALAND CURRENCY. £1.

ISSUED by State authority, this Note is legal tender for the sum of ONE POUND.

Date: . Signatures:

4. The Post Office Savings-banks shall extend their services by the use of the cheque system, but shall not grant loans.

5. The trading banks shall not grant loans, except out of existing legal tender actually in their possession; the rate of interest on overdrafts shall be subject to State control.

6. All gold shall be sold to the State and paid for in State notes. The gold shall be transmitted to London to be sold and the proceeds applied (*a*) to the reduction of New Zealand's external debt or (*b*) invested in British securities as a sinking fund for the gradual extinction of external debt.

7. All loans by the State to local authorities shall be repayable without interest (but with a sufficient charge for administration) by yearly instalments over a period to be determined by the Loans Board. The period shall be estimated by the nature of the asset created by the expenditure of loan-money. On being repaid, such money shall be destroyed or cancelled.

NOTES.—Your Committee will appreciate the fact that such a scheme as is outlined above would result in the gradual extinction of New Zealand's national debt, and would enable us to pay our way as we go. It would involve the regulation by the State of prices of all necessaries. New Zealand's Statistical Department would render more extensive service, and the Currency Board would be chiefly concerned with the prevention of inflation or deflation—that is to say, it would aim at a constant equation between money and goods and services on offer.

The objection may be raised that such a money plan would do injury to private money-lenders by cheapening money. The reply to such objections is briefly: Service is the most valuable national asset. Money is a certificate of service and should be issued by the State not to provide interest for those who render no real service, but in payment for service, and to ensure that the holders may be able to command other service as long as the community continues to exist. National superannuation would in time replace private saving; instead of the security of the few under the interest system, there would be national security without the economic disadvantages of private hoarding.

In conclusion, may I commend to your Committee a perusal of the following books:—

(1) The last chapter of Falconer Larkworthy's "Ninety-one Years," entitled "A Message to Mankind."
(2) Professor Soddy's "Money versus Man."
(3) "The Evolution of Banking" (Howe).
(4) "The Midas Delusion" (Professor Irvine) especially the chapter entitled "Progress without Debt."
(5) Baxendale's pamphlet "The Defeat of Gold."
(6) "This Money Business is Everybody's Business," by A. Scott.
(7) "The Monopoly of Credit," by Major C. H. Douglas.

Your Committee will appreciate the undoubted fact that New Zealand's money is entirely her own business; too long have we been under the delusion that the New Zealand £1 is one pound sterling. Our bank-notes promise to pay £1 sterling, which promise has been repudiated (and rightly) ever since 1914. A currency note should contain no promise to pay—the payment has been made at the time of issue, or is to be made, by the service rendered or to be rendered.

The varying fortunes of our farmers have too long been controlled by our confusion of New Zealand money with sterling, and we have paid them not according to their service to New-Zealanders, but according to London's estimate of its value in London's money which is not New Zealand money. We are beginning to understand that New Zealand must not use English coins or any other external currency, and that New Zealand prices are entirely our own concern. Japan has learned this lesson, with the result that she can sell in foreign markets at low prices without victimizing her producers who are paid economic prices in Japanese currency. The New Zealand Labour party's "Guaranteed Prices" are, in the opinion of modern economists not only possible, but economically imperative.

Witness: Mr. W. GATENBY.

Mr. Gatenby: I need hardly say that it gives me great pleasure indeed to come here and attempt to offer to you the result of my wide reading on subjects of finance and the economic situation generally. In placing my scheme before you I would ask you to bear with me while I read what I have written for another purpose on the same subject, as it puts in a few words the general considerations which guided me in writing what I did to the Committee. The scheme now placed before you is that outlined by Professor Frederick Soddy, Master of Arts, Fellow of the Royal Society, Noble Laureate in Chemistry, 1921, and well known in Britain as one of Britain's foremost critics of British financial methods. I attach great importance to Professor Soddy's recommendations, because they are made in face of tremendous opposition from financial interests in the country where Professor Soddy is still earning his living. There is no doubt that Professor Soddy has thrown a lot of discretion to the winds in his attacks on the present monetary system. It is not generally understood that ever since the Bank of England was founded in the seventeenth century the provision of money, from being a royal prerogative, has passed under the control of banking institutions and, while our coins bear the King's head, more than 90 per cent. of our money is neither printed or minted; it is merely bank permission to write cheques for the sums which the banks profess to find, but which they do not possess in legal tender. This cheque money the banks lend at interest and the foundation of it is the goods and possessions of those who apply for loans, and not, as commonly supposed, the cash resources of the banks. When the State obtains bank advances the security is not the assets of the bank, but the collective capacity of the people to render service. When we say, therefore, that the money is provided by the bank we really mean that the bank has approved of the money being created as cheque money as a loan, bearing interest, as a debt to the banking organization. The serious question of repayment has never been answered, with the result that, instead of national money, we have a huge national debt. The fact that the money can never be repaid places the whole nation in perpetual bondage to the money system, and the absurd position is becoming or has become firmly established that we can create no new assets without incurring a further debt. Such, briefly, is the principal blemish of the British financial system—that we must owe for all we do, that money must not be provided by the sovereign authority to enable the people to exchange their goods and services, but must be an interest-bearing debt to a bank. Thus, it is not considered sound finance for the State to mint or print all the money necessary for national undertakings and to allow it to remain in perpetual circulation. Such finance would fail to recognize the banking principle that all new money must be a loan, bearing interest. It is only in times of crisis that the banking system admits the soundness of such money, as in 1914 when £200,000,000 worth of Treasury notes were printed to save the banks and Britain from financial ruin. Though this common-sense finance has been extolled by eminent bankers, including Falconer Larkworthy—seventy-one years a banker and for thirty years a director of the Bank of New Zealand—the power of the banking institutions has so far resisted all attacks on the debt system of money, though the Bank of England has seen the wisdom of reducing the bank-rate of interest, and Governments have compelled the holders of national debt to accept lower tribute. Any system of money reform that would deprive individuals of their rights would not be countenanced in a British community. For this reason we can give cordial and intelligent support to the scheme of Professor Soddy, who seeks to restore to the State the sovereign authority of all money creation not by taking from any one any money to which he has a right, but by putting State money in the place of State debt. This would be done gradually, and the banks would surrender national debt securities for national paper money. The banks would still carry on the business of money-lenders, but it would be State money acquired by the banks in the ordinary course of business. The banks would cease to control the destinies of the nation as they now do in expanding or contracting the money-supply, and booms and slumps would be avoided by planned money, just as we plan our industries and activities. The £20,000,000 which the New Zealand Government has recently "borrowed" (I put that word in inverted commas) at 5 per cent.——

Mr. Langstone: You are talking now of Treasury bills, are you? Although there is £20,000,000, they have been for short periods and then redeemed.

Mr. Gatenby: I think that the total amount would aggregate about £20,000,000, which the New Zealand Government has recently borrowed at 5 per cent. interest from the banks, should have been printed to remain in circulation as long as necessary for increasing exchanges of goods and services. As it is, the £20,000,000 is regarded as a temporary advance and is called floating debt. If it is repaid it will cease to function as money and the people of New Zealand will have to manage with £20,000,000 less money. Down will go values again, more retrenchment will be preached, and wages further reduced. Soddy's scheme is simplicity itself. The Currency Board or a Bureau of Statisticians or Treasury Department is set up to issue State money not as loans, but for value and services rendered. The people themselves by their industry and service would determine the volume of the currency. That, I think, is a true statement, that the volume of the money is not determined by the State or by any political organization, but by the people themselves, by their demand for money for their goods and services. The people themselves by their industry and service would determine the volume of the currency, but the calculation thereof would be done by expert statisticians, to ensure continuity and stability of exchange. This is not a proposal to abolish interest altogether; the abolition of interest on new money would be a natural consequence, but this would not prevent individuals from lending to one another money they have earned and saved. The same with the banks; the banks would still have the use of the people's savings and they would lend them as they do now lend bank credit, which we know to be the reserves and assets of the people. The national services would be paid for, not owed for, and whatever the people could physically accomplish with the natural and developed resources of the land they would be able financially to carry through without leaving to unborn generations impossible burdens of debt. If we can actually do anything, then we can provide the

certificates of service to keep us doing what we consider to be to our advantage and material welfare. Enlarging on that point, we are possessed with a scarcity complex, and we restrict our activities and our production of real wealth. They say the banks' resources are strained to the utmost, and they cannot find the money; but it is the resources of the country which provide the real wealth, and those resources are not bank permission to use their fictitious money. They are the ability and the industry of the people, and their power to render available for consumption the good things which this country can produce and for which we exchange other goods in other lands. Our most valuable asset is the service of our capable people, and money must be the result, not the cause, of their activities. Money must serve, not rule, the people. I was hoping that our honourable friend, Mr. Downie Stewart, would have been present, because I wish to remind him of a letter I sent him in which I quoted his own words. The honourable gentleman was reported in the Auckland papers when he returned from Canada to have said that the great thing is "to acquire such control over credit and currency and method of production and distribution as will re-establish a proper standard of living which should steadily improve and keep pace with our growing control over natural resources." There, I think, we have the key to all efforts that should be made and speedily made to improve our control over credit and currency. You will notice that in my scheme I have not used the word "credit" at any time. I think rather too much emphasis is placed on the word "credit," and, of course, according to Soddy's idea, all money should be in tangible form. The question that I think we need to ask ourselves and to find an answer for when we speak of credit is, when should any money that has been earned be destroyed? I have not been able to find an answer. If you have once earned money, that money should remain in perpetual circulation as long as the community continues to exist. The only excuse for the destruction of money would be a reduction in the population and in their actual wealth, their need to exchange goods, so that I think this power of destruction of money which the banks have is greatly the cause of our troubles to-day. In support of that, I would refer to a book by a banker, Dr. Walter Leaf, who wrote a book on banking in 1926, and he wrote these words, "It is perhaps permissible to say with due discretion that the great restriction of credit and fall in prices which took place in 1920–1922 was brought about in this manner. The banks were approached and received intimation that the Government had adopted a policy of deflation." (I do not know whether Dr. Leaf was correct in that or whether the policy of deflation was really begun by the banks. Most critics of the banks affirm that the deflationary policy was actually initiated by the banks. Dr. Leaf—and I think we must give him credit for trying to speak the truth—states that the deflation was decided upon by the Government.)

Captain Rushworth: Is not Dr. Leaf writing from the point of view of the trading banks of Great Britain?

Mr. Gatenby: Of the banks?

Captain Rushworth: Yes, I think so. The whole banking policy; it is the provision of money.

Mr. Gatenby: I would point out that the difference between the Bank of England and the Government is the difference between Tweedledum and Tweedledee.

Captain Rushworth: Then it may be that the Bank of England is not to blame in conjunction with the British Government.

Mr. Gatenby: I will read what he says further. He says,—

> The banks were invited to support this policy by curtailing their credit facilities. It was not in their power suddenly to cancel advances nor did they consider themselves justified in refusing credit which appeared to them to be necessary for the maintenance of trade. There was, in fact, little that they could do. The Government, however, took the matter in hand. They deflated rapidly by their large repayments of public debt. The effect was immediate; prices dropped, every one rushed to realize assets, the value of securities pledged to the banks fell, the banks put forth every effort to relieve the strain upon their customers, and the amount of frozen credits which they were carrying became a matter of common talk. And yet, such was the irony of the situation, the banks were at the same time accused publicly of having brought about the slump by a violent curtailment of credit. The deflation of the currency was assisted by the large budgetary surplus of the years 1920, 1921, 1923. Together with the economies contained in the Budget, the floating debt was reduced by over £453,000,000.

That is to say, that approximately £500,000,000 went out of existence and a ding-dong slump began.

> This reduction showed itself in the large ultimate reduction of the deposits of the banks, and this, in turn, involved a corresponding decrease in the power of the banks to give advances. The banks were but the last link in the chain by which the effects of the Government policy were brought to the banking accounts of the traders. It was the policy of the Government, and the banks must neither be praised nor blamed for it.

These words of Dr. Leaf's, being those of a prominent banker, should lead us to realize the danger of budgetary surpluses when they result in repayment of public debt. A progressive community cannot carry on without more and more money, and any governmental action which results in the destruction of money through repayment of loans should be carefully considered in its likely effects on industry and values of property, including services. To decrease the volume of money to which a community has become accustomed must necessarily result in the destruction of values and the curtailment of services, which, of course, means the initiation of a huge amount of unemployment. It would seem also that under the overdraft system of finance the only way in which a progressive and expanding community can make full use of its capable citizens is to increase its public indebtedness. Surely that stands to reason. To decrease it is to bring the evils of deflation into full blast. It is necessary, also, to bear in mind the words of Mr. Montague Norman, who said, "I am quite convinced that the principles of banking are dynamic and not static, and will have to be developed and frequently modified." There is an admission by the king of bankers that banking must not remain still; it must progress with scientific development. These words from the Governor of the Bank of England remind us that banking, like civilization, is an evolution, and that it is necessary for banking institutions to give efficient service to the community; to reflect rather than to control industry, to encourage lawful

enterprise, to discourage financial speculation, to grant advances not only on sound securities, but also for nationally sound purposes.

Mr. Clinkard: You endorse that, do you?

Mr. Gatenby: I do; to refrain from entering into competition with their customers in the purchase of commodities or real properties and, in the words of the Right Hon. Reginald McKenna, to remember that they who control the credit of the nation direct the policy of Governments and hold in their hands the destinies of people. While it is rightly the duty of the banking system to make profits, it is also necessary that it should not remain static in a changing world, and that monetary science should not lag behind in the increasingly rapid march of civilization. Should there be any necessity to make any changes in the financial system, the demand for them should come from within the system itself and from a realization of the national need for such changes. I would like in amplification of that to refer to the present monetary position in New Zealand as disclosed by a banker. According to a report by the Wellington correspondent of the *Auckland Star*, the banks owe to their depositors as much as they have advanced to the people, including the State. Nothing could show more clearly the absurdity of maintaining that there is plenty of money in the banks. The position is that the banks have allowed the people and the Government to write cheques to the amount of £60,000,000 and the people have deposited these cheques. How the banks are to be paid £60,000,000 with interest, and how the depositors could withdraw their deposits, is a problem which perhaps only a war would force us to face. Such a problem arose in England in 1914 when the people rushed to the banks, including the Bank of England. The problem was effectively solved by the Treasury, which printed so many notes and declared them to be legal tender. "There was no further anxiety about obtaining currency; a new currency was established by the Treasury; it was a war loan free of interest for an indefinite period, and as such was highly profitable to the Government." (Dr. W. Leaf.) This method of finance was in reality merely the exercise of the sovereign right to provide national money, and an admission that the State had neglected to provide sufficient currency. Falconer Larkworthy, in his book "Ninety-one Years," wrote, "Britain has a perfect currency in its Treasury notes. I would abolish the bank rate and put nothing in its place." It would seem that New Zealand might do worse than print, say, £60,000,000 of State notes and issue them to the banks in return for national debt securities. The effect would be to replace bank debt money by national money which would not be subject to cancellation. Deflation would be prevented and the banks would be forbidden under suitable legislation from lending fictitious money by means of which they are now able to inflate the currency and raise values of all property. In other words, the banks would have to obtain in their possession State money before they could lend it. In time the whole of the national debt would resolve itself into national money, and public works would be financed by State money free of interest to remain in circulation as long as the estimated life of the new assets. Thus a local body would pay off a drainage loan in as many years as the drainage would last, say, at 2 per cent. per annum. Most local-body loans are for too short a period, and the interest added more than doubles the repayment. An illuminating illustration of the immense burden created by financing public works by so-called bank loans is provided by the New South Wales railways, for which a loan of £16,000,000 was raised in 1888. That loan fell due in 1924, and then no less than £25,907,726 had been paid in interest, and the new loan had to be reissued at 5 per cent. in 1924 to meet the principal—that is to say, they were not able to repay the £16,000,000, although they had paid nearly £25,000,000 in interest, interest being increased by 1½ per cent; the original rate being 3½ per cent. When the loan again falls due in 1955 New South Wales will have paid in interest just about £50,000,000. Had the railways been financed by State money, no interest would have been paid, and the State would have a free asset and millions of profits for further improvements. I think I have indicated sufficient of the faults of our financial system without laying too much stress on them. The great blemish of our system is that the money is not tangible money; it is created by the banks for short periods and they are exceedingly jumpy about it being repaid, and, in consequence, they insist on repayment before the people have been able to consume the assets which were created by the advances. I would like to say that the opinions I have formed have been from reading works of men who have nothing to gain by the recommendations they make. I would particularly stress the work of Falconer Larkworthy's, "Ninety-one Years," and I understand you have had a dissertation on this particular book. I should just like to say that Falconer Larkworthy at the age of something over eighty appeared before a Monetary Committee and said, "I hope you will believe that I have nothing to gain by the recommendations I am now about to make." I follow that up by a most recent book, one which I am sure you have not had the opportunity of reading yet, as there are only a thousand copies printed, and this is the work of Professor R. F. Irvine, sometime Professor of Economics, Sydney University; and he begins his book almost in the same way as Falconer Larkworthy. He states, "I am writing now to please a few old and new friends and also because I can no longer remain silent in the presence of world-wide misery, which seems to be wholly unnecessary." When you read the book through you cannot help but agree that the conclusions he has arrived at are those of an exceedingly highly cultured scholar and one who has given his opinions without hope of any further reward in this world, and because he believes they are the only solution of our difficulties. I would like to read one or two extracts to show the quality of the man. I would particularly recommend to your perusal the chapter marked "Progress without Debt," which is really the enunciation of the principle that new money should be created by the State only, and that it should not bear interest when it is devoted to a public service. There is no intention to interfere with private lending or say that new money should be given to individuals for nothing. They would have to earn it. As Falconer Larkworthy says, 100 per cent. service for the money.

Mr. Langstone: They do that, anyway. Money would not be worth anything unless they did.

Mr. Gatenby: Exactly. I am sure you must have heard a great deal of what I have said before, but as you have not perhaps had the opportunity of reading this particular book I should like to give

you an idea of the quality of the man. Regarding the extraordinary delusion that we produce in order to save, he said :—

> Clearly there must be behind these irrationalities in the system some corresponding irrationality and contrary beliefs and doctrines. Men do not behave insanely unless they are really mad, or unless they are the unconscious victims of some great delusion which they have held so long that it seems almost wicked to question it, and there is such a delusion or rather a whole set of delusions. From Adam Smith onwards, economists and experts have encouraged the view that the national or community economy differs in no essential from an individual business. They say that the individuals might grow rich by stinting their consumption and saving, and they thought the same principle of careful parsimony would be equally true of the community. Hence the extraordinary delusion that the object of increasing production is not that we may use and enjoy the good things produced, but that we may save them or refrain from using them, and yet the business people who subscribe to this sophism are continually crying out for markets—that is, for consumers able to buy their goods and not too parsimonious to consume them. Thus in one breath they proclaim the virtue of refraining from consumption and the necessity of speeding up in consumption in order that they may sell the enormous quantities of goods their power plants can turn out. That such ideas could find lodgment in intelligent minds is due first to the fact that so few of us see beyond the horizon of our individual businesses, and, second, to the subtlety of the economists, who translated the peasant virtues into immutable principles. "Producers and consumers," they said, "are one and the same. What they receive as producers they use to buy the goods they require as consumers. Productions pay for productions and so there can never be overproduction or gluts. The distribution of purchasing-power during the course of production is automatic. Supply and demand will see to this, and provide a fund which, at current prices, is sufficient to buy all that is produced." That is what the orthodox economists say. The economists also held, and they do still, that money is a mere convenience, and that the system is essentially one of barter. Goods against goods. Service against service. It is all beautifully simple.

I would like to refer to his treatment of a much-disputed statement made by money reformers. Bankers assert that they do not lend any money except what is lent to them first.

Mr. Langstone.] The Right Hon. Reginald McKenna does not say that, does he ?—No ; but bankers in New Zealand do.

Captain Rushworth.] They have changed their statement recently I believe ?—Is there any need to labour that. I think the Committee will appreciate a simple explanation of the matter. When you think of the £60,000,000 that the banks of New Zealand claim to have advanced and the £60,000,000 which they claim as deposits, I think that the members of the Committee will appreciate the fact that those deposits are the result of the advances. The banks never had £60,000,000, of course, to advance. Irvine proves quite conclusively by actual figures that the deposits are the result of the advances, and that is why we can quite confidently say that the £60,000,000 deposits in the banks are the result of the advances first. The advance creates the deposit. I would like to refer to the procrustean idea which has grown up as a result of this banking policy of restricting money and providing only sufficient for the purpose of production. I am a member of the Douglas Social Credit Association of Auckland, but I do not think that Major Douglas himself would state that his particular scheme was the only way out, but I do subscribe to his statement that the bank system of overdraft money never provides sufficient for the people to purchase all the goods that they produce. I think the slightest consideration will prove that Douglas's statement is right. What does a banker say to his customer ? "How are you doing ? What have you made ? " And if the business is not producing more money than the banker provides for the purpose of the business, then he is a numskull and he must get out. So, if every business is the same, then every business is expected to produce more money than is provided by the only organization allowed to create money, which, of course, is impossible. And that is all that Douglas maintains, that the money which is provided by the banks for production does not ensure the consumption of goods, and any scheme of monetary reform must provide for consumption. You gentlemen know that production is only for that purpose, and that only in consumption is the purpose of production fulfilled. It is surprising how long it has taken us to find that out, although it was written by John Ruskin in 1862 in "Unto This Last," "Consumption absolute is the end, crown, and perfection of production, and wise consumption is a far more difficult art than wise production."

Mr. Langstone.] Did not Ricardo put it forward in his "Iron Law of Wages" one hundred and fifty years ago ?—And yet we have not learnt it yet. "The wealth of a nation is to be estimated only by what it consumes." All our ancestors, I remember my people anyhow, they said, "You must not spend that." When I was a boy I used to think what a terrible thing it was to have to put money away when there was a very fine top in the shop window that I particularly wanted, and how much more useful that would be to me than money left lying in the box. We have not yet learnt that the object of the money system is to enable us to consume. Principally to enable us to consume, almost entirely, because, if we do not consume, of course we die. "Consumption is life," says Ruskin. I would just like to read one extract from Soddy's book, which I have made as a note that the banking system provides money by fits and starts. Soddy says that we do not live by fits and starts, and that the idea was once put into practice by an Irishman with his pig. He fed him by fits and starts in order to get streaky bacon, but the pig died. I referred to the procrustean idea. Procrustus, you will remember, in Greek mythology, was a gentleman who waylaid travellers and induced them to spend the night with him. He gave them a very good dinner and then put them to bed, but he was careful to put each traveller in an unsuitable bed as regards size. A short man he would put in a long bed and a tall man in a short bed. He would amputate the limbs of the tall man to make him fit the short bed and he would stretch the limbs of the short man to make him fit the long bed. That is our money system. They ask us to make our goods fit the money, instead of our money to fit the goods, or, to use the words of Falconer Larkworthy, they refuse to believe that money is for man and not man for money.

I would like to ask you if you know the first reason why that £200,000,000 of Treasury notes was issued in Britain ?—The people of Britain, when the war broke out, had a sort of idea that they might lose everything in the war and they had better secure the gold, and as their paper money was then convertible into gold they rushed the banks to get the gold. The strain was too great on the

banks, and they immediately appealed to the Government to protect them, with the result that the banks closed down for four days, during which time two hundred million notes were printed, and they were declared legal tender, and that has been the position ever since, that paper money has been legal tender.

I gathered, from information that was obtainable, that when the war broke out the banks in England had discounted a lot of German bills. When the war broke out, naturally those bills that were discounted, awaiting the date of maturity, were cancelled out of existence. It was a bad cheque. And that £200,000,000 was brought into operation to make good the loss that the banks had made in discounting German bills and became the basis of all the future war loans that were wanted from time to time. That is from my reading of the position ?—Yes. And the result was that the banks were saved.

It was purely a State-created issue. Whether it was for war or other purposes the result was the same ?—To save the banks from default.

Yes. I notice in your statement you mention about the gold. I think it is in paragraph 6, "All gold shall be sold to the State for State notes." How have the banks bought gold ? Have they bought gold with notes ?—Yes.

Yes. That is very well explained by Falconer Larkworthy, who established the Bank of New Zealand—or, rather, was one of the founders thereof—and it is rather interesting to recall how he got the gold from the miners of Otago. Being a new bank, the Bank of New Zealand had to acquire notes before it could commence business. The notes had not arrived, and a lot of gold had been produced at that time. The other banks trading in New Zealand—the Oriental Bank and the Union Bank, and I think the Bank of New South Wales—were also short of notes, so that there was great competition as to who was to get the gold. Falconer Larkworthy made his alley good, as the saying is, by rising to the emergency. He went round to all the stationer's shops to try and get some paper suitable for printing bank-notes, but he was unable to get real bank-note paper, and he printed his notes on the best note-paper he could get. He spent all one Sunday signing them, and he went triumphantly to the miners and got their gold for that paper. The sequel is also told by him, how the other banks were so jealous that they immediately cast reflections and doubts as to the genuineness of these notes, because they were signed on a Sunday. However, Falconer Larkworthy was not to be beaten. He got hold of the Gold Commissioner, and, filling his bank bag with about eight thousand sovereigns, he went back to the goldfield and offered to take all the notes back, but only one man changed a note for one sovereign.

Captain Rushworth.] Was he not actually arrested by the police ?—Not actually arrested ; but he placed himself under the supervision of the police.

Mr. Langstone.] I want to follow on that question. Gold in the market of the world is evidently a valuable commodity according to the market price to-day ?—Yes. A very valuable commodity according to the market price to-day.

And should the State acquire the gold from the banks by giving them notes for it, do you think it would be sound business to send the gold away and sell it at the £6 13s. per ounce ?—I think it would be a suitable proposition for New Zealand to do that.

And reduce our debt by that amount overseas ?—Exactly. Or invest it in British securities which would yield income for the purpose of meeting our interest in London.

No British security would yield as big an income as you are paying interest on your debt to-day ?—At the enhanced price of gold to-day they would get a very handsome return in British money, would they not ?

Yes. But they would reduce their debt by the same enhancement of the value of gold ?—Yes. They could do that if the British people would take it.

That is so. If they were willing, and if we reduced our debt by £8,000,000 (we will say that £5,000,000 was worth nearly £8,000,000 which it would be in London) do you think it is right that we would increase our asset in New Zealand by that amount ?—That is a question that requires thought. It is perhaps a little trap for the unwary. The paying-off of national debt is, under the present system, a reduction in money.

Paying it off in England ?—Yes. Paying it off in England. It should render more goods available for our surpluses.

The point I am trying to establish is : If we have got a debt of, say, £68,000,000 and we reduce it by £8,000,000, we increase out own interest in our asset by £8,000,000 do we not ?—We increase our own interest in that asset. But is a debt an asset ?

Put it another way. If you had a house with a mortgage on it for £500, and I am your mortgagee ; the house is worth £1,000 and every now and again you pay me £50 off. As you reduce my indebtedness you increase your own asset do you not ?—Exactly.

Would not that happen with regard to sending the gold overseas ?—Yes. It should increase our assets.

And would that be a good foundation for the issue of the necessary money that we want here ?—Certainly. By sending that the State could take its choice. They could either reduce the national debt or issue fresh money (or perhaps both).

There is a good deal of misunderstanding throughout the country with regard to our internal trade and our external trade. I notice that you are in favour of an internal price-level ?—Certainly.

If our internal price-level is, say, 100 per cent. higher than the external price-level ?—It does not really matter what our internal price-level is.

Yes. Owing to the increases required by money put into operation to sustain the price-level, you would get increased production in the country here ?—Certainly.

Which would more than offset any loss of imports coming into New Zealand owing to the depression of the currency ?—I should say that statement is very sound.

But any credit that we have got overseas in London, which is the trading centre of the world, will only buy the amount of goods that we have got the credit there to buy?—That is, in their currency.

In their currency. We will say it is £100. It would only buy £100 of British goods, seeing that we have paid the farmer for his exports £200, we have given him £200 of New Zealand currency. That is, £100 overseas buys £100 worth of goods overseas. When those goods come into New Zealand and you regulate the internal price-level to the £200, have you not sold your profit?—Yes. I think so.

I mean that the price-level in New Zealand——?—Has nothing to do with the price-level in any other country. I maintain that.

Yes?—That is perfectly sound.

There is a relationship between our goods and goods abroad?—That is so. It is for them to find out what our price-level is, and it does not matter twopence whether our exchange is 200 per cent. In my opinion it does not matter at all. It simply means that we say that our wages and our prices are on this level and Britain has a different level, and she had to find out if she wants to buy our goods in New Zealand, she has to estimate what she will give for our currency to do that.

The disadvantage of an exchange-rate operating the way our present one does is that you increase the price-level without the necessary extra currency, or money, to sustain that price-level?—Yes. I meant, in my remarks, to refer to the manner in which New Zealand has raised the exchange, that if she had made an estimate of the extra money required and had created that money, then imports would have gone on quite as freely as before, because the importers would have had the extra money allowed to them.

And there would have been no hardship or any dislocation?—There would have been no freezing of money in London at all.

And it would not have been so much an exchange-rate as it would have been a kind of an internal revenue tax?—An increase of the currency.

Yes?—It seems to me absurd in the highest degree for us to depreciate our currency without providing the extra currency.

The cause of our trouble is really inherent in the system. I mean to say, production for profit?—I think so. Production for profit instead of for use.

I want to put this to you—I want to put a specified case, to see if we can find out just where the missing link is: We will assume that we are going to build the Auckland Harbour Bridge and it is going to cost £4,000,000, and it is going to be spent at the rate of £1,000,000 a year—that is, roughly, £20,000 per week. Of that £20,000 per week £10,000 goes in wages and supervision charges, and the other £10,000 in materials, &c. So that is £20,000 a week that goes on for four years. At the end of four years the bridge is completed. We have got now an asset that we formerly did not have, fully completed, but because it is completed the spending in wages and incomes are reduced by £20,000?—That is so under our present system.

That is so. But the owners, the proprietors of the bridge, the company, or whichever it is, have to find, say, £200,000 a year—that is, interest on £4,000,000. So they have to collect about £4,000 a week. So we come to this position, where there is £20,000 less in wages and other things in circulation in the community and there is an additional charge of £4,000 per week?—Under our system.

Yes. Under our system. And we must have some mechanism in our money system that is going to fill up that void and see that it does not take place?—Bridge the gap?

Bridge the gap; yes. That is really what they are trying to get at is it not? In all of our capital expenditure, then, whether in railways, roads, or factories, or anything else, that same thing has taken place?—They are setting an impossible task. That is what Douglas maintains.

Yes. But he does not put it quite that way, does he?—No, not quite. He would say that bridge has not been saved, nothing is saved, not even the materials for that bridge. It is entirely a new asset and it would be quite justifiable for new money to be created for it, to be repaid at the rate at which the bridge deteriorates. If it lasted one hundred years you would pay it back at 1 per cent. per annum.

But why pay back? Does depreciation go ahead faster than appreciation?—That is the point. Now, if appreciation is going on at a greater rate and you allow for it in your depreciation——

You must have more money?—And appreciation has, in the main, always gone ahead of any depreciation that has taken place.

It is only a matter of accountancy?—You could say you were paying off the bridge because the money would be used for other purposes. It would be for the State to say whether that money should be cancelled or put to some other use.

Is it possible, really physically possible, I mean, to put away sinking funds? I mean, there is an idea that we can save, that we can lay by for a rainy day, and all that sort of thing?—It is not physically possible to save even now for a year of our subsistence. We cannot save for our old age, physically.

That is one of the popular fallacies?—Quite a fallacy, that financial saving has any counterpart in actuality.

We live from day to day and we only consume current things that are in existence?—That is so.

We will assume that a bank makes £1,000,000 according to its business turnover, and they pay out £500,000 in dividends. What happens to the other £500,000?—It is wasted. It means that it is not monetized. It means that that wealth that should be monetized and should be circulating in the community ceases to function, and that again causes another void similar to the building of the bridge.

Yes. And all these causes, working the way in which they do, have landed the world in the position it is in to-day?—I agree with you entirely.

A lot of these questions that are cropping up we think are new. We talk of not sufficient money in circulation, but Flaurschiem pointed out forty years ago when he was in this country, Karl Marx pointed out eighty years ago, Ricardo pointed out one hundred and fifty years ago, and various others, that when it comes to saving, saving in our popular sense is all right while some save and others do not or cannot ?—Yes. If we all saved, of course, we should all die.

Blatchford pointed out in his *Merry England* that national saving was national poverty. So that the point that Professor Irvine points out, is this: That while we look at things from one little point of view and ignore the general structure we will always come to wrong conclusions ?—Exactly.

We have to look at the nation as a whole, and what is beneficial for the nation is not always beneficial for the individual ?—Exactly.

It could be quite beneficial for the individual temporarily and not beneficial for the nation ?—It stands to reason that if people save and hoard money of course they are preventing consumption. It is a crime, really, a national crime, to prevent people from consuming the goods they produce.

Mr. Clinkard.] You say that your suggestion is that there should be an increased amount of currency issued by the State. I think that is the underlying principle ?—Not an increased amount of money, but all money should be in tangible form, so that we can take a national account of our money, just as we take account of our production, our population—everything. The money would then be either bank-note or other State note. I do not like using the word "bank-note," because I think the time will come when they will be State notes.

What would be your definition of money ?—My definition of money ?

You say it should be in a tangible form. What would that form be ?—My definition of money, I think, is explained as a certificate of service.

But you must have it in some form by which it could be made money of account. Otherwise, how are you going to keep that account ?—I can give you the actual form of the money, as a certificate: "This is to certify that the holder is entitled to goods or services to the value of £1."

Well, that is a pound note ?—It is a pound note. A simpler form of New Zealand currency issued by the issuing authority would be: "This note is legal tender for the sum of £1."

If all money were represented by some tangible certificate like that, cancellation by a private person would be, of course, destroying his own money, would it not ?—Yes.

What I was trying to find was: What form you propose it should take ?—Paper for the larger sums.

You say the exact amount of the issue should be left to experts. I suppose you would take it that the increase or decrease would greatly disturb the price-level ?—No. I would not. No increase of money would disturb the price-level, because the increase would be justified by increased goods and services.

It does not ?—It should not be allowed to, because an increase of money should be provided only to allow increases in exchanges of goods and services. We will say that our population, to take a simple example, increased from five hundred to a thousand, surely you would admit that it would be necessary to have double the quantity of money for a thousand to live, than five hundred ?

That is not my point. My point is: Assuming that you, over a short period, materially increased the amount of your currency, would you not immediately increase the price of your goods ?—Not necessarily; it would take a very foolish increase of the money to do that.

Has it not always proven so ?—Well, of course, we have the practice that our money is increased behind closed doors, as the result of interviews between customers and their bankers, for all sorts of purposes not connected with production.

My point is that if the currency is materially increased will it not increase prices ?—Not if it were mathematically increased after an examination by the Statistician into the position of goods available and the services of the people required to be used. Perhaps I should explain it this way: The Government wished to put twenty thousand of those unemployed men into profitable employment and the money those people were using was only sufficient to allow them to exchange their existing goods and services, and those twenty thousand were going to be employed on the harbour bridge which would be a new asset, so there would not be anything wrong in creating £20,000 to be used for the wages of those men.

I am not suggesting there would be anything wrong in increasing the amount of currency. My point is, that there are suggestions that all we have to do is to increase our currency and everything will be right ?—That is not right.

You cited the fact of Britain's issue of £200,000,000 in "Bradbury's". She issued far more than that afterwards ?—Yes.

What was the effect on prices in Great Britain while that was going on ?—Of course, the creation of money during the war was so abnormal: it went up to £6,000,000,000. That was new money created for the war.

New money ?—Money that had never been issued before.

That is not according to Soddy ?—Soddy mentions that the national debt of England was increased by £6,000,000,000.

But that does not necessarily mean that that was increasing the money ?—How can you increase the national debt without increasing the money issued for the debt ?

Because the same money may be issued several times ?—I do not think the same person could lend the same money for different uses at the same time.

Here is what took place: In 1913 prices were established at 100—I am taking this from page 46 of Sir Josiah Stamp's work "The Financial Outcome of the Country"—in 1915 prices went up to 138; in 1917 to 228; in 1918 to 232; and in 1919 to 280. Now, it is strange, but it keeps almost pace with the issue of notes. In 1913, 100 on each side; in 1915, 138 prices and 126 in notes; in 1917, 228 prices,

174 notes; in 1918, prices 232, notes 222; in 1919, prices 280, notes 245; and in 1920 prices went up to 325. Now, clearly, those rises were owing to the increased amount of currency which was being injected into the financial structure?—Yes.

If we start to do something on the same scale in this country, would not the same thing result?—We must not do it on the same scale.

I am glad you say that?—We must not do it on the same scale; we must do it mathematically. We have to remember that that currency you are referring to was issued during the war when there was a great deal of production going on, especially in regard to ammunition——

Largely to supply goods and services, and you say yourself that you can use up your resources this year without being poorer; you told Mr. Langstone that?—You must consume the goods, otherwise it is no use producing them.

You must not deplete your goods?—You must save seed, of course. The amount of seed required is infinitesimal.

Captain Rushworth.] May we have the completion of that answer about ammunition?—There were a lot of goods produced that were blown away during the war, blown to atoms, and the money still remained in existence with no assets; the money was not cancelled.

Mr. Clinkard.] I think they were effectively consumed?—No, they were destroyed. I suppose you would say they were consumed, but the consumption of those goods did not give rise to further employment.

Though indirectly it did give rise?—Yes, as long as the war lasted.

Take the French and their increase in currency after the war. In 1913 their prices were 100 on each side—*i.e.*, either prices or notes, and they started to inflate. Their first injection was 26 per cent.—I think that was right?—The franc fell to 2d.

Their prices went up to 350 in 1918; 422 in 1919; 587 in 1920; 434 in 1921; 507 in 1924; 632 in 1925; 836 in 1926; and in 1927 they devalued to two-tenths?—They decided to stabilize?

Yes. They established the gold content equal to 2d. where before the war it was 10d. Was that not through the injection of increased currency into the economic structure?—There is no doubt that production of goods did not keep pace in that case with the issue of money.

I do not know whether France was progressing as far as goods were concerned, but it left her in a position that she was able to lend in the markets of the world at less price than other countries?—She took measures to see that her people would be occupied and paid them and she gave them increased wages at the same time.

How about the ruination of the wages-man in inflation? The first ones to suffer in the case of inflation are the wages-men?—I would not say that.

Absolutely, all those on a fixed wage. As soon as you inflate you put up the price and there is a lag between the wages which are being paid and the time when wages are raised?—I grant you that.

What did the German working-man say to the Commission that went there in connection with the re-establishment of the German affairs? When they were asked what they could do for the German workmen, the workmen said, "Give us a stable currency"?—Exactly, which we have not.

A stable currency is what we require?—That is the idea of Soddy's recommendations.

If you are going to have a fluctuating currency the difficulty is on what are you going to base it. It has to have the established value for the money of account?—If you do not have that, you must be subject to booms and slumps, ups and downs, and the business of the country will be carried on in fits and starts and you will not have stable conditions of industry. The great merit of Soddy's recommendations is that he wants the money to be carefully watched.

Is Britain not attempting to do that at the present time?—I dare say. Britain is making progress in money matters—strangely late in the day, but she is making more progress than we are.

Are you aware that immediately after the war the financial advisers of Great Britain said that they must get down to a stabilized currency between the different nations of the world?—But she made the great mistake of saying that she must make the pound look the dollar in the face, which really meant reducing England's money in volume.

I do not think any one with any knowledge of the subject would suggest that that was done from malice?—I do not hold with those who throw bricks at bankers for consciously blundering the world into misery, but I do agree with those who maintain that the banking system has, from its initiation, plunged the world into misery.

Can you suggest any other body of men who would have been less liable to human error?—Yes, I think so, if the Government had in its counsel a few intelligent business men instead of the professional economists who are the creatures generally of bankers.

I do not think that is so?—We have to remember that the banking system is a private monopoly and is carried on purely for the profit of those connected with the banks. The welfare of the nation is of secondary importance, and that is true of any business. No man carries on his business for the welfare of the nation, and if you make banking a business, you make the life-blood of society into a business, then the nation will be at the mercy of private interests.

Do you suggest that we should do away with our present banking system?—Not do away with our banks, but put the banking system in order. I do not know whether you know that the only legislative authority that the banks have is to carry on the business of banking. Now, the word "banking" is not defined in any Act of Parliament, and there is no definition of what banking is. I say that is a blot on our laws that we have not defined what banking is. If banking means to create money, then the banker is rightly doing what he is doing: he has quietly usurped the functions of the State.

In so doing it has only been delegated by the State for the time being?—Not delegated; it is because of the neglect of the State. I do not say the banker is wrong, but it is the neglect of the State, which is the banker's great opportunity.

Has not the position in New Zealand been that the State, for the time being, gives a charter to a bank to issue notes to the amount of the security behind those notes and charges the banks at the present time 4½ per cent. on the notes they issue ?—That is right.

And that can be terminated at any time that the State desires ?—It used to be only 15s. per cent. at one time, but it has been increased to 4½ per cent.

My point is : Can it be said that the banks are monopolies ? In that respect there are six of them in New Zealand with the same rights ?—They are all associated.

You will find that in common with all sorts of merchants, even the milkmen ?—Exactly. I do not think there is anything wrong in association as long as it is for the welfare of the country.

Will you agree that the institution of the central bank is a step forward that we have taken recently ?—I agree that the central bank as established by the Legislature is an advance on the present banking system.

Thank you ?—But the overdraft system and the right of the banks to create money has not been interfered with, and in that respect it has not progressed far enough.

You think there is still room for evolution ?—Exactly ; and it will come undoubtedly. The right to create money must always be a sovereign right.

You would not agree with me that the issue of a cheque is not a creation of money, but a transfer of the drawer's right to some other person ?—No, I cannot agree with that. When a banker authorizes you to write a cheque for £1,000 he is authorizing you to go and raid society for £1,000 worth of goods.

To raid society ?—To raid society. You are not giving up anything of yours. You are simply pledging your security to the bank, because you have spent your money wisely and well and the bank knows that you have something of a lasting nature and that you are a fit and proper person to be allowed to spend another £1,000.

They entrust you with that which is being entrusted to them ?—You have spent your money in property and they say you are a fit and proper person to go and buy something else.

Supposing we put it into three persons : A, B, and C. B is a banker, A deposits £1,000 with the bank, the banker lends C the right to make use of that money. The bank is responsible to A and has to look to C to see that he has sufficient security to be sure that, if necessary, he can call on that security to reimburse him in order to reimburse A. Is that the position ?—Yes.

Then, having given me the right to that £1,000, which, by the way, I could lift in coin—— ?—You could for a small sum.

I could raise it for £1,000, if necessary ?—But not for £60,000.

That is a different thing. In practice it is known that it takes about 10 per cent. of till money to operate the banking system ?—That is where the banker scores.

Does he score ?—Yes.

He pays A for the use of the deposit. He buys money from A to sell to C and they must make a profit between to keep them going ?—You are dealing with only one aspect of banking. You are dealing with the savings-bank aspect of banking.

No ; I am dealing with a commercial bank ?—A commercial bank, a trading bank, ay of course, lend only the money which it happens to have procured from some of its depositors, but it would be doing very poor business.

He does not lend the money he buys, but the credits ?—It is the same thing.

Then, if it is the same thing, it means that they have £50,000,000 in cash, but they need not have £50,000,000 in credits ?—It is because people do not cash cheques that the banks are able to lend more than their cash.

Yes ?—And that is the banker's opportunity, because the State has neglected its duty.

And you suggest that the volume of business that is done by banks should be done by ordinary cash ?—I say this : That the volume of business that is done by banks should be represented by actual cash, and they should not have the right to create any additional money.

The cheque had to fight its way into use and displace gold ?—The old bankers, of course, were the custodians of the people's money. They held the gold and they issued notes to the depositors for the actual gold they held, and that was a great convenience for the depositors. Having these certificates of money, they were able to pass them around amongst the people with whom they were dealing instead of carrying the gold, and it was left to the bankers to find out that this was a fine system. They then evolved the cheque system and found that it was safe to keep about £1 in the till for every £10 that they authorized cheques to be written for.

Are you aware of this : That at the time of the bank failures in America, by law the thirty thousand banks that were operating were compelled to keep 25 per cent. in currency, and, notwithstanding that, they failed because they were not able to retain confidence ?—I would not say they failed because of that.

Perhaps that is an inference ?—If they failed, it would be because they lent to people who were not able to pay them back.

Quite so ; a banker, when he lends, has to be sure that the man he lends to is able to repay the money ?—It is a system of mutual indebtedness. The bank owes the depositor and the man that goes to the bank for accommodation must in due time repay the bank.

Like a storekeeper, if he gives credit to all and sundry who are unable or unwilling to pay him, the result is that he is unable to pay his merchant ?—Yes.

There is one other item. You suggest that it is not advantageous to the country to save ; that we should consume ?—I think that the State should be the only saver ; but saving only sufficient to ensure continuity of production.

Would you admit that saving is necessary in order that society shall progress ?—To a degree only.

The degree would be debatable ?—Yes, it would be debatable.

What is the position in Russia? Is not Russia at the present time concentrating on producing saleable or exportable goods, rather than consumable goods? She is practically enforcing economy on her people by restricting the supply of consumable goods in order that she may increase the supply of capital goods for future production. Is that not so?—It may be, but if she is exporting, it is inconceivable that she is not also importing.

Her object is to deny her people to-day in order that she may supply them more abundantly next year and the year after?—You mean that she is starving her people?

Not as far as that, but she is denying them somewhat the same as a thrifty community does in denying themselves certain goods they can consume in order that they may have greater abundance in years to come. Would you say that that was unnecessary?—I should certainly deprecate saving so as to have a glut in years to come.

That is going from one extreme to the other. My point is a simple one: Do you consider it is necessary, in some form or other, that each year a certain amount of saving should be made in order that society may progress in consumption and production in succeeding years?—I will answer that by saying that the only saving that is necessary for the continuity of the community is of seed and no more.

Neither buildings, machinery, or things like that?—Buildings and machinery are what you call capital outlay.

How is that to be done without a certain amount of personal self-denial by those who otherwise might consume?—Take the harbour bridge as an instance. That harbour bridge should have been built long ago. We have had the unemployed to use for the building of it, but no one has saved the materials for it.

So it is not yet built?—But we could get to work on it immediately. We could put the men to work on it and all that we require to save to build that harbour bridge is the food, clothing, and shelter necessary.

What about the material?—We do not need to save material. We should bring it into existence with our present and future work. Concrete, for instance, can be prepared at the cement-works. It is all there waiting to be tapped, but we refuse to avail ourselves of our natural resources because of financial ineptitude, and we say, "Where is the money to come from" when we have the men waiting to do the work and all the materials in the country in plenty waiting to be tapped—waiting to be used. They are not saved, except by nature. Nature does most of the saving.

Mr. Munro.] In your scheme you say that you would compel the banks to hold State paper notes for all their deposits?—Exactly. They must, otherwise they are not deposits.

So that the banks might acquire those paper certificates from the issuing authority but you would require them to hand over to the Government—— ?—Something of value.

Their national debt securities that they hold, Treasury bills or gold or silver?—Something that is valuable and valued by a competent authority.

So that when your plan comes into operation you will find that the banks hold £50,000,000?—About £60,000,000 I should say.

I am only using it for a figure; they would hold £60,000,000 of State certificates?—That would be their holding of it.

Provided any one wished to put £10,000 on deposit with any of the trading banks, he would have to deposit £10,000 certificates?—Or the title to them. They would use cheques just the same as now, but a cheque would be represented by cash somewhere.

I think the bank would see that it got the £10,000 certificates. Do you not think that immediately you start to put your scheme into operation the issuing authority on behalf of the State would be printing pieces of paper that would cost very little?—Yes.

When you tell the bank you have got to hold £60,000,000 of it, would you not think that there would be a storm of protest that this was confiscation?—Why should it be confiscation? The banks say that they have £60,000,000; they say they are prepared to pay out £60,000,000. They would have to implore the Government to save them if the people went for it, of course. Why should it not be there so that there could be no tinkering with the currency or the amount of money, as is possible now? Behind closed doors, after a secret interview, the currency can be altered during the night. For instance, there was the case of Kreuger. If the money was there, there could be no alteration in it (except by forgery) except by the State.

Would you allow the banks to make a loan to any of their clients?—Certainly; it would be at their risk, but with their customer's money, but they are not risking their customer's money at present. All they are risking is that they will not be repaid and they hold the security which they hope to be able to sell in case of necessity. That is only to "save their bacon."

I just want a little clarity; you would not impose on the banks the necessity, if any one wants a loan on the banks, of compelling the banks to hold these certificates?—Yes; every quarter the banker would have to give a certificate that he held the money or that the money was there to represent the loans he had made and at the disposal of the people using that money. If they prefer cheques, then the notes could repose quietly in the bank just as the gold does now. It need not leave the banks, but the auditor would have to give a certificate that the notes were there up to the amount for which the banker was liable.

Supposing a single bank had £20,000,000 of the notes; that was the reserves from which they claim to lend; could they not under the present system, against that, draw £20,000,000 of certificates; could they not draw against the security of the clientele, really boost their credits? Or would they have to buy notes according to their monthly returns? I will put it this way: It is supposed and quoted that every advance by a bank creates a credit?—Every advance by a bank creates a deposit,

I meant a deposit?—That is in ordinary trade. It is possible for an advance not to create a deposit; for the people who receive cheques through the bank advance may hang on to them or keep them in circulation.

If the bank have £20,000,000 of these certificates——?—£20,000,000 of money?

They loan against that £20,000,000?—Not against it; they loan £20,000,000. They actually lend that £20,000,000, and actually credit certain sums to the accounts of their borrowers, and these £20,000,000 are there actually in notes.

And supposing they lend out £20,000,000; the £20,000,000 is still held in the bank?—They may be, but it would be possible for each person who receives a cheque to go and get the notes if he preferred it, but if he deposited that cheque then the banker would have to hold those notes to the credit of his customer, of course at the bestowal of the customer. The point I wish to make is this: That at no time would the bank be insolvent as they are to-day.

You mean that you would not allow them, if they held £20,000,000, to use that as a basis on which to build a large amount of credit?—Certainly not. The bank is not to create any money; the only authority to create money must be the State and for additional value tendered to the State.

Captain Rushworth.] You were invited to give your own definition of the term "inflation," and it was suggested to you that if more money is put into circulation, necessarily a state of inflation would result. Was that not what you intended to convey?—No. Inflation of the currency is providing more money than justified in proportion to the production of goods. If £1,000,000 of goods is our monthly production and we provide £1,500,000 for those goods there is inflation, but if we have—as we have in New Zealand—a most able Statistician, and I think our Government Department is most highly respected throughout the world. The *Year-Book* is a wonderful compilation; I think the State has reason to be proud of its statistical records, and we have every opportunity of estimating and providing the amount of money necessary for every man, woman, and child in this country to have full consuming-power.

Really an increase in the money in circulation, provided it was accompanied by a corresponding increase in consumable goods, would not result in a state of inflation; that is what you mean?—Yes.

There was a question raised about Great Britain. During the war there was a substantial increase in the money in circulation, and simultaneously additional goods were brought into existence in the shape of munitions, but those were not consumable goods in the ordinary use of the term?—They were blown to atoms.

They were not on sale to the general public?—No.

After the war, France was mentioned. During that period when they injected vast quantities of money, they were working on restoration of areas. Again you have a creation of wealth and no consumable goods. There was much the same kind of thing in the case of Germany. Your suggestion to put extra money into circulation does not follow any of those examples?—Certainly not. It would be absurd for any one to come before the Committee and make any such proposal.

Regarding the functions of the banks, you have made it clear, I think, that there are at the present time two main functions performed by the banks, one the ordinary function of a trading bank—the borrowing and lending of money; the other the manufacture and issue of money in the first instance; and it is that second function or the one that I should have put first—the manufacture and issue of money—that is really the Crown prerogative?—I think so.

And that has been subconsciously or consciously usurped?—We have acquiesced in it, and have come to regard it as the banking privilege to create money.

A parallel has been suggested that the monetary system is something like the legal system. You will appreciate the parallel. Whereas it is the function of Parliament to make the law, it is the function of other authorities to administer the law. If Parliament failed to make the law, from time to time changes would be necessitated and those who at present administer the law would naturally be compelled to make the law as they go along if Parliament failed to do the job?—Yes.

And possibly something of the same sort has happened in that the Crown or Parliament had failed to perform the function of the manufacture and issue of money, which has been taken up by the banks whose true function it is to administer only?—That is so.

So that it turns on the question of control of the manufacture and issue of money?—Yes.

It was then suggested to you that the Reserve Bank which is about to be established conforms to the principle that you have advocated, the return of the control?—I never admitted that the Reserve Bank does that. No; the Reserve Bank, I presume, is established to try and get cheaper money for the State, and perpetuates or rather it acquiesces in the private creation of money.

The Reserve Bank will, of course, take over that function from the trading banks—the manufacture and issue of money?—Not altogether. The Reserve Bank will take over only the provision of the small money of the country and the trading banks will still have the right to create cheque money as they have now. They are not very perturbed at that. This little extract is very appropriate here; it is quoted by Major Douglas, and is a circular sent round by the American Bankers' Association, 1877:

> It is advisable to do all in your power . . . to sustain such newspapers, especially in the agricultural and religious press, as will oppose the issue of greenback paper money, and that you also withhold patronage or favours from all applicants who are not willing to oppose the Government issue of money. Let the Government issue the coin and the banks issue the paper money of the country, for then we can better protect each other. . . . To restore to circulation the Government issue of money will be to provide the people with money and therefore seriously affect your individual profits as bankers and lenders. (Page 23, "The New and the Old Economics" by C. H. Douglas, 1933.)

That is quite good. The point I was questioning you on in regard to the Reserve Bank was whether it is a control by the State or whether it is a private corporation?—There is no doubt. I have read the Reserve Bank Bill. It is a private corporation.

That had been left a little obscure from the question put to you. I am glad to have it put direct. Reference was made to a number of banks in the United States that had failed; those were banks that

were called non-member banks; they were not in the area of the Federal Reserve Bank system. You, as a lawyer, will be able to tell us: Is there not a substantial difference in the banking laws of the United States as compared with those here?—I am not very familiar with them. Falconer Larkworthy tells us a lot of the Federal system for which he had a great admiration, but there are very many banks outside the Federal system.

Under American law it is possible for an institution that is little more than a glorified pawn-shop to describe itself as a bank. It does not need a charter or anything of that sort. It has not the powers of issue?—But overdraft powers, of course.

In those cases the reason that they smash is very often given as the fact that they held frozen assets and were not able to liquidate them when there was a run on them. If they had not the powers of issue, that could easily arise?—I should think so. They would have plenty of assets which they could not liquidate, which is the position of our banks to-day.

The suggestion has been made that possibly our banks here could not sustain a run. I want to put it this way: If the banks here have power under the law to manufacture and issue notes against the security of Government papers, they surely can meet any run that is made on them?—It does not follow, because a run on the bank means that the bank has to produce legal tender.

But this is the point: The banks have power to manufacture legal tender so long as they have Government paper to that amount?—Not altogether, have they? I think they have to hold gold to a certain——

The general public do not realize it, but the law at present is (it has been extended from time to time) that the banks may issue legal tender against gold in coin or bullion or Government securities?—That is so. Of course the securities are defined in the Reserve Bank Act.

Mr. Munro asked you about this question of notes to be held by the banks, and the suggestion conveyed to my mind was that the banks will immediately say, we will want enormous storage accommodation for these notes, but the notes, of course, can be of any kind of denomination, can they not?—Certainly.

One note for £10,000?—They have notes now for £1,000.

So that there is no difficulty in that direction?—No difficulty at all.

Not necessarily limited to £1 notes?—They could, with permission, hold certificates even. As long as the actual cash was represented by something tangible.

Mr. Schramm.] About the Reserve Bank, you know the position in regard to the Board, the personnel of the Board?—Just reading the Act, yes.

A Governor and Deputy-Governor, Secretary to the Treasury, who has not got a vote?—Yes, that is a big thing.

Four members of the Board are shareholder directors, three are appointed by the Government. Now, the Governor and Deputy-Governor after the first term may retire; they are elected on the recommendation of the shareholders. Do you not think that is a private company?—Yes.

Dr. Sutch: Recommendation of the board of directors.

Mr. Schramm.] The same thing. The only real Government official is forbidden to vote, and yet the State is providing £1,000,000 of the capital against £500,000?—Of course, there is a limitation of the profits; that is one good feature about it, with which the legislators have attempted to mollify the public.

The peculiar part of it is that that provision was only brought in last year?—It was not in the original Bill.

But a Parliament that may pass a dividend of 5 per cent. for the purpose of toning that down can make it 10 per cent. in the next session, can they not?—They can do anything. I should think it would be a very brave Government to do it, though.

So that this Act can be changed by a subsequent Parliament?—And I hope it will soon come into existence.

Yes, to 10 per cent.?—Oh, no. The Parliament to change the Act. I may perhaps remark that as one who has studied money matters, I was very pleased indeed to see that the right of note issue by the Reserve Bank is not a sole right; that the State has by implication reserved to itself the right to issue notes as well. I think the members who insisted on that, if it was done by insistence, should be thanked by the country.

Mr. Murdoch.] That is a point in its favour?—I notice, in reading *Hansard*, that in reply to the question, "Was there any significance in leaving out the word 'sole,'" the Minister said it had no significance. I think it has a wonderful significance—that the State has not given away its birthright to a private institution.

Mr. Schramm.] Do you think it is right for the Governor or the Deputy-Governor of the Reserve Bank to own shares in that bank?—I think it is wrong for any organization dealing with the community's money to have any interest whatever in the profits earned by that organization.

There is a provision, in section 24 of the Reserve Bank Act, that the Governor or Deputy-Governor of this Reserve Bank cannot hold shares in any other bank in New Zealand, but it is silent as to their right to hold shares in this Bank?—I think it is wrong, distinctly wrong.

Mr. Murdoch.] In your pamphlet you talk about a Currency Board fixing the rate of interest. You want to get cheap money for the farmers through your State Advances—workers' homes, &c., page 19?—I might explain that I wrote this pamphlet in August, 1932, and I have since learned a great deal more than when I wrote this. I should like to have the money to publish a better and revised edition, but perhaps I may be able to explain.

You say, here, it is part of the work of your Currency Board to fix the rate of interest "as this was closely related to the cost of production and to prices of consumable goods; and as it was a recognized principle that real service was what contributed most to prosperity, the rates of interest

were very low, the example being set by the State in providing State Advances for farmers, workers' homes, all primary and secondary industries, including machinery and cattle purchases." You give an example of providing State Advances to farmers: one of the complaints to-day is that it will not produce this rate of interest to a point payable by the mortgagors?—I think that is a pity.

Have you any suggestion how you can provide it?—If the State resumes its prerogative of being the sole issuing authority, then it could take over every mortgage in the country. It would have all the assets at the back of them, it would buy out the State Advances Department, take over all their securities and reduce the rates of interest to an amount that it would be possible to pay.

In that way the State would be providing a portion of the interest, seeing that the money comes from overseas?—With money overseas there is a difficulty. I think it is perfectly clear to every one that international debts are international blunders; they injure both the creditor and debtor. That has been proved and brought out and emphasized in the repayment of war debts; the payment by the debtor to the creditor is injury to both parties, and I think that Britain's next move will be to make propositions, and very serious propositions, for the removal of New Zealand's debt to her other that the continuance under present conditions. She could very profitably, I think, ask us to take a portion of her population and New Zealand would receive credit for so much of her national debt to England. But certainly overseas debts are a stumbling-block in the monetary reforms of the world. There is no question about that, and international debts, being international blunders, will in time, I think, be compromised if not entirely written off. Of course, they are being entirely written off in the case of some international war debts. Russia took very effective measures to wipe out her debt by depreciating her currency, and by repudiation, but, of course, there is no suggestion of repudiation in any of my proposals. We want to pay our way, not owe our way.

You are suggesting we might take a number of British subjects out here to increase the population?—I make that as a suggestion.

In what industry would you employ them?—That, of course, would be purely a matter of our national organization. We might, for instance, import a complete motor-car community, and produce in New Zealand our own motor-cars. I think it could be done quite easily. We could get experts from the Austin Company, for instance, and we could pay them well to do it, and, of course, they could establish a complete motor-car industry and that would not be doing any harm to Britain, because countries do not live by getting rid of their goods, but by consuming and using them, and the fact that we were importing a motor-car industry here would save the people of Britain so much car-work. Reduction in hours of work is being enforced upon us whether we like it or not.

You said it did not matter whether the exchange was 200 up; what effect would that have on tariffs?—I am assuming that if we had the sense to adopt a rational money system we would also have the sense to make such adjustments in our tariffs as would be necessary. I really think you should not have any tariff at all; we should have absolutely free trade.

Assuming that you have free trade and 200 per cent. exchange; is not that tantamount to a tariff?—I would put it that we should not worry what the exchange-rate was; it would be for our foreign customers to say how much they valued our money at. We would provide our people with money according to our wage scale and price scale. We could make it what we like; but we should have in hand the money in New Zealand currency to buy the foreign goods purchased in British money acquired from our exports. We should have the money in hand, and that is the important thing. At present we victimize ourselves because we do not arrange our prices here according to the services that our people render. We do not pay our farmer an economic price for his butter. We say you have got to receive 6d. per pound for your butter because the people in England are not prepared to pay more, but we forget that that 6d. per pound in England requires approximately 1s. of New Zealand currency to purchase 6d. worth of English goods here.

But the point I am trying to get at is that you are saying it would not matter about the 200 exchange?—No. It would not have any injurious effect on us, more than a little additional calculation perhaps. Great Britain does not care a tinker's curse what we pay our people here. She is not going to pay the wages, and her money is not our money. New Zealand currency, we have to admit now, is entirely our own matter.

But she would care if we had a 200 per cent. tariff, would she not?—But it would not be a tariff. That is where I differ. England would simply inform her people that £100 of British money would buy £200 worth of New Zealand goods. They would say, "That is a fine thing. We will go and buy New Zealand goods." I do not think there would be any drawback at all.

You said here, "All banks are hopelessly insolvent." You do not mean that do you?—I do seriously mean that all the New Zealand banks, as far as being able to meet their liabilities in cash, are insolvent. I grant you that with many of their customers they would say, "We cannot give you cash. Will you take these securities." But if I handed over a bad mortgage to a man to whom I owed money I would rather not hear what he said after he found out about it.

I do not suppose he would take it, would he?—No. It must be a fact that the banks are holding just as many bad securities as are many of our private people who are ruined by the banks, by the reduction in the money available, and destruction of values caused by this deflation.

Mr. Schramm.] They may be insolvent, but not bankrupt?—Yes.

Mr. Murdoch.] It has been stated that banks lend up to 62 per cent. of their holdings, inclusive of everything?—Not their holdings of legal tender.

Well, securities. Taking the whole of their holdings as their securities, they lend 62 per cent. against that. If I had a farm property I would put a valuation on it, and I take my gross asset and I borrow against that. I take it that what they mean is that they are lending up to 62 per cent. against that gross holdings, which would include securities which might rise or fall?—I see. Yes, I think that is about the percentage.

Well, taking it on that basis, they have had a considerable depreciation if they are hopelessly insolvent. I suppose you mean by that that they could not realize on their assets to meet their liabilities ?—That is so. They could not realize, and if they had to sell them they would find that in the clean-up they could not pay their depositors. Their depositors have deposited 20s. for every pound, and the banks, when they lent the money, were hoping, of course, to get back 20s. in the pound with interest, but would probably have to accept 10s. in the pound in many cases.

Dr. Sutch.] Most of your stuff has been covered before, Mr. Gatenby ?—Yes. I realize that.

By other gentlemen who have come before the Committee. So I will not question you long ?—I saw that in Wellington Mr. Scott covered practically the same ground.

You were talking about American banking, and mentioned the overdraft system. Did you know that they do not have the system of overdrafts in America ?—I am not very familiar with the American system. I have never been to America as a matter of fact; all I know is through reading. But I should think they would have overdrafts if they failed.

No. It is not well developed. They advance you a certain amount and you draw against that. Not the overdraft system at all ?—If they make advances without holding the legal tender it must be an overdraft.

It is a matter of terminology really. Still taking the banking system and the frozen assets of some of the banks, do you think it advisable to issue notes for the frozen assets if they cannot meet their liabilities ?—Advisable for the banks to issue notes ? As I say, I am against any private issues.

But you were discussing this with another gentleman before, and you mentioned that the difficulty was that they did not have the powers of note-issue and so they got into difficulties through frozen assets. That is why I am asking you would it be better to give them the right of note-issue ?—Their notes are liabilities, are they not ? Every note that a bank issues is a liability.

Do you think it advisable, then, to issue notes if a bank's assets are frozen ?—I do not quite follow you. If a banker holds State notes they are legal tender, and the banker would have to buy those notes, acquire them by purchase, by surrendering something of value, but I do not quite see the drift of your question.

Leave it for the meantime then. Getting back to the question of munitions in the wartime, munition-makers paid the public for making munitions. The Government bought them, sent them abroad, and blew them to pieces. Would not the result have been the same on the price level if they had put that money into some capital equipment ?—Yes. When money is spent on capital equipment it is producing something that cannot be consumed. It means that there is more money available to buy consumable goods.

So the argument that it is because those munitions were blown to pieces does not apply in this problem. The suggestion has been made that this has been an abnormal thing during the war, because the munitions were blown up, but if you had an issue of currency and blew up capital assets the same result would ensure ?—If you produced capital assets to the same extent as the war material it would be an exceedingly wasteful expenditure.

The point of waste does not come in. It is the point of the price-level ?—Well, it would mean that there would be a tremendous lot of money available for purchase of consumable goods. The price-level would, of course, rise, because there would be such a flood of money.

The only point I was trying to make is that whether they were munitions or capital goods does not matter ?—No. I suppose it would not matter actually, except, of course, that the nation would have an asset in the goods.

Yes. But it would not matter as regards the price-level at the moment. That is another matter altogether. Credit nowadays is issued against production, surely ?—Certainly.

So that it is not a new scheme here, to issue credit against production, is it ?—The scheme that I outlined is more a matter of monetary adjustment than a matter of the actual amount that would be provided. That would be under the control not of the banks but of the State, and they would provide currency in accordance with the wages and prices.

I follow that. You say here that the New Zealand Labour Party's guaranteed prices are, in the opinion of modern economists, not only possible, but economically imperative. I have not seen the Labour Party's guaranteed price scheme except in the press, but who are the modern economists ?—Here is one, I think very modern, Professor Irvine.

Where does that gentleman write from ?—He was sometime Professor of Economics in the University of Sydney. He is a retired Professor, and author of "The Midas Delusion."

Yes. I have heard of it. Did he get his degree in economics ?—I could not say, but I should say, from reading his book, that he is more than an ordinary economist.

Because the position in New Zealand and Australia has been for a long time that the economic side of our Universities has been taken by men who are schooled in history or philosophy, and have not gone into the economic side very much. When I asked who the modern economists were I thought perhaps they were some American or English ones ?—No. But he (Prof. Irvine) admits that what he taught as an orthodox economist does not apply to-day at all.

And what other economists besides him ?—I should say that if you read Gustav Cassel and Keynes, even.

But neither Keynes nor Cassel would guarantee prices in the Labour Party fashion ?—Not in so many words, but it would, in fact, amount to the same thing, that you must provide the means of consumption.

It is a different matter ?—It comes to the same thing.

It is the special expression of opinion you have here that I want to get at ?—I quite follow you.

You know Keynes's "Treatise on Money," I take it ?—Yes. I have read it.

And Robertson's "Banking Policy and the Price-level" ?—I cannot say I am familiar with them.

But one or two men have expressed opinions and they do not seem to fit in with this special one here, but that is just by the way ?—A highly respected Professor of Economics, Professor Copland, has expressed opinions which are diametrically opposed to the functioning of society in an age of plenty. He is a Professor of Economics of the old school, orthodox, and quite suitable for the bankers' purposes.

What does this orthodox term mean ?—It means the absence of progress as a rule.

Would you say that Keynes, Cole, Stamp, Pigou, Hawtrey, and Robertson are all orthodox economists ?—No ; I would not say they are all economists.

Yet they are considered orthodox economists ?—No ; I would not say all those are.

I would like a definition of men that you do include as orthodox economists ?—Cole is very far from being an orthodox economist. In fact, he is practically in the same category as Major Douglas. I have read Cole's book, "The Intelligent Man's Guide through World Chaos." He does not hold, I admit, with Douglas's just-price formula and so on, but that does not say he does not subscribe to Douglas's contention that the money system is an absolutely inept system to-day.

But Karl Marx and Hobson and many other people have ideas in the same way ?—Karl Marx, of course, is a little bit old-fashioned.

Is he orthodox ?—I must confess that I have not read Karl Marx.

Your scheme interests me because you stop your rising prices by fixing prices. That is a new element ?—Yes. Price-fixing must be put into effect ; if the State provides money, it must provide money according to certain prices, and price-fixation is involved in any sane money system.

I am pleased to hear you say that. Mr. Clinkard was getting at the same point when he was talking about Russia and saving there. As Mr. Clinkard pointed out, they did save substantially in capital works by going short of consumable things, and they fixed prices because credit was issued for the capital goods and the consumable goods, but to avoid the rising prices they fixed them. I say that you have somewhat the same scheme ?—Do not we fix the prices of labour ? You have your salary and other people have their salaries. The price of your labour is fixed—wages are fixed. Surely, if we fix wages we must fix prices.

I am not worried about your contention to fix prices. Now, these Treasury bills of £20,000,000 that the Government are said to have out at the present time, you would not repay them ?—No.

Some of those bills have been issued in anticipation of revenue. The revenue is to come in and automatically pays off those bills. The rest of those bills have been issued to hold sterling interest funds. As these funds are paid out to importers and people who owe debts to England, they will also disappear, and thus the Treasury bills will be paid off, the circle will be completed, and there will be not much harm done, surely ?—I would not say dogmatically that the whole of the £20,000,000 should be reissued.

Well, what part ?—Such part as would be necessary to keep pace with the national progress.

But they were issued against two things, taxation and sterling exchange ?—Well, taxation is only taking money back from people.

That is beside the point. The point at the moment is just in anticipation of revenue. These Treasury bills were not issued to finance production ?—It is a big subject, as you know, taxation. Is taxation strictly necessary under a sane money system ?

That also does not answer my question ?—No. It is rather a big question to answer.

You also state that as long as you have earned money that money should remain in circulation as long as the community exists ?—Exactly.

That means that all the money that has ever been earned should still be in circulation ?—Let me illustrate it by a simple thing. You may have a note in your pocket. Can you tell me when that money should be cancelled ?

That is not my point. My question was this : That the money should remain in circulation as long as the community exists ?—Yes. And more money too.

Now, Walter Leaf, speaking of deflation, about an agreement between the Government and the banks, said he used the word "loan" (and you questioned his use of the word) advisedly, because he meant that the issue of Treasury notes was a forced loan from the people, in that it drove up prices and the Government got a greater share of the wealth that was available. That is the point that he is making, whether he is right or wrong ?—Why call it a loan when it was really quite a national contribution ?

It was a forced loan ?—He calls it a forced loan, because it was not done through the banks in the usual way.

That is his usage of the term "loan," of course. The loan was from the people to the Government ?—To the people.

This is a recognized method of raising loans by inflation. It is quite a recognized method. I am not objecting to that ?—Yes. You would admit, under strict organization and supervision, it is a very good method ?

No, I would not admit that, because I think it bears too hardly on the poorer classes. It is inequitable. You get the money all right, but the wage-earner is hit far harder than the man who has a big income ?—You can correct that by raising the wages.

You were talking about Treasury bills. You say you would not pay them off. The reason why Treasury bills are issued in slumps is to carry them through the slump, and when there is a boom again they pay them off and even out Government commitments. Would you recognize that as the procedure ?—I think we could arrange it so that we need have neither booms nor slumps.

We would all like that very much ?—Those Treasury bills, you must remember, have got into circulation through taxation. The people have got used to a certain amount of money and the circulation of that money has perhaps raised values a little now.

It has raised prices. It is a question whether you want the lower prices again ?—Yes, it is.

That is a question of policy ?—It is a most deplorable thing to plan to lower prices, because that doubles the debts.

What was the trouble in Germany in 1923 ?—She deliberately inflated her currency.

That again is a question ?—To get rid of her debts.

You think they deliberately depressed the wage-earning classes, ruined the middle classes, to get rid of their internal debt ? Deliberately done ?—Of course, I can only speak from what I have read, and that is what I have read, that it was a deliberate policy on the part of Germany. She has evidently recovered from it. I do not know what were the conditions in Germany at the time. They must have been ghastly, but we have no need to have such conditions here.

No ; not at all. And you say that workers do not get enough money to buy the goods they produce. But do they have to buy the goods they produce. They do not buy the railways and the bridges and these intermediate products ?—I am referring to the goods that we require to consume, and to use.

You mean, consumable goods ?—Yes.

That makes a big difference ?—Those are the only goods that they can buy even when they are producing capital goods.

That is true. This morning we were trying to get another point, this point of Mr. Larkworthy giving notes for the gold. Was there any law at the time that required that the notes have a backing ?—Yes. I think at that time the notes had to be backed by gold.

So that Mr. Larkworthy, in issuing these notes, was doing something illegal ?—No.

He did not have the backing ?—I think there has been a little confusion between the note-issuing powers of the banks. That is perfectly legitimate. Under the old gold standard the bank could issue notes as long as they held the gold.

I know that. But the point I want to make is, did they have to have the gold first before they issued the note, or could they issue the note and then get the gold ?—No. They had to have the gold first and then issue the note.

You mention that the Government should take the gold and sell it. Would it give the Reserve Bank anything in exchange for the gold that it had taken from it ?—If the gold was taken from the Reserve Bank ?

Yes. To be sold abroad to lower our national debt. Would you return anything to the Reserve Bank in place of it ?—Yes, State notes.

So that the Reserve Bank would borrow from the Government with no rate of interest ?—No. They would buy the notes from the State.

They would buy the notes with the gold and would those notes be the obligation of anybody ? You stated that the notes were the liability of the issuing authority ?—Yes, that is under the system of a gold cover.

So they would not be a liability under your system ?—The State would not have any liability.

But if these notes were given to the State for instance, to buy foreign exchange, they would have to give something in exchange for them ?—If anybody here wanted foreign exchange he would buy his exchange in Auckland from a bank which would have some credit in the country where the exchange was required, just as we do now. I do not think there would be any difficulty.

I was just wondering if there was a difference in liability, whether the issuing authority was liable for the notes it issued. Could it repudiate them ?—The issuing authority, if it were the State, would not promise to pay anything.

Well, Reserve Bank notes will be similar. They will just have £1 on them. It will not mean paying anything ?—The State is authorizing its subjects to exchange their goods with those notes, not to repay them. The notes do not have to be repaid to anybody ; once they come into circulation they become the life-blood of society.

But would the Government accept them as taxation ?—The State must accept its own notes of course, and that is one way in which the State would be able to retire money if cancellation were deemed advisable.

By taxation ?—By taxation. If they found they had too much money in circulation.

AUCKLAND, FRIDAY, 16TH MARCH, 1934.

Witness : MR. ARTHUR G. SAINSBURY.

Mr. Sainsbury : I will read through my statement. It is as follows :—

I propose that the present system of money-lending at interest be rapidly replaced in a large measure by the issue of State credit in a legal-tender form that does not have to be cashed or pay interest, but only advanced in such manner that its redemption is provided for. I propose that the policy be applied at once for the following purposes :—

1. That employers who undertake to reduce the work hours of their employees by an amount to be decided and employ correspondingly more hands and pay at least the same weekly wage per person as now shall be allowed to capitalize their business against security with State credit in some legal-tender form, free of interest, repaying only the principal by small instalments varying according to the Government Statistician's estimate of the prosperity of the year.

(This will increase the workers' leisure, abolish unemployment, maintain the wage-standard, create greater purchasing-power, and yet give the industrialists greater prosperity by reducing their costs of production. It will be permanent.)

2. That similar State credit be used to acquire and equip fertile arable land closely adjacent to the towns for genuine small farms of areas not over 20 acres for unemployed and other townspeople, under district civic Boards free from departmental influence, the small farmers repaying the outlay from their future revenue.

(There were over twelve thousand applicants for small farms a year ago ; 97½ per cent. are still unsettled.)

3. That where life insurance policies are in danger of forfeiture through unavoidable non-payment of premiums and where such forfeiture would leave poor families in poverty, the Government shall keep such policies alive by paying the premiums in similar State credit, redeemable from the ultimate pay-out.

(The forfeitures last year in New Zealand exceeded £4,000,000.)

4. That as rapidly as may prove prudent, but within five years, the domestic portion of our national debt be paid off by similar State credit. That the foreign portion be paid off in five annual amounts by the proceeds of New Zealand goods purchased here by similar State credit by our Government and exported.

(These two actions do not reduce our national debt. It still remains approximately £300,000,000. But the nation has now become its own creditor. The real benefit is that we have cut out the blister of interest, which is our great industrial leakage. Being free of interest, the national debt is no longer an irksome burden. Its repayment is no longer a matter of urgent international politics. The sum formerly paid in interest can now be used to call in the State credit and reduce the debt and extinguish it.)

Then there is the second page :—

LIFE INSURANCE IN NEW ZEALAND.

A man aged thirty years insured his life for £400 at a premium of £10 per annum.

At the age of sixty he had been credited with reversionary bonuses, £360; but he had borrowed on his policy and defaulted in premiums till he owed £370. On death, now, he would therefore draw £400 plus £360 less £370 equals £390. He is now informed that further default in premiums will forfeit everything. His only alternative is to sell his entire interests to the insurance company at the "surrender value" fixed by them. On inquiring what is the surrender value he is told it is £4 10s.

£4,000,000 was the amount in policies that the insurance companies confiscated the year before last. Last year the value of the policies that they confiscated exceeded the values of the new business, so that in a way on that basis they are collaring everything. It must be obvious to the Commission that the people who cannot pay the premiums and who therefore lose their entire interest are the poorest of the community, and when the breadwinner dies with no money to come to his family they are left not only bereaved, but also impoverished. The difference between the amount that a man would receive on death, on this statement £390, and the amount they offer him as the surrender value, £4 10s., is very illuminating.

Mr. Clinkard.] But has he not already had some of it before ?—No. He has had £370, but he is entitled to receive £400 the sum assured plus £360 bonuses which have been earned.

But unless he has been paying up the premium he has not earned those bonuses ?—The amount he has not paid is represented in the £370 owing by him. It is represented there. Under these figures about £300 would be the amount he borrowed. The £70 would be the amount of premiums due charged against him. Therefore, he owes the company £370. They owe him over £700 and the balance he should get is £390.

And does the age of sixty give a man £360 in bonuses ? Is not that rather illuminating ?—It is. But it shows the profits they can make. You have no option. If you cannot pay your premium you lose everything or you get £4 10s.

How do they arrive at that figure of £4 10s. ?—They fix that on their own chart in the office.

Have you any idea how they arrive at it ?—They have told me that they arrive at it by paying practically the amount that you have paid in premiums.

That is like a building society. If you take up shares and you cannot go on and fulfil your payments, they will give you back what you have paid ; the same as superannuation ; no interest. Is that what the insurance company does ? Pays you back the amount you have paid in premiums ?—Possibly that is what they do, but what I look at is these two figures. The rich man who can pay his premiums draws out £390. The poor man who cannot pay his premiums draws out £4 10s. That is the position.

But this is a co-operative mutual benefit society, the same as a friendly society. For instance, if you have been paying into a friendly society for a number of years and you fall out it does not follow that they have got to accept you back again afterwards at your usual rates. It applies to anything like that ?—This is not a man who has defaulted. This is a man who is at the point of having to default because his reversionary interest does not justify the payment of his premium by value in hand. He has come to the end of his tether.

The Chairman.] It is a remarkable thing. My office has a large insurance agency. We merely collect premiums. We do not do business in insurance at all, but we have been absolutely staggered these last two years. I say this advisedly, because it is a matter that has come up for discussion in our office over and over again. It is marvellous the way the premiums are paid. Where do they get the money ? £40, £20, yet never behind. I do not say there are no defaults ?—Is that life insurance ?

Yes. It is really marvellous. We have been staggered in my office. It is only a collecting office, but where do they get the money from ?—We cannot understand it.

Mr. Clinkard.] I was insured for many years and I had to surrender my policy because I could not carry it on, but the company treated me all right. This is the first time I have heard a complaint about the treatment received by insurers from the mutual-insurance companies. There is no one going to get a gain out of this. You speak of their collaring it, and so on. Well, there is no one to get a gain out of that. The management are simply carrying it on for somebody else ?—What happens is this : The management does not get it. The persons who get it are the rich clients. The poor clients are despoiled and the rich members who can pay their premiums get all the poor man's benefits.

There are very many poor men that carry on their policies right to the end of the chapter, and their wives draw the insurance. They get just the same benefit that the rich man does. I cannot see what it has to do with the mutual, because somebody else is getting it, not the insurance company ?—Yes. The rich clients.

Not necessarily the rich ?—Well, those who can pay their premiums. We have these two facts which we cannot get beyond: that in the year before last the forfeitures totalled £4,000,000 in all the companies, and last year the forfeitures totalled more than the new business. Those are two facts officially stated and we cannot get beyond them, and no opposition that ignores them can carry any weight. £4,000,000 a year is the face-value of the policies forfeited.

Mr. Langstone.] This is what I would like to find out. This is a real case. I do not know how long he has been paying in ?—Thirty years.

He has paid in for thirty years. Well, how do they arrive at £4 10s. ? It is a life policy, and he has paid in £300. He has drawn out £360 approximately ?—He has borrowed £300, and unpaid premiums charged against him are £70.

He has had out what he has paid in. Now he has entered into a contract. He has entered into a mortgage with them, and in the first instance he either keeps up his payments or forfeits the contract. He can make it a paid-up policy then, or in the second instance where he has got a loan there is a mortgage, and he has got to pay that rate of interest and pay back again or they foreclose on it—that is, they foreclose on his policy and the policy ends there. Well, evidently they compute their expenses on the £370 that he has received, on the £300 plus the default, and they estimate that the balance left to his credit is £4 10s. ?—That is the position, and I say it is an unfair position. They owe him £390 in case of death now. I am not blaming the insurance companies.

It is just the same with regard to any mortgage or anything else ?—It may be so. I am not blaming the insurance companies for carrying on this practice. What I say is this: that by Government action this impoverishment of the people who cannot pay can be stopped on perfectly economic grounds.

But if he had not borrowed any money from the insurance company and he could not pay his premium, he could either go to them and say, "I cannot pay that premium any more." Then he has only got to wait till the date of maturity and the amount he is to receive is less the amount that has been paid in from the accrued profits for that period. He has missed the bus simply because he borrowed money when he should have left it there. If he had not gone on borrowing money in the early stages he could to-day have gone to the insurance company and said, "Keep my premiums going" ?—There are lots of things he could have done, but none of them justify his receiving £4 10s. when his actual reversionary interest is £390.

You touch again on this in clause 3. You are assuming there that where life policies are in danger of forfeiture that is where the Government should step in ?—Yes.

Mr. Munro: That is the reason for the presentation of this supplementary document.

Dr. Sutch.] What is the surrender value of this reversionary bonus ?—£4 10s.

No; that is the surrender value of the whole policy, is it not ?—His whole interest ?

Yes; but these reversionary bonuses are only worth that at death ?—That is right.

So the present value of that would be much less ?—That is quite true.

So that this £360 should not be called the total value, should it ?—No. On death only. If he died now. But he is sixty years old. You will have to estimate what his expectation of life is. I do not know what that is. The insurance company will have that.

The Chairman.] About sixty-eight ?—Then, reasonably, you should add eight years' premiums. That would be about £80. Take that away, and his policy is worth £300.

Dr. Sutch.] Not at all. This reversionary bonus is only worth £370 when he is sixty-eight. It is of much less value now ?—I know. What I propose is that the Government could carry it on. Therefore, the Government would have on the average to pay £90 in order that he might secure this £390 less the £90.

But he could secure it now surely, if he turned it into a paid-up policy of the same amount ?—No. In this case he is told that his only value is £4 10s. Therefore, the paid-up policy would be £4 10s., and that is all he would draw out.

But the paid-up value is different from the surrender-value. I know, because I have had a somewhat similar experience myself, and the surrender-value of my policy is very low, but the paid-up value of it is much higher.

Mr. Clinkard: He has exhausted his surrender-value. That is where his trouble is.

Mr. Langstone.] But evidently it has no surrender-value. The only difference is the difference between his credit in the company and the amount that he is owing the insurance company, and they compute it at about £4 10s. ?—This inquiry is being held for the purpose of dealing with, shall I say, the depression and poverty, for the purpose of curing the poverty of the nation. If my proposals will save this family £300, it is worth doing. It is not a question of whether they are being fairly treated by the insurance companies or not. Under my system that man's family at his death in normal times would draw £300. The Government would receive £390, deduct £90, and hand them the balance of £300.

In practical effect a person by life insurance builds up a credit with the company, firstly, by his premiums and, secondly, by profits earned by the investment of those premiums at compound interest. Knowing that the average expectation of an insurable life is sixty-eight years, the company presumably fixes a premium varying with the starting-age to produce total premiums approximating the sum assured by the time sixty-eight years is reached. In our specimen case, in round figures, the man was insured at the age of thirty for £409. At sixty he has paid £300 in premiums, which on investment have earned £360, represented by his reversionary bonuses. His total credit, therefore, is £660. But he will live another eight years, paying £80 more in premiums and receiving credit for £96 in bonuses. On death, then, he would get £400 plus £456, a total of £856. But for serious reasons he had already borrowed £300 of this and is further debited £70 for money advanced to his premium account. His family should on his death at sixty-eight, therefore, draw £856 less £370, a total of £486. Under my proposal the State, to save forfeiture, would have paid his premiums for eight years—namely, £80—and they would deduct this from the £486 and pay the bereaved family the balance. If on the other hand poverty forced this man to forfeit at sixty years of age, his benefit would revert to the company's funds, swell the book profits, and enable larger bonuses to be declared for the other clients who have not forfeited. This man's surrender-value (so-called) being exhausted, he cannot convert to a paid-up policy, as he is told it would be less than the company's minimum policy permitted, which is £50.

The Chairman: I think we understand now just what you want to put before us. I do not know whether there is anything else in the ordinary statement, gentlemen, on which you wanted to ask any questions.

Mr. Munro.] In your scheme of credit-money issue, you lay it down as a principle that the issue must be repealable at some time ?—That is so.

Why do you insert that particular clause ?—I insert that to guard against inflation, which means paper money that is not based on a sinking fund. I want it to be on a secure financial basis.

Because several people have come before us with schemes and they maintain that it is not necessary that any of that money, State money, issued by the State, should be made repealable at all. They do not believe in it ?—I think they are gambling in a way. They are asking us to go ahead with our eyes shut and hope for the best. I do not think we should do that. Possibly, what they say is correct, but I would like to see our provision for repayment visible and definite.

You are quite aware that many of the adherents of the Douglas Credit Scheme persistently maintain that there is no need for any calling in or repealing of that paper. Are you aware of that fact ?—I am quite aware of it, but I do not agree with it.

Have you estimated to what extent this money can be issued ? Have you thought it out ?—To some extent only, but not completely. That is rather a financial matter that I have left to the Committee and its expert advisers. In regard to the total figures, in a vague way I imagine that our total exports should be between £60,000,000 and £100,000,000 per annum. Just now it is very low. The more prosperity we have (the more we make industry possible by profit), the more rapidly can we increase our exports.

I am asking these questions because this Committee wishes to inquire and get any evidence from any person who comes before the Committee for the purpose of elucidating whether that paper currency issued by a Government Department must be made repealable within certain periods or can be allowed to go into circulation and stay there. Your opinion definitely is that that would cause inflation, if there was no method of repealing that paper money ?—If paper money is issued by the Government without any arrangement for repayment—we will say it is £10,000,000—that £10,000,000 will go the way of all money sooner or later. That is to say, it will get into the hands of the—I was going to say, hoarders. I do not use that word in an offensive way. So that eventually the country generally will be just as short of money as before, but the hoarders will be able to present £10,000,000 to the Government and say, "We want value." If the Government has issued this paper money for nothing it has nothing with which to pay off these hoarders. The country is thus £10,000,000 poorer and it cannot issue another £10,000,000 to cure the poverty again, without adding £10,000,000 to its previous £10,000,000 of bad money.

Mr. Langstone.] I would like to know what you are going to redeem it with—In all my clauses I have shown that provision is made for redeeming it.

What are you going to redeem it with ?—The employers, for instance, when they get State credit to pay off their mortgagee will pledge their assets in the same way as they pledged them to the banks. They do not get rid of being mortgaged. They owe it to the Government instead of to the bank. What they get rid of is their interest. Their assets represent the Government's security, and they are paying off out of their earnings.

Every time a note passes from one person to another either for goods or services is not it redeemed then ?—No. It is in circulation. It is passed by someone else to pay for value.

You mean cancel do you not, not redeem ?—I do not use the words in different meanings. Those two words to me have the same meaning.

I do not think they mean the same at all. If I owe you a pound and I pay you a pound or I give you value for it, then so far as you and I are concerned we have redeemed the position between one another. We have not destroyed the pound ?—You first give me an IOU. That may be a bank-note or a cheque or anything. It is an IOU, and somebody comes to you and presents it and you redeem it. But you gave me that IOU for something—we will say it is a sheep—and when eventually somebody comes along to get it redeemed you are able to hand them the sheep to redeem your IOU.

I might give them cows or butter or anything.—Yes. But the Government, if it issued this money without any security at all, has not got a sheep or a cow to hand over. Therefore it has to draw it from the Consolidated Fund.

Do you think that the Government is a separate entity ?—No. I do not think so.

The Government is the people.—The Government are the people who are managing the affairs of the country.

No. No money or anything belongs to the Treasury or to anybody that issues it. They have got nothing to do with it.—I quite agree with you, but the managers are certain individuals, and we have to deal with them as individuals.

But they have no say. All they do is to obey an instruction, and if the instruction has been that there is so much money to be issued they do not care how it is issued. The money does not belong to them.—They are the accountant of the firm which we call the State. If you go into a business house the accountant will adjust your account. You do not go to the individual shareholders.

How can you put it this way, if you claim—and I say that you are claiming—that the State has a pre-empted right as a State to issue money ? Now let us try and bring the State down to the point that you are the only person in New Zealand. Therefore you are the State. There is no complexity about it at all ?—That is quite clear.

Now, if you issue money for yourself, could you pay yourself back again ? Could you pay a debt to yourself ?—I think, to make a clear statement, there would have to be two of us. I would have to be the State on the one hand and I would have to be the people on the other hand. I have issued myself a pound of State money, and in return I have got something from my other self to whom I have issued

it. My other self eventually hands that paper money back, and I, as the State, return to myself what I first got for it. There is the exchange.

Put it another way. Suppose you wanted to dig a well. You had to have a spade, and when you had done the job to dig the well (it was necessary for you to get water or something like that). Then you will cancel out the spade—redeem it. Is that what you mean ?—I am afraid I do not quite follow the illustration.

Money is only issued as a means to exchange goods and services. It is a tool, an instrument in the hands of the community, to facilitate the exchange of goods and services ?—That is right.

It would not be issued unless it was wanted for that purpose. If it was wanted for that purpose in the first instance, what would happen when it was not wanted any longer ?—It is wanted by somebody else.

Well, why redeem it if it is still wanted and it can still do the same job in the same way ? What benefits are going to accrue from the redemption of it ? What you call redemption, cancellation of it, I mean ?—For this reason, the same answer I gave concerning the Douglas system. If you keep on issuing money to help people dig wells, you will eventually build up an accumulation of State money for ever.

But you are only assuming that, are you not ?—That is just arithmetic, simple arithmetic.

What do people get money for ?—They use it to pay a debt. I owe you so much. You owe me so much. I hold a pound note. The bank has undertaken to give value for that note. Therefore, other people will take it from me. These bank-notes or paper money seem, to my mind, to be like the loose leaves of a loose-leaf ledger. It is passed round from one to the other, but the ledger exists somewhere as a complete thing. Each leaf that I hold entitles me to something from the community.

Suppose you cannot get anything without money. You have got people working and the only title they have to get goods with is money, and they do not use those titles for goods. Well, they cannot get the goods and they would starve. They would die ?—I am trying to make it easy for people to get this money. That is the object of my first clause.

All that you are doing is doing away with the interest on money. The function of money is going to be the same, only that there will be no hire-price attached to it as a means of earning further revenue on the money. But the actual virtue or the actual business of the money is exactly the same, is to facilitate the exchange of goods and services ?—I quite see and sympathize with your point of view, but I want the money distributed among those people at present in need. We have had various schemes put forward for distributing it by giving it away, and I say that the community will not accept schemes of that sort. Those who first have the benefit of it should repay it, and it will then be available for some one else. You have to do it that way or have inflation and build up a huge amount of money like the Germans did in the war-time. I do not want to carry that parallel too far. Those were exceptional circumstances, but if we inflate our paper money unscientifically we will do the same thing as Germany did.

No common-sense people would do that, because they would only be robbing themselves. That is what they did in Germany. There was a period of scarcity, and they thought they would create wealth by turning out money; and they came to the position that they got rid of their internal debt. But they did not make the wealth of Germany any more or less, they only changed the relationahip of the mortgagee and mortgagor; their relationship was changed almost overnight. No intelligent people would have a system of that kind ?—That is what I am trying to guard against.

The people will guard against that themselves ?—I have yet to hear of a method of distributing money wholesale as a gift that would be acceptable to ordinary commercial people and ordinary economists, not necessarily orthodox.

When we are talking of the functions of the State, as an individual you are a dual person. You are an individual, but you are also a member of the community. Therefore you have private interests which are definitely private, but you also have public interests which are definitely public. Now, it is the latter category where the Government functions. The Government gives us education, because it is a public thing; roads; public works; and all sorts of things. The Government only wants sufficient revenue to be able to give the people those amenities that are essential and the country can afford to give from time to time. If they put the necessary money into these things they have to tax to get it back to spend somewhere else. That is all they do; the Government uses the money it gets to pay either school-teachers or to pay health officers or to pay for all sorts of things, and the money still circulates ?—It is quite clear that that is the present method. The Government taxes and pays it out in public services, but it has not employed the great number of unemployed; it has not reduced working-hours; has not increased the profits of industry. I hope in this way that may be done.

There is less employment to-day because there is less money ?—What has been taken out of circulation is £25,000,000 per annum in interest. That is what New Zealand is paying out in interest to people who have lent money. £300,000,000, approximately, is the national debt. £200,000,000, approximately, represents mortgages on businesses and farms, and I am putting the interest down roughly at 5 per cent., so that £25,000,000 per annum is the drain on New Zealand for interest. That £25,000,000 saved will restore prosperity in New Zealand and should approach the millennium that we hope for.

Instead of paying that £25,000,000 to those persons you will pay it to some one else ?—It is kept in our pockets; we do not have to pay it.

You do not send any money away from New Zealand ?—We are paying the £25,000,000 out in some way, either in goods or something else.

Not overseas. Our interest bill overseas would be about £8,000,000 a year, so that we send away goods which are sold, and if we have only £8,000,000 left it is used to pay interest on our national debt and we cannot get goods back again, therefore we have that much less goods in New Zealand to distribute. We are poorer and poorer in the real sense ?—Yes.

Say you had a few pounds invested in Government stock and you are getting £100 a year from that investment and you are living on it. If they cut out interest on that, which is your only means of sustenance, you would cease to be a spender; you could not spend because you would have no income. They would have to find ways and means of making that up to you?—That would have to be done.

In the scheme which you put forward I cannot quite see the point of the need for redemption. If it is necessary to have that, the Government can guard against that by taxation; but that does not mean redeeming or cancelling it. It means taking from the citizens a certain quota of their share in the national wealth to carry on other works?—We claim that the basis of democratic Government is fair play; that citizenship is fair play. If one man can go to the Government and get a free gift of £1,000,000 of credit or money and another man cannot, through being too slow, then that is not fair play as we understand it. That is why I say the man who borrows money from the State has the right to repay it.

You are talking of the banks?—Any form of issuing money at all.

Who has the right to issue paper money?—At the present time the banks have that right; I am saying the Government should issue it.

I quite agree on that point.

Mr. Clinkard.] I think your idea is that currency and credit at present is becoming too much consolidated and that what you want is to see a form of currency distributed widely amongst the poorer sections of the community?—That is the ultimate goal.

Your idea for cancellation, if I follow you right, is that unless it is cancelled from time to time the tendency will be for your first issue to become consolidated in the same way as our currency is doing now. Is that the idea?—My idea is that the repayment to the Government enables the Government to reissue that same credit for other uses to carry on the activities of the country.

You do not propose to have it cancelled out?—It will be cancelled out by repayment to the Government.

If it is cancelled out, you mean that, having cancelled out the first issue, the Government will then be in a position to make a second issue?—Continuously. It will be continuous.

And your object in cancelling it out is in order that the total may be readjusted from time to time instead of allowing it to pile up without any control as to its action?—Exactly.

Mr. Lye.] I would like your definition of State credit?—Well, it would no doubt have a visible form; it could be just a mere cheque for the amount required, and that cheque need not have to be cancelled when it is presented; it would stay in the bank as a credit, as an asset, or it could be notes similar to bank-notes. It could be issued with words like this on it "This is a Government-guaranteed note. Value so much."

That is quite simple and quite easy. Now behind all credit there must be some real assets or securities, must there not?—Yes, there must be.

In effect, if the Government issued £10,000,000 worth of notes it would be practically pledging its securities or assets or its resources?—Yes.

And its resources would include moneys which it has the right to tax the people for?—The Government security is the assets of the person to whom this money is issued. That is what I am fighting for.

Becomes a charge on the person who accepts the credit?—It takes the same security as the previous mortgagee has had.

Of course, when a man repays the loan the borrower's assets would be relieved from any charge?—That is right.

And the issue of State credit would then cancel out?—Yes.

That is quite understandable. In the event of the State, by its activities, becoming short, and having pledged its securities for loans for which it had to pay interest, what would the effect be if, on the other hand, the State lent money against assets and securities of the borrowers, free of interest, and yet to prosecute public works it had to borrow overseas and pay interest? How would it work out?—If they borrowed overseas and paid interest that would be a calamity. We are already suffering from that calamity now to the extent of £25,000,000 per annum on private and Government mortgages.

Let me follow this out. I am very interested in it and I have read a great deal of your correspondence in the paper. In the event of the Government wanting to prosecute public works on a large scale, would you do it with overseas borrowing in the first instance?—I think I should do that work with a State issue of credit, too. I would not take one thing in isolation. There has to be prosperity in the country to justify you in going ahead with works of that class. My first clause builds up prosperity; it might be possible to do those public works by income from the prosperity of the country.

Owing to the fact that the State issues credit without a charge in the way of interest, the net result of your proposal if put into operation would be that the State would be the sole lender?—Very largely that would develop. I would not ask for a definite monopoly by Act of Parliament, but the ordinary lenders would gradually recede; they would have to find new avenues for their activities.

Does it not follow that if the State is to provide credit free of interest it practically abolishes private lending?—To a large extent. In commercial channels I think it would bring about a new condition of affairs in which a man with an excess of money or credit would be looking for direct investment in industries rather than investment for interest only. But that would be a good thing, because there would be a demand for industrial activities of all sorts. Industries now languishing for want of capital would then go ahead. There might be industries in which it might not be possible for the Government to issue such credit.

Under your free-of-interest system money would be invested in industry for the purpose of production and not for the purpose, so much, of earning dividends by way of interest on the capital investment?—I think there would still be dividends, because you would be sleeping partners. That is

to say, that those who have money would be looking around for working partners to carry on some industry that they have investigated and found desirable.

The position would resolve itself into this: That the people would borrow from the Government free of interest for the purpose of investing in industries for the purpose of securing interest on their capital investment?—That might result, but that is not so much in my mind.

Your idea is relieving the people who are under a crushing interest burden. But that might develop further; that the people would borrow credit free of interest and use it to earn dividends?—Certainly, they would get money free of interest and put it into the business for production of dividends, wages, and sinking fund.

One question exercising the public mind is how we are going to put purchasing-power into the hands of the people who have nothing to offer in exchange for it, not even employment?—I was going to refer you to clause 1, but "not even employment" takes us out of that. The money-lenders I will divide roughly into two classes—those who have a lot of money and those who have only a small amount of money to invest. The latter class are perhaps not very much in the aggregate, but they are very important and deserve to live. I would say those cases should be entitled to put their investments into the Government and draw each year an annuity. I would say that the Government should bring the incomes of these people up to a reasonable living level, £3, £4, or £5 a week. Over that they would draw nothing. But that would cater for the small investors, and we would leave the big investors to look after themselves, as they are well able to do.

Dr. Sutch.] In regard to repayment of the national debt, you are going to pay that off with State credit. Would that come into circulation as money which can buy things, or would it be held by the present holders of Government securities until it is paid off?—The first step would be to pay the mortgagees.

Would that be legal tender?—Yes. They would hand that to them, and it would be added up in their bank as a credit to them.

If we assume the internal debt to be £100,000,000—— ?—I am roughly taking £150,000,000.

It is not quite that?—No, not quite.

I would rather take £100,000,000. You are paying that in five years, so that approximately you are paying out £20,000,000 a year? Is that right?—Yes.

In State credits?—Yes.

In addition to the other State credits you are paying out, so that these will be legal tender. You are assuming, are you not, that prices will rise? With an issue of £20,000,000 of money, surely there must be some effect on the price-level?—Under clause 1, with the increase of employment and the abolishing of interest, the cost of production will be lowered, but the purchasing-power will be raised, so that perhaps as a net result prices will be higher.

If you say purchasing-power would be raised, would that mean that prices would rise, too?—It would give an opportunity for high prices, but will not necessitate them.

But purchasing-power involves the buying of goods. If purchasing-power rises, you need not necessarily have a rise in the amount of money; you could have a fall in the price of goods, could you not?—Yes. What I have in mind is this: under clause 1 it may cost the industrialist 15s. to produce an article, whereas now it costs £1 to produce that article.

You think the 5s. would be the difference due to interest?—Not necessarily. He may find it costs him less to produce, but the customers are using so much more and will buy the goods and he can charge £1 5s. and get sales.

Prices would rise also against the Government, and I take it they would have to put up wages, restore the cuts, &c.?—Certainly that is desirable.

Then you have this position: that the expenses of the Government are going up by restoring cuts and possibly increasing wages, and its expenses are also going up on account of the cost of things the Government purchases?—Yes.

The things the Government purchases are enhanced in price by this big issue of credit?—I do not think the Government would have to pay any more for the things in New Zealand.

You previously stated that the man who was selling the goods at £1 could perhaps get £1 5s. for them because of the extra purchasing-power?—His lowest selling-price would be 15s., but he has the opportunity to sell at £1 5s., because the buyers are willing to pay that much.

Then if he has the opportunity, do you not think he will do that?—The Government is not bound to pay that much.

But if he can sell his goods to other people who will pay £1 5s. he does not want to sell to the Government at a lower price?—The Government is shrewd enough to make a bargain. It says, "This article is costing you 15s., we want to place a big order, what will you do it for?"

Though prices are going to rise to the general public they are not going to rise to the Government?—I say they could rise, not that they are going to rise. I am pointing out that a man who owns a business has the opportunity to make a bigger profit for himself and he can then pay bigger wages.

You would perhaps fix prices to stop them rising?—No, I do not believe in that.

How are you going to get over the difficulty of preventing prices rising?—Competition will do that, and there is another way, by limiting all incomes. I advocate that.

Do you thing incomes and wages are the only elements of purchasing-power?—I have not investigated the point. Probably many ramifications would affect my answer there.

These products that we sell overseas would not vary in price, so that your extra purchasing-power would not affect them very much?—No.

So that the concentration of purchasing-power would be on goods produced in New Zealand for the New Zealand market?—The purchasing-power would apply to the produce of importers as well as exporters.

Therefore you get a greater concentration on locally manufactured goods than imported goods ?—Perhaps.

The result being a greater price-rise in those and perhaps no rise at all in the products we export, and you will find that the things the Government buys are the things that are manufactured or imported, so that the Government expenditure will rise very much ?—Not necessarily. The greater purchasing-power and the greater demand for goods, which might increase the price of goods owing to the temptation to put the price up, might be met by a greater production of goods.

The larger the scale of industry the lower the price of goods ?—I think competition will come in and there will be greater production of goods.

But in the production of goods they need raw materials, and surely the price of raw materials will rise ? There will be a greater demand for raw materials ?—Yes.

So you get a price-rise there, too ?—Possibly, and there will be a greater demand for local industries to produce those materials.

But my point is that money—purchasing-power—being greater would drive up costs ?—No, because of my interest-free money.

You think that is going to make the difference ?—£25,000,000 of difference per annum. That is the total interest bill now.

You mean the Government interest bill ?—The whole of New Zealand's public and private debt.

That does not include dividends from companies ?—No. It includes the £200,000,000 worth of private mortgages.

So that the position, then, is that you are drawing £25,000,000 out of the hands of rentiers and leaving it in the hands of some one else ?—Yes, it is being left in the hands of the people who now have to pay it.

So it is still active as purchasing-power ?—It is available as purchasing-power.

So you have not reduced purchasing-power at all ?—That is right.

There will be £25,000,000 annually, plus the other State credits which you wish to give away ?—No ; it would not be affected by them.

Those people who struggle in order to keep their insurance policies going would be encouraged under your scheme not to struggle so much, knowing that the State would come to their rescue ?—I have a proviso " in cases of hardship."

How would you limit it ?—In cases of hardship they would have to apply for assistance and their case would be considered.

What I want to get at is that it is very difficult to determine that. There will be more cases of hardship under your scheme than there are now ?—They probably exist now, but do not come forward. The Unemployment Board, Charitable Aid Boards, and other authorities have now to determine cases of hardship. I am not introducing anything new.

Take my case : I am perhaps struggling under high insurance premiums, salary reduced along with other people, and I have a big mortgage on my house. They are fixed charges, you will notice, and my other costs rising by the high price of goods. You may make mine a case of hardship. If I know the Government is going to take over what I cannot carry on, instead of letting my mortgage go I will let my insurance go ?—You have to persuade any one who is going to investigate your case that you are a typical case.

There is a claim sometimes made for universal insurance.—Yes. This is along the same lines. This would prevent impoverishment of families down to zero at the very time of need. There is no reason why the Government should not continue the paying of premiums in cases where the financial position justifies it.

That seems to me to be a principle you could enlarge further. Why not advocate the State paying all insurance premiums and make universal insurance ?—That would perhaps be more difficult to introduce. This could be introduced at once and could be made retrospective, too.

You understand that this Committee is prepared to investigate schemes that are very difficult of introduction, but if they are sound schemes it does not mean to say they are going to be cut out because they are difficult ?—You do not suggest any difficulty in the Government paying these premiums ?

Not at all. I am not suggesting any difficulty in paying out this credit. As an actual fact you can write these up in books. Whether they will do it or not is a different matter. If it is a good principle to assist those who cannot pay their insurance now, would it not be a better principle to have universal insurance, the same as old-age pensions, and make it the burden of the whole community ?—My scheme would operate immediately. Under universal insurance you would start paying now but perhaps not get your return immediately.

We have a pension scheme which acted immediately ?—Here is a case in which £4,000,000 per annum is being taken away in reversionary benefits from the poorest of the community ; that is definitely creating poverty.

But that £4,000,000 is not the surrender value of those benefits ?—That is the face value of the policies.

But that would only become due, surely, when the olicy becomes due ?—At death.

Or maturity ?—Yes.

Though it may be £4,000,000 in reversionary benefit, you could not say it was £4,000,000 now ?—It is £4,000,000 policies, and I would be prepared to say that if even £1,000,000 should go back it is worth while. I do not say the whole £4,000,000 is robbed.

The Government should pay the surrender value ?—They should pay the premiums to keep the policy alive and take it out of the ultimate pay-out.

Why not ask to have these transferred to the State ?—That could be an alternative.

It might be a better alternative from the point of view of the State ?—Yes.

I think I see most of the points you are making ?—I would like to draw the Committee's attention to clause (1), where I increase the number of employees and enable the business to still make equal or more profit. Here are the things which this clause will do if it proves effective: it will increase the workers' leisure, which they have continually asked for; it will abolish unemployment, which is the main object of this inquiry; it will maintain the wage standard; it will create greater purchasing-power right through the community, so that even those who do not participate in the interest-free loans will benefit; and it will give actual profit and prosperity by reducing the cost of production. It will be permanent, because the State could continue to finance on this basis because the credit it pays out is returned and therefore available for reissue. If we can increase the demand for workers and give the industrialists greater profit, too, I think we have solved the problem we are trying to solve. There is also this question of small farms. It is a very serious matter. The small-farms organization has been set up at some cost to the country on the basis of the Small Farms Act, which was passed by Parliament, and we believed that the Government would put this into operation in a reasonable way. At the present time the small-farms administration is absolutely dead. This body is carrying on a large-farms operation, taking undesirable properties away back and trying to delude persons to go out there and take part in developing work in making roads and felling trees on a promise that if they prove themselves good roadmakers and tree-fellers they will be allowed to ballot for a portion of this land.

Mr. Murdoch.] Your complaint is that the system is too slow ?—It is too slow, and it is acting in a direction never intended by Parliament. It is not going to help the country at all. I think it is disastrous to put families away in the backblocks under the conditions that would attach to small-farms operations there.

Mr. Clinkard.] What do you mean by a small farm ?—Of 1 acre up to 20 acres or 25 acres, and such area should be near the towns.

The Chairman.] But they are getting assistance ?—The assistance now offered is that the State will take the whole of the milk cheque and pay the necessary sustenance.

If a man has to start off, he is getting a certain amount of assistance from the Unemployment Board ?—Equipment, yes.

He is allowed so much a week ?—The latest announcement is that the Government will take the entire milk cheque, 100 per cent., and allow the family sustenance to live on.

Mr. Murdoch.] Do you know how that has arisen ?—I cannot see anything to justify it.

The Board at the outset allows the occupant £1 a week. Where the occupant gets £2 per month from three or four cows, one-quarter of that, 10s., will be deducted by the Board from the £1 allowed, so that the Board are paying 10s. to make up the £1. As soon as the yield dropped down to £1 or 15s. a month the machine has broken down, because they have not varied the amount they were making up. That is to say, the Board was allowing 10s. a week when he was earning 10s. from the cows, but when the yield from the cows dropped down to 5s. a week or nil, as the case might be, they were still paying 10s. weekly because it took so long to get from the local representative to the Board and back to the local representative to have the former £1 a week reinstated ?—That does not justify the system.

What do you propose to put on the small farms ?—Certainly not dairying.

Assuming you had small farms close to Auckland, what would the farmers do ?—I could probably find you a man on 1 acre of land and getting £5 a week out of it. It is the duty of the Government behind such a thing as the Small Farms Act to find new avenues of employment. Dairying is not the most hopeful outlook. The small-farms organization has not given us any evidence that they have attempted to find and develop new products that are suitable. For men to go twenty miles away from the nearest town to produce perishable products is hopeless.

If you had a number of settlements out here, would those settlements be able to compete in, say, the vegetable market with the Chinese ?—I think not. The Government could find other things which are not being produced now and which are desired at very high prices. We might develop exports in goods we have now glutting the local market.

Mr. Clinkard.] Can you specify ?—I do not see why we should not be an exporter in small fruits on the export market. They are not being produced.

Captain Rushworth.] I was in Motueka recently and I saw a man ploughing in 5 acres of raspberries because there was no sale for them———

Mr. Murdoch.] We are trying to get at something which could be done for profit. The dairying industry at the moment is not profitable ?—I would rather not mention any particular article—they would all be controversial. The authority in power should be searching for new commodities to produce. I am not in a position to search for them, but they are in the position to do so. I am convinced that they exist. There is the fact that 97½ per cent. of these poor fellows dropped their efforts in other directions when they put in applications for small farms and were betrayed by the Government with a tremendous loss to them during the time of waiting.

Dr. Sutch.] We have 80,000 farmers in New Zealand. In all 12,000 applications were received for small farms, and you are going to have all these 12,000 on small farms in New Zealand in addition to 80,000 big farmers ?—Yes.

The result would be, first of all, that the Government has to buy these properties ?—Under the Act they can lease them, but they can buy them; I have no objection.

How much would it cost to buy and equip a farm of 20 acres, close to the city ? It would be very valuable land ? How much do you think it would cost for one farm ?—Twenty acres, say £1,000.

So that 12,000 applicants would be £12,000,000 at least. There is building and equipment included in that. It is rather a large outlay for a problematical return ?—You are merely asking a small farmer to pay £1 a week. A workman pays that rent in town for a house alone without any means of providing a livelihood.

£1 a week for an expenditure of £1,000 on his farm. You are allowing interest, of course ?—No, no interest.

Therefore in twenty years it is paid off ?—Yes.

With so many small farms, you are sure to drive out people who are just existing by supplying the local market ?—They should not be herded together to supply the local market; avenues should be found.

Mr. Clinkard.] Why have them near the cities, then ?—That is where the merchants live. I would have them only near the cities and towns. They have reasonable facilities. It is not good business to send those families into the backblocks. They have to spend £1 to get £1 worth of goods to the market.

The market is in the city ?—That is where their goods can be handled. A man who is twenty miles from the railway-station has to send his goods twenty miles before he gets to the railways. These are tremendous handicaps which should be taken into account.

They do take them into account, but railway transport does not cost materially more ?—You have to get the goods to the railway-station, twenty miles.

Mr. Murdoch.] And you think there is a market overseas for the produce, say, in small fruit from 12,000 farms in New Zealand ?—Yes.

Despite the competition of Australia and California ?—We do not stand down because of other competitors. We can perhaps produce very cheaply.

We have the climate ?—The climate is right; but on the blocks now being secured the situation is wrong and the contour, very likely.

Dr. Sutch.] Quite apart from the question of finance, there are other difficulties. There are marketing and high production costs; have you gone into that problem at all ?—I have given it some study. A farmer's costs include interest one-third.

Apart from the financial consideration ?—He has got that third available to pay now in other directions.

And the Government, of course, would not borrow this £12,000,000; it would be an issue of Treasury bills ?—Yes, State credit. It could be put into the bank to each man's credit or to the credit of the people through whom the Government is obtaining goods and services. They would work on it. If the banks are not then operating in that way, the Government institutions would carry their accounts.

You are helping a proportion of the community. I cannot see why you cannot extend your principle and the Government aid every one and organize the whole country ?—It is available to all industries, to city employers and to manufacturers.

So that they could get State aid as well. Why not have a State organization, State socialism ?—State socialism ? I think the simplest definition is "every one working for the State." I do not want that. We have seen the difficulty of carrying on this unemployment system of relief work. We do not want to be all relief workers. I am trying to save the capitalistic system from destruction because I believe individualism is necessary. We want to be allowed to work on our own account.

You are introducing Government aid to any one in the community who cares to apply. Why not extend your principle ? I understood that, having once accepted the principle of State aid and extended it, it would lead logically to the State organizing every one, not necessarily employing them ?—I have not proposed the State should organize, but that they should replace interest mortgages with mortgages free of interest.

AUCKLAND, 15TH MARCH, 1934.

Statement submitted by Mr. E. J. GEE, Auckland.

I wish to give evidence in support of the following statements:—

1. That it is in the interests of the people of New Zealand that the Government should take over the sole control and issue of the currency as expressed by both money and credit.

2. That a non-profit-making Board should be set up as part of the Treasury, having as its Chairman the Comptroller of the Currency. That this Department be organized in three divisions, namely:—

(*a*) *An Issue Division*, whose main function would be the issue of all currency whether in the form of money or credit.

(*b*) *A Securities Valuation Division*, to assess the values of securities offered to the Government for the issue of currency or exchange, purchase and tabulation of same.

(*c*) *An Exchange, Sale, and Purchase Division*, to set up and control the mechanism of a non-fluctuating system of exchange.

Witness: Mr. E. J. GEE, Auckland.

Mr. Gee: Mr. Chairman and joint Committee members, before going on to my statement I would beg leave of you to pass a few remarks. I think they might come under the heading of factors that are general and relevant to the subject that we are going to discuss. In the first place, I would like to say that in addressing the Chair I want each member of the Committee to take my words individually to heart as though they were alone and in secret by themselves, for this simple reason, that the matter is of such serious importance and it has to do with either the happiness or the misery of little children, frail women, and despairing men. We are not dealing with a cold mechanical subject; we are dealing with human lives. What I have met with personally in connection with distress that is existing at the

present moment would, I am sure, touch you. I am not here altogether at my own charge ; I am here on account of my appreciation of a man who is no longer in this world and with us. I speak of the late Mr. Falconer Larkworthy. You have all heard of him, I dare say. Mr. Larkworthy, I consider, was the greatest banker of the century, and I will give you my reasons for saying that. In the first place, he was the banker who was bold enough, courageous enough, to suggest a costless exchange, and, moreover, to his great gratification, he had the opportunity to put it into motion. That was taken very hardly by the majority of other bankers, I can assure you, and, as an instance of how the bankers felt towards Mr. Larkworthy, I might tell you that at the time when he was Chairman of the Ionian Bank he had £600,000 worth of securities of the best type and he came to London and offered them to the banks in London and they would not lend him the £75,000 he wanted to borrow ; they would not lend him one copper. They turned him and his securities away. I point that out to you to show that this man had somewhat to suffer for introducing the costless exchange. Naturally it affected the financiers and bankers. I want to prove, and I think I can prove, that this Mr. Larkworthy was a man who could be depended upon for caution, judgment, and capability. I will not go into that further at the moment, but a little later on I may refer to certain things which prove that that gentleman was a most capable gentleman ; that he was a cautious and far-seeing man ; and, moreover, that he was capable and trustworthy, and, what is more, he was above monetary reward or considerations. Now, this man has a great link with New Zealand, a very great link. He was, in the early days of the settlement of New Zealand, representing the Oriental Bank here. Being a man of feelings he noticed that this country, which he considered the most beautiful country in the world, had no bank of its own. It was being handled by agents of the banks. Of course, he was an officer in one of the banks, but he had feelings that this country should have a bank of its own that would handle its affairs and not be like the other banks who had not an actual stake in the country and who were interested more in drawing out capital, so to speak, for their own needs, than in any other consideration, and this thought led to action. After a while he, with some others, really started the Bank of New Zealand. When he was asked if he would take into his hands the steering of this new bank, this young bank, and stand it on its feet and carry it through its early vicissitudes, after consideration he replied in the affirmative, so he resigned from his position in the Oriental Bank and he became the actual man who founded the Bank of New Zealand with his own hands. That bank has done the business of this country all these years, and it is a very important institution, as we all know. He actually assayed gold with his own hands in Otago, bought gold, printed the first notes, and started all the different branches in the various centres. Having got the thing going here in working order he went to London and took charge of the bank there and he was there as managing director in London for thirty years. During the time he was in London, in two instances he saved the bank from what you might call disaster and he steered the bank through numbers of bank crashes in the old country. He successfully brought the Bank of New Zealand through, and after thirty years he resigned. I will have a little to say about his resignation presently. He resigned from the Bank of New Zealand, and it was not long afterwards that he was induced by the Ionian Bank, operating in Greece, to take over the managing directorship of that bank. Mr. Larkworthy was in charge of the Ionian Bank as managing director for three years and thereafter was chairman of directors, which position he held until he retired from banking life. It was during the time Mr. Larkworthy was chairman of the Ionian Bank that the Greek Government put into force the costless exchange, and when I say costless exchange I mean costless except for the book-keeping. He put it into force, and, I understand, for ten years (you may investigate this more closely, I do not profess to go into the technicalities of it) at any rate that system ran perfectly right through the war, and I understand that it did not rise or fall more than ½ per cent. through all those troublous times. After some years, I believe, it proved such a success that Egypt took it on, and, I understand, that is the system Egypt is at present working upon. Now, as to relevant factors. I think there are other factors outside of what we might call economic terms. I trust you will bear with me if I speak of some of these factors. One of the factors in connection with economics goes very deeply to the core of the human being, and that is his affections. I do not want to be sentimental, but it is a very deep factor—his affections. If a man's affections are set, regardless of the common welfare, upon the acquisition of money, that man will become as hard as a stone. His real intelligence will be stunted and stilted and he will go on with his objective in spite of everything.

Mr. Clinkard.] Do you really believe that ?—I do. His real intelligence will be subordinated to his desires. Now, if a man's heart, on the other hand, is right and his affections are interested, not in himself, but in his fellows, then he will be imbued with a discernment that will carry him right on until the happiness of those objects of his affections is accomplished. He will bring to those objects of his affections the happiness he desires. Now, I am a native born man myself ; my father and my mother were on the water at the same time as the first four ships came out to form the settlement of Canterbury, and my grandfather built one of the first houses on the Canterbury Plains. I can say, " This is my own, my native land " ; and I am delighted to think that this country, this land in which I was born, is one of the most democratic countries (as far as feelings are concerned) that there is in the whole world. There has been a lot said about New Zealand by other people in the world because of its small population. We must not get an inferiority complex on that account. In Seddon's days New Zealand led the world in humanitarian legislation. If any legislation should be valued, surely it is the humanitarian, not the financial. I notice from Mr. Larkworthy's book that a man named Froude in those far-off days said that in this country there should be giants born and bred here. Now, whether Mr. Froude meant in physical stature (and I do not think New Zealand is so far behind as far as that is concerned) or in moral stature I do not know, but I hope he meant the latter—moral stature. I think we all admit that the whole world is seething with desire that some improvement should be made in connection with economic distribution. I do not think there is anybody but will admit that there has been good in the system of things that have been going on up to the present, but I hope to point out *two extremely bad things*,

vitally bad. The good part of it is that money has enabled people to exchange goods up to a certain point; that is the good in it, and it has been a very wonderful thing, and what it can do in the future years will, I hope, be realized. As to the statement that it is in the interests of the people of New Zealand that we should take over the sole control and issue of the currency, first of all I say, what is credit, what is money really? I take it that it is a form of certificate, whether it be coin or whatever it might be. It is a certificate for something it is supposed to represent. In other words, it is something like a reference given to a man for his services. If you take a man who has faithfully served his master and when he gives notice he says, "Will you give me a reference?" and the master turns to him, having gain in his mind, and says, "I will not give it to you unless you pay me for it." Now, that man cannot get his reference, and if you have a discriminating public he cannot get a job because he has no reference. Now, he has either to pay for that certificate or else go without a job, and that, it seems to me, is what we are doing with the banks. If a man has proved his worth in production or, if not production, his capability of service, he has proved his worth, but to use that, to get the gain of it, he has to have money, and if he goes to the banks they will not issue that money to him unless he pays for it. He has no business to pay for that. It is his credit. It is what he has himself, that should be credited to him, and it is only fair and honest that that man should be given credit for what he has done or is doing without any one demanding money in payment for it. I do not profess to have a great understanding of this thing, and I am not going to attempt to thrash it out to the very end. I am going to do something different from that if you will permit me. I have a book here, I daresay some of you have seen it. It is called "Ninety-one Years" by Falconer Larkworthy. I have had this put into my hands by an old lady, and she has given me permission to hand that book over to the Monetary Committee for them to read it quietly and at leisure, so that they may weigh the whole subject. I propose to do that, gentlemen—to hand that book over; but before doing so I should like also to draw attention to some quotations from another book of Mr. Larkworthy's called "Occupy till I come." It is of a strongly religious nature and is not for general circulation. It was for private circulation, therefor I am not free to hand that book to you; and another thing is that it is more a matter for individual study, because it is of a strongly religious character. Nevertheless, there are some things in it I should like to draw attention to. First of all comes the subject of sound economics. I will read out what Mr. Larkworthy said about that (and I hope you will give me tether—I am speaking now under the heading of factors general and relevant) and I hope we are walking around the subject to get a look at it before we get to the core. This is what Mr. Larkworthy, who was for seventy-five years a successful banker—not a foolish banker but a successful one, one of the most successful in the world—said: "Sound economics include all those problems which concern mankind, which have to do with the mechanism and the evolution of their relations one with the other." That is put in a peculiar way, but it means that it is to facilitate the happy flow of relations between us. That has more especially to do with the sustentation and the development of life and with what is called wealth—sustaining of life and wealth. You will notice that there is very little in this to do with profit—very little to do, so to speak, with balance-sheets or anything of that kind. In regard to unsound economics he says, "Unsound economics are the same problem restricted from the point of selfishness, self-assertion, and ownership." Now I will speak about the matter of gold; I think it is relative. We hear a good deal about gold. We know that the gold standard was taken up again by Mr. Winston Churchill. Mr. Larkworthy warned them before that was done. He said, "Gold is dethroned and is and always has been a great burden on the labour of mankind." He rules gold out. Now, then, as to this matter of the monopoly of credit by the banks. I would not like to say that the banks, in the way this thing has grown up, have been positively devilish and wicked and have gone about thieving from the public. I do not put it down in such terms as that, but it has gradually grown up from the powers committed to them. The public committed those powers to them unknowingly. The public are very trusting, and one has to be most cautious with the public. If they are treated fairly the public will go on continually. If their lot is improved or if their lot is sustained by the system of things, the public will not change. The banks had this in their hands and the issue of money was increased and increased. First of all it was held within certain bounds by law. Then they had to ask for more freedom as far as the issue of credit was concerned, and they got it; but there was one side of the question—one particular point of issue—that, as far as I can hear, they never asked for but they used it: that was the issuing of money on overdraft. They did not ask permission for that, and I understand that they never have asked for it. They have taken the bull by the horns and issued that credit, extended that credit in the form of the issue of overdraft, and that is what I mean by a man who has done a service and who has something to offer to his fellows having to pay for what really belongs to him and should be given to him freely. The banks will not give it to him freely, he must pay the money before they will give him credit for what he has done or for what he is. A fine state of things! You might say the banks must protect themselves, they must have security, and then, of course, if they have the bother of issuing the money and the care of it they should be paid interest for it. That is one of the things that Mr. Larkworthy attacks most pointedly.

The Chairman.] Did he carry out that principle while he was in charge of the banks?—No; he did not see——

He only sees it in later years?—Yes; he was at one time a great supporter of the ordinary banking system and the gold standard; he was quite orthodox and was not quarrelling with his fellow-bankers at all. He was thinking of the vast mass of humanity and what belonged to them. He wanted to do good to mankind, and he saw that this was an unjust thing. That margin of security simply meant a strangulation of the right amount of money to be issued for the flow of liquid wealth. The liquid wealth was there—millions upon millions of it—but the good of it could not be handled by the owners—the people—for the simple reason that the margin of security always kept back the amount of flow of the issue of the banks.

Do you mean that there was wealth there which had to be turned into a liquid form like currency? You would not call anything concrete liquid?—It is movable wealth which can be passed from one to the other, but there is no method unless the amount of money to equal it is in circulation. The margin of cover is the difficulty, and I shall quote you from Mr. Larkworthywhat he has to say about this bankers' cover. With all humility I tell you—do not think for one moment that I am pretending to be an economist—I am not. I am struck with the desire of this great man in his last days, a man of mature thoughts and experience, and his deep desire for all his fellows that his word should be listened to, and I am here to carry on with the work that he has now given up. I have been a business man for many years and successful in my time, but, after all is said and done, one of these days we shall lay our businesses down. This country is avowedly a Christian country; nearly the whole of the population are Christians. Why is there the impulse of our spiritual beings towards a goal? This is what Mr. Larkworthy says as to the monopoly of credit.

Mr. Clinkard.] We cannot cross-examine you on that?—If you will allow me, I will read some of these quotations to you.

> It is sometimes said that money is the creation of the State, and therefore should not become a class monopoly, but money, or wealth, is never created by the State, or by that section of the public only which the State or Government temporarily represents. Probably what is meant is that a paper note issued by the Government and based only on the State's credit, and the State being the public, no private interest for their own benefit should be allowed to monopolize the use of the State's credit for the exchange of wealth. But these notes, in the process of issue, are exchanged for, and represent, wealth made by all classes, mainly in the shape of services rendered to the Government or the State, or by individuals reciprocally, and can in no sense be said to be the creation of the State or of any particular class.

If they were paid better for the custody of wealth they would not be so intent on holding the issue. Bankers are custodians, and I may at this juncture say that I have no wish or thought against banking. Mr. Larkworthy thinks, and I think, you will find the majority of folk who give it any thought value the service of the banks, and think that that service can be increased to a tremendous degree in the circulation of wealth and the carrying of that wealth to the people. Banking should be consolidated; but one point is the issue of money from the banks—that should not be theirs: they have no right over that. I understand they have no legal right over it. I would like to say here, I am afraid we have put our foot in it. I know some of you gentlemen are with the central bank, but I think we have put our foot into it a little too far in connection with the central bank, in handing over to that institution the issue of money. Actually by law before, the banks used to issue it and the Government could have stopped them any time. But in giving them the legal power to issue, I think we have gone a bit too far, I think you have given away something that belonged to the people. Mr. Larkworthy says,—

> Therefore banking should be encouraged and not monopolized by the State, but organized and safeguarded from all political, sectional, and bureaucratic influences. Whilst the independence or autonomy of banks should be maintained, co-operation of the closest character should be encouraged and amalgamation allowed, if convenience to the public and benefit to the shareholders are secured thereby, as in the case of covering different areas geographically, as trade is not local only, but is essentially cosmopolitan.

The idea of forming a State bank is wrong. Banking should be handled the same as any other business. "*The monopoly of currency by the State is what ought to be legalized, for in no other way can the liquid wealth of a nation be fully utilized*, and herein lies the possibility of a great profit to the State." It should be solidly protected from any manipulation by individuals for their particular benefit; it belongs to the people; it should be a costless thing for the people. It is their right and due, and it is naturally a recognition of it, just the same as you might say, "Yes, you have done good service; there is your reference," and that should be issued costless in a form of money or of credit. "The monopoly of currency by the State is what ought to be legalized, for in no other way can the liquid wealth of a nation be fully utilized." That is the monopoly of the currency—not banking—the issue of the currency. Allied with that, of course, is the exchange, as I have said in my statement—the control of the exchange. I will tell you what Mr. Larkworthy says in connection with exchange. He says that it is robbery. I will read you what he says, and this gives you a little idea of the magnitude of the robbery. Speaking of the Argentine, where there are many millions of British capital invested in the railways, he says,—

> The President of one great railway said, in excuse for the situation, "For the sake of our national honour it behoves us to stamp out once and for all with a ruthless hand this pernicious germ." But we turn to the States of more peaceful character, and to our statistical records of the proceedings of public meetings a few days ago of four of these Anglo-Argentine railway companies. The report for the year ending the 30th June, 1924, of the first of them—the Central Argentine—whilst recording an increase in gross receipts for the year of £458,705, recorded an increase of working-expenses of £383,874, and also freedom from labour troubles, and a general improvement in the business of the company. The total of the various stocks amounted to £29,142,673. The profits in the shape of Argentine currency converted into sterling had to be made at the par value of the gold dollar.
>
> If we summarize the four, we find they all made enormous losses on exchange in the year ending 30th June last:—

	£
The Central Argentine exchange losses amounted to	817,574
The Buenos Ayres Great Southern losses amounted to	755,733
The Buenos Ayres and Pacific losses amounted to	580,856
The Buenos Ayres Westerns losses amounted to	342,809
	£2,496,972

> Fortunately, after the accounts were made up the peso rose from 41 $\frac{1}{16}$d. at the end of June to 45d., and, seeing the great increase of traffic and of receipts, they were able to meet without serious strain, and to pay dividends equal to those of last year; but we ask, Where are the millions sterling gone to, indicated by these and other gigantic losses, and to whom do they equitably belong? They are simply a part of a gigantic robbery of the share and bond holders of these railways built out of British capital.

This juggling with the exchange was the means of robbing the British bondholders of over £2,000,000 in twelve months. Mr. Larkworthy calls it robbery. In his administration of banking he put on foot the costless exchange and carried it through. He speaks of it as a perfect thing, and hopes it will come into universal use throughout the world. You might say, if this is the truth, why on earth is it that there are so few among the mighty—the thinking ones of the great men who handle these things—to speak for the truth? I go back to my first remark, and think it is a wrong perspective. Instead of thinking of the little children, and the poor women dragging their bodies around, and the haggard men going home to their miserable homes after looking, perhaps, for jobs, they have been looking at an exalted position. What a wonderful change could come about by these means; and when that change does come about it is going to give the person in whom it comes about an opportunity to trade in happiness. I want to speak of another thing—I can speak with feeling in connection with this matter that I am going to introduce to your notice as it involved personal experience. It is something that I have personally experienced, so that it has gone pretty deep. It is in connection with the Federal reserve banking system, which Mr. Larkworthy here very clearly and openly says he considered at one time was the best in the world—that it was flexible and he could see nothing better. This Federal Bank of New York was supposed to be the best in the world. I should like to read what it accomplished—what Mr. Larkworthy has to say, a man who was great enough not only to handle the ordinary public in connection with banking but was so great that he was decorated by the Greek Government with some order called the Greek Order of the Redeemer for their appreciation of what he had brought in the way of benefit to the country through banking. It takes a good deal of appreciation for a man to have that order conferred upon him. He saved that country and the people not only from the rise and fall of stocks, but also from never knowing where they were in business. If he could change that and put it on an even footing and also put money in their pockets, he deserved that honour. It was a little measure of redemption. As to the Federal Reserve Bank, he speaks of a merged currency, but I am not going into that, but in connection with the artificial deflation by the Federal Reserve Bank in 1921 :—

> This, practically, was the tragedy of "artificial deflation," and was stated to be a mismanagement of the Federal reserve system. Its effects as set forth by John Skelton Williams, formerly First Assistant Secretary of the Treasury, Controller of the Currency, and *ex-officio* member of the Federal Reserve Board, and Director of the Divisions of Finance and Purchases of the United States Railroad Administration, were—Liabilities of failed business houses, 1921, 627,401,838 dollars—nearly six times as great as in 1919 (113,391,237 dollars), and over three times as much as in the panic year, 1907.

This is the great improved banking system and the result of that system. The improvement appears to me that it was merely that they had a greater control over the people. Therefore they were able to do whatever they liked with them, either for good or disaster.

How many banks were not included in that Federation?—That I can tell you nothing whatever about, but I can tell you something, if it is a matter of justifying the Federal Bank. You must use your own judgment as to whether they can be justified. They not only withdrew the credit from the people, but they did something which cannot be justified, actually with the solid gold in their vaults, they withdrew a certain portion of their currency when the gold was there to justify the money. The issue was drawn away from a certain proportion of gold. There was no justification for that whatever as far as my intelligence or understanding will go. These figures are exclusive of many thousands of farmers and individuals who also became bankrupt and ruined in the same period.

The Chairman.] I think you said you were going to come to the kernal of your statement, Mr. Gee. I do not want to hurry you, but time is getting on now, and we have not dealt with the statement yet. You have been leading up to it all the time?—As I propose, Mr. Chairman, to put this book into the hands of the Committee, it will only be necessary for me to read one or two of Mr. Larkworthy's expressions.

The unfortunate part of it is this: Do not think I am trying to stop you, but what you ought to have done instead of reading all these things to the Committee, you should have put them into a form of writing so that you could have presented them to the Committee. We cannot sit and listen to this stuff read off by the yard from a book which you say cannot leave your possession. That is no use to us?—This book is issued for private circulation. Perhaps some of you can tell me what is involved in that?

It would have helped us considerably if you had picked out your extracts and put them into writing and then submitted them, and I would suggest to you that you can do that and post it on to us. You can realize our difficulty in following these things?—In such a serious matter, a matter of the weal and woe of mankind, I think everything that can be brought to bear should be brought to bear, because the consequences may be so serious. I know this: That, generally speaking, the mass of people are looked upon as not having wisdom. It is usually, so to speak, credited to a limited number of folk (the wisdom to handle matters). Now I would beg of you for a moment to allow me to say this: That the greatest man, as far as his reputation for wisdom is concerned, Solomon, said in one place that "in the multitude of counsellors there is safety." We cannot afford to leave any factor out or ignore any individual, no matter how obscure that individual may be. He may have just the little touch that may cause the right thing to be done.

I was only trying to explain to you our difficulty, and if you will take out those extracts and send them on it will be much better. Have you anything very lengthy left to read to the Committee?—No, they are not very lengthy. There is quite a lot here, but I am only picking out some pointed remarks.

What this Committee desires is to have these things put in writing and submitted to them. It gives them the opportunity to consider them, study them, and then to ask questions upon them. That is why I suggest that you pick them out and send them on to us?—The only reason I am here, I can assure you, is this: It is not to establish a lot of figures and that kind of thing. It is to convey, if I may, my general feeling in connection with this great man's exposition of what should be in connection with economic matters. It is purely that, and I am only appearing here, if possible, to impress upon

the members of the Committee the need of due consideration of this great man's plea to humanity to take notice of what he has to say in regard to the matter. I will read this :—

Before the adoption of the British Treasury note-issue, I considered that the United States Federal Board scheme had in a great measure solved the problem of the supply and retirement of an elastic currency, mainly, of course, by its provisions for the supply and issue of Federal bank-notes against full cover of collateral securities. But since the introduction of the British currency-note-issue scheme I consider that Great Britain has found and is now possessed of the only perfect currency system in the world, provided that it be made logically complete by the announcement of the principle of incontrovertibility and by the suppression of all private issues, including that of the Bank of England. When once this is done, when all private issues are abolished, the question of cover will vanish from the field, and with it will disappear the whole clumsy, costly, cruel, and needless machinery of the bank rate.

Hon. Mr. Downie Stewart.] We are making a note-issue by the Government by the central bank. Exactly what are you asking for ?—No. Mr. Larkworthy said, speaking of the issue of money, "It must be State-owned and State-worked." He does not quarrel with banking as banking, but what he does quarrel with is the control of money, the issue of money, by the banks and the charges made for it, and also the fluctuating exchange, which he says, and has proved, can be avoided. Now, gentlemen, I will just put my little spoonful of thought, so to speak, into the general pool, and I trust that it will be of value.

Mr. Munro.] I want to take this opportunity of thanking Mr. Gee for coming before the Committee. I have been very much interested. You have A, B, and C here on this short plan of yours. In you statement you say you believe that the country has made a mistake in bringing into existence the central bank ?—I do.

Well, now, the issue division. I take it you mean by that some form of bank or Board set up by the Government for the purpose of issuing all credits against the assets of anybody—farmer, business man, or anybody ?—Exactly. That is as I try to convey it, giving them credit for what is true.

Supposing I have a building worth a certain amount, I can go to this particular Board and get any credit I wish and use that credit for any purpose I wish ?—Yes. Costless.

Of course, under certain provisions. Do you think that our present central bank will not function in that particular way ?—I think that it will not.

Could it be amended to function in that way ?—I do not think so, because the great argument of Mr. Larkworthy is this : That that belongs to the people and it should not be handled by private individuals who have anything to do with making money.

I take it you have analysed our Act of Parliament that brought into existence our central bank ?—Yes. I have read the Act through.

The State still controls that through the board of directors. You understand that ?—I have very grave doubts, and, moreover, as far as my own personal opinion is concerned, no private banking institution or institution that is set up with any object of gain can handle the thing aright. It is altogether outside the province of such an institution. It should be a non-profit-making Board.

Except for the working-expenses ?—Exactly.

Do you suggest that our present State central bank is out to make profits ?—Yes.

Because of the share capital ?—Yes. There are various ways, not altogether, perhaps, visible, that banks make profits.

But you understand that the central bank that is initiated in New Zealand by the Act has limited the profits or the dividends that it will pay ?—Personally I feel that it is a violation of the principles of right for any charge to be made for the people's credit. Supposing, for instance, a man goes on to a property and it is in a fearfully bad state—a disgrace. He goes on to that property and he sets to work on it and puts it in order, and he makes it a pleasure to look at. It is wrong for that man to be charged for the credit that belongs to him. He should be frankly given credit for what he has done.

In other words, you believe in the system adopted by, say, Egypt, which is practically the Larkworthy ideas put into operation, is it not ?—I do not know what the position is in Egypt exactly, but I understood that it was at any rate modelled on Mr. Larkworthy's idea, but I do not profess to know.

You quoted Mr. Larkworthy on the Reserve Bank of America, or we will call it the Reserve Board—Federal Reserve Board ?—Yes.

So that machine, as we will call it, was one of the finest, according to Mr. Larkworthy, ever set up in the world, was it not ?—It was supposed to be, and it is supposed to be now.

But the administration was absolutely wrong, and frankly nullified any benefit to the country that it might have been able to give. Is that your opinion ?—No. Certainly the administration was at fault, but the members, I understand, of that Board (I do not know whether I am correct here, but you can look it up) continued in office in spite of those fearful results, showing you see, the danger of any institution of that kind having control of the people's currency. The trouble is this : That this question of bank cover, as you can see, whether it was done under the cloak of wanting cover or for another object, that is another matter. It might have been done with another object, and you might say, What objects could they have in deflating the currency ? Well, one object that I think I can point out is that when men have the power of money in their hands like that, by deflating it, bring down the values of trading concerns, there is nothing to prevent them from knocking them all to pieces, and, having done that, they can step in and, at their own price, pick up that particular industry, set it on its feet again, and get all the profit of the other people's investments. That is a very important point.

And you believe that our State central bank in New Zealand is a mistake. It cannot function to carry out any of your particular schemes, as A, B, and C, even if it was administered with the best intentions ?—I do not think so. I think it wants to be entirely separated from banking.

Mr. Lye.] Following your address this morning, Mr. Gee, I presume that you would prefer to base your opinions on the questions of banking and currency on Larkworthy's books rather than more modern and up-to-date books that are in circulation dealing with the problem ?—I think this was printed in 1924.

Have you read the Macmillan Report on Banking, Finance, and Industry? That was a Committee that was set up by the Chancellor of the British Exchequer to go into the whole question of banking and industry?—How long ago was that?

That was issued in 1931. The report was presented to the House of Commons in 1931. Have you read that?—I have read a portion of the Macmillan report, but I do not profess to know anything about it.

I presume that before one advances opinions on such important questions, which we are agreed upon are important, as banking and finance generally and industry, it is necessary not to form your opinions on principles laid down by one set of writers or one school of thought, but it is necessary to study the question from every point of view?—I have given a good deal of thought to this matter. I have tried to get at the kernel of it, but the appalling state of things at the present time is right at our doors. If we ignore what is at our doors then we, so to speak, swim on the top and take no notice, but the appalling state of affairs is here. If there was nothing of this kind, if we were all prospering and all our neighbours and men and women and children were all in a happy state, we would not trouble our heads about any economic affairs; but when we find the thing going on daily and the torture that it is causing humanity, then naturally it arouses a good deal of thought, and I have had a lot of thought about this, and I have read a good deal, but still I only profess to know a little. But the principles at stake seem to be right in connection with Mr. Larkworthy's theories, and the minor details can always be worked out if the principle is right.

In view of the fact that the Committee that was set up by the Chancellor of the British Exchequer, generally referred to as the Macmillan Committee?—Can you tell me his name, the Chancellor of the Exchequer?

Neville Chamberlain. Well now, the Committee represented the most prominent men in Great Britain, and the most capable men on banking and finance and industry in Great Britain; a Committee of fifteen. Now, their finding is generally accepted as being the most up-to-date text-book on banking and finance of recent years. Before coming to any definite conclusions, do not you think it is necessary that one should pay due regard to the principles laid down and the recommendations laid down in this report?—Broadly speaking, what are the principles of action?

I cannot tell you in a volume like this, but for your information I will tell you that you can get it at a cost of 5s. It is printed and published by His Majesty's Stationery Office in London, and you could easily get it through a local bookseller, or you could send direct for it. And, realizing you great sincerity and your capacity for reading and studying up, may I suggest, in all friendliness, that this is something that you might well get for your own advantage, and I think one really wants to read this latest finding on banking and industry and that it may be very helpful to you and others?—I should be very glad to read anything that brings light to bear upon the subject. My only object and my only hope is that a happier state of things may be brought about.

Exactly. Am I to take it from what I have heard this morning that you believe, on principle, that the banks or lending institutions should not make a charge by way of interest for the use of money or credit?—No. I do not think that the banks should. In the first place because, taking it up as a business matter, it is only right that they should be paid a certain amount for their anxiety and judgment and many other things. However, there is one thing that I do think is wrong. I am only giving you my own feeble thoughts. That is, that supposing, for instance, there is a man that has the wealth and he goes to the bank (the people that have the money, which really is no more nor less than something which would represent that wealth). He says to the bank, "I want you to issue me a certain amount of money." He calls it a loan. "Lend me so much money." They lend him that credit, which I think is entirely wrong. It belongs to him. That man owns the credit. It is his credit before he goes to anybody to get an expression of it. The bank says, "Yes. There you are. There it is." Now then, this is the point: This man has there his wealth. That cannot be put into circulation. We will call it a factory or property. It is permanent. It is something that he can use; but he cannot sell it to anybody else, as he wants to use it. Therefore he goes to the bank to get an overdraft, to use the facilities for turning out some service by which he can get a living. He goes to the bank, and the bank lend him, we will say, £1,000. The bank hands him that in credit paper or whatever you like to call it. Now, when that man sets to work with his machine, and so forth, whatever it is, he turns out the goods and he recovers actually from the people a certain amount of other credit or whatever it is called. He recovers that from them. He has parted with, actually sold, real wealth. He has put it into their hands. He takes that £1,000 he gets from them. He has parted from his wealth, put it into their hands. He takes that paper and he pays it to the bank in repayment of his overdraft. That man has given to the bank £1,000 worth of absolute wealth by work, brains, and everything that he can put into it, for the bit of paper or credit that they hand him, and I think that is unjust and inequitable. Banks have no right to that whatever.

Now if that operation that you have described did not take place, what would be the position? I have that property and by virtue of the fact that I can get a bank loan I monetize, for the time being, the value of my wealth represented by land, which enables me to get a credit from the bank. Probably the bank is lending the credits of other people deposited there. They lend me £1,000 on the security. I am in debt then to the extent of £1,000, then when I further improve the property and sell my goods and get payment from the man that I sell them to I get some of his in return for the wealth that I am giving him in exchange. Then I go back and repay the banks; pay them the paper that they gave me, and my property, against which the loan is issued, is then free from debt or obligation?—Of course, the banks have the issuing of money, and you mentioned just now that they took money deposited with them and lent it out again. I do not know whether that is true. I do not understand that they do that. They take the money, and as those deposits increase they lend out an increasing amount of money as against those deposits, but they do not lend the actual deposits, and, moreover, they can increase the amount of issue as much as ever they like within their own requirement of what they call safety.

Mr. Langstone.] Mr. Lye has asked you to read the Macmillan report. If you read page 240 you will see that Sir Thomas Allen and Mr. Bevin, who were members of that Commission, say, "We are convinced that the Bank of England ought to be transferred into a public corporation, from a private banking concern to a public banking concern"?—It is, of course, all a matter of what you might call the gathering of the wisdom of various individuals, and getting together. It seems to me it really amounts to that; there is nothing in strife. It is really what you might call getting together and counselling one with the other and finding out the best thing to do. Mr. Larkworthy is strongly of the opinion that the issuing of money and the handling of exchange should not be in the hands of the banks at all; that it should be kept separate, for the simple reason that it is a costless thing and a banking institution is a profit-making institution like an accountancy firm or anything of that kind, and you would not expect an accountancy firm to keep your accounts without charging a due amount for doing so. Another thing is that the money really belongs to the people and there should be no charge, seeing that we have to use money. The whole country has one kind of money and you cannot use anything you like for money. Mr. Larkworthy says, concentrate that under one administration and use one kind of thing that every one knows and understands is recognized to be money, then we will have confidence and people will give us what we want. Money is only a recognition of the wealth there.

And in your opinion if Mr. Larkworthy speaks with truth whether it is young or old, written recently or written hundreds of years ago, it still remains the truth?—Absolutely. The principle is right, that is the point. As to the details, even he does not go into those, because he leaves them to the intelligence of others.

Dr. Sutch.] I feel there is only a slight difference of approach between yourself, representing Mr. Larkworthy, and the Government of New Zealand. For instance, in their Reserve Bank which they are just setting up they have a non-profit-making bank, such as you desire; they have the Secretary to the Treasury on the Board as you desire, but he is not the Chairman because he has other duties. We have shareholders admittedly, but the idea of the Government there was to get the people financially interested in the institution, so that they would be a body of people with a special interest in the honest running and administration of the bank. The idea of the Government was to spread the roots of the central bank throughout the community. There are over eight thousand shareholders, and I feel that you would not object really to what the Government has done. They limit dividends so that profit will not be the idea of the Reserve Bank at all. Profit is a very minor part of it, and you yourself say that it will be better to get together and settle these details, and it is only a matter of detail where you disagree, I think. However, you say that Mr. Larkworthy founded the Bank of New Zealand?—Yes.

And he also got the gold from Otago. Did he give the Bank of New Zealand notes for it?—He gave Bank of New Zealand notes for it.

Did they have any backing? The law says they must have a certain amount of backing?—Yes.

I want to know how they got gold in the first place. They had to have gold for a backing for the notes?

Captain Rushworth: The gold they bought was the backing.

Dr. Sutch.] That is what I want to find out. Before they could issue a note they had to have a backing, some of which had to be gold?—At that time they had to have a pretty solid backing.

They had to have the gold first to issue the notes?—They did at that time.

And with the notes they bought more gold?—That is not true now.

I am trying to get at the origin of the thing. They had to have gold as part of their capital assets before they could issue notes?—In that connection I will tell you this little story regarding an uncle of mine in Christchurch, father of Sir Walter Stringer: In the early days in Christchurch banks were not such big things as they are now. I remember my father telling me that the National Bank manager, when he came across from Australia, had not a single client, and he begged my father to give him a start. My uncle wanted an overdraft from the Union Bank of Australia and they would not give it to him—I do not know why. Anyhow he wanted an overdraft, and, as you will recollect, at that time every note that they issued from the banks had to be backed up by a golden sovereign; and as he could not get the overdraft he said he would show the bank that if he was weak so was the bank also weak. He set to work and bought up Union Bank notes and took them in in batches day by day demanding gold for them. The manager of the bank first heard of this through his subordinates and asked what was the trick my uncle was playing upon them in coming in every day demanding gold for notes. It soon became apparent that he was going to move their little lot of gold away, and where would the bank have been then? The manager sent for my uncle and said, "What is this nonsense?" and my uncle replied, "There is no nonsense about it, you promise to pay gold for your paper." However, in the end they gave him his overdraft. That was the position in those days, but it is very different now; there is none of that security.

You talk about parity of exchange, and in one place you mention the Greek-Egyptian situation. The situation in New Zealand was exactly the same from 1914 onwards?—In New Zealand?

Yes; so we would still agree with you that we have what Mr. Larkworthy desires. You state that with fluctuating exchange we have fluctuating price-levels. Would you also suggest that if we had parity of exchange we would not have fluctuating price-levels?—In the first place I think I had better not answer a thing I am not conversant with: I will leave that alone.

The Chairman.] I do not propose to ask many questions. I can remember a good way back, and I remember Mr. Larkworthy and what an estimable man he was in New Zealand. I think he was also interested largely in land?—He was until he lost his money.

It is interesting to follow his career as you outlined it this morning, where he upheld the banks in all their transactions all the way through, that is, by making people pay for overdrafts, exchanges, and all that sort of thing; and then there came a time when the state of repentance that we hear about came along, and in his older days, when he mellows, he says the whole system is wrong and apparently what he did for all those years was not correct. Is that so?—As far as correctness is concerned.

The system then ?—If a person is not cognizant of doing what is wrong then there is no blame attachable to him, but the moment his eyes are opened then the responsibility is laid upon his soul.

According to his doctrines in his late years—and he was a pretty old man when he died—he realized that what he had done for so many years was wrong ?—Not the banking part of it, as I stressed before. He was enthusiastic about banking. He said that banking should be consolidated and increased, and that it was a most wonderful and useful service to humanity, but not the issue of money and not the handling of exchange. Those two things, exchange and the issuing of money, are the rights of the people as a costless thing.

Did you state in reading out a statement from his book that exchange was robbery ?—He says so.

I know, but he practised it for many years, did he not ?—He did not understand the principle of it as he understood it later; and that is one lovely thing, I think, that no matter what our mistakes have been there is mercy, and it drops like gentle dew from Heaven.

In the Scriptures there is hope for the sinner if he repents ?—I will tell you another thing. Say a man has done something that is wrong, and it is going to seriously affect his reputation if he admits it. Now, it is a bitter thing for a person to have done something that is not right, and it is going to affect his reputation, and only those who have had to face that issue in their own experience know what it is. Say the man will not confess it because if he does his reputation will be gone, and he says he will stick to it. He goes through with it, sticking to what he has done externally, but internally he is condemned. Now, say that man suddenly collapses inside and says, "I will own the thing up." He owns it up, and on the one hand his reputation is lost, but on the other hand he has gained the affections of the people. He knows that he was wrong, and they welcome him as a brother to their hearts.

References made by Mr. E. J. Gee.

Quotations from Scripture regarding the need of "A multitude of councillors" when formulating measures for the people's welfare :—

"Where no council is, the people fall, but in the multitude of councillors there is safety."—*Proverbs* XI, 14.

"Without council purposes are disappointed, but in the multitude of councillors they are established."—*Proverbs*, XV, 22.

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Auckland, Thursday, 15th March, 1934.

Statement submitted by Mr. F. T. Moore.

Practical plan for the systematic issue and redemption of non-interest-bearing notes of exchange which notes are declared by the Government of New Zealand the sole legal-tender money, receivable for goods sold in this Dominion and for the payment of services rendered by any person in New Zealand :—

A National Credit and Finance Board, consisting of twelve capable men, sworn,—to honestly and impartially administer this great national monetary system in a just and equitable manner, shall be appointed by the Government of this Dominion and empowered by Act of Parliament to issue credit on the following classes of security—

(1) Departments of State authorized by Parliament to obtain advances on the security of a Special Tax capable of annually yielding 5 per cent. of the sum borrowed to assure the redemption of the loan in twenty years.

(2) Local bodies authorized by a poll of ratepayers to borrow money on the security of a special rate that will yield 5 per cent. per annum for the repayment of the loan in twenty years.

(3) Owners of land and buildings of approved quality and durability which premises are capable of earning in addition to cost of upkeep, rates, taxes, and insurances, 5 per cent. per annum on the sum advanced to repay the loan within twenty years.

(4) Farmers, mercantile firms, and agencies engaged in the production and/or distribution of primary products, who assign their products to the Finance Board for the realization of the money advanced by the Board.

(5) Manufacturers of secondary products on the security of raw materials and goods in stock assigned to the Credit Board for the repayment of advances made by the Board.

This practical scheme of finance is an enlargement of the well and truly proven Guernsey Island monetary plan—for the issue and systematic redemption of non-interest bearing notes of exchange repayable in the case of long-term advances, at the rate of 5 per cent. per annum, and on demand in the case of advances made on the security of perishable products.

Numerous endeavours have been made from time to time to inaugurate this inherently sound, common-sense system of finance in New Zealand.

The whole world may be searched for a monetary system, but none can be found to equal the Guernsey Island plan. As surely as there is but one sun in the heavens above to light and heat this cold world there is but one monetary system that can evaporate the financial and industrial troubles of this world.

The moment the Guernsey Island plan is adopted the whole of the wage and salary cuts which have been made can be restored and the whole of the unemployed workers who are now receiving starvation pittances can be employed at standard rates of pay on railway construction which has been abandoned; on national and local-body works that are suspended; in industries that are idle, and in the cultivation of land on an ever-increasing scale for the production of primary wealth.

It is impossible to exaggerate the tremendous social and industrial benefits that will instantly accrue when this economically stricken nation adopts this medium of exchange. The 5-per-cent. wages-tax that is levied in this country is adequate for the redemption of a gigantic Wages Fund of one hundred millions of money and the greater the increase of this huge fund, the greater would become the yield of the wages-fund-redemption taxes, consequently the fund could be extended to whatever limits is desired without imparing the true actuarial position of this great automatically redeemable fund.

This marvellous scheme of finance is the very greatest blessing that God has conferred upon this earth since the day He sent His Divine Son into this world, to prepare the way for the coming of this great scheme of finance. This great monetary system was conceived, born, and reared to perfection in a very humble way in the little British Channel Island of Guernsey in manner akin to the humble birth of the Saviour of mankind, and New Zealand has been divinely chosen to be the first nation in this world to fully enlarge and unfold the immense dimensions of this great medium of exchange for all other nations to copy. So soon as this wonderful financial key to the golden age of Christianity is faithfully implemented in this underpopulated country the surplus population of Great Britain, including her captains of industry, can be invited to come to this richly endowed Dominion, to convert every raw product grown in this country and every mineral that can be unearthed into valuable articles of commerce. The adoption of this non-interest-bearing system of money would automatically abolish the usurious practice of charging interest for the use of money, a practice that Christ sternly condemned when He lived on earth. The fact that banks issue inconvertible paper money, the issue cost of which is negligible, makes the interest charges levied for the use of this costless medium of exchange absolutely preposterous. And when further facts are disclosed which show that this paper money is wrongfully used to create scores of millions of incorrectly called "fixed and free cash deposits," which are not cash deposits, merely fictitious figures written in books by trading and savings banks, and which fictitious figures have been further improperly used to create hundreds and thousands of millions of further fictitious figures written on bonds, debentures, mortgages, and other miscalled gilt-edged securities—the colossal magnitude of this paper-money juggling with fictitious figures is amazing. This fraudulent paper-money jugglery must inevitably collapse, as recently declared by Sir John Sandeman Allen in this country and by many leading public men at Home. New Zealand should forthwith stop the continuance of this dishonest doomed-to-failure financial jugglery by summarily cancelling all the fictitious figures written in bank books of account, bonds, debentures, mortgages, and other fictitious instruments of security for the payment of which there is no cash in existence. The only cash available is the gold in the hands of bankers, and this is only sufficient to pay the face value of notes that banks have issued, consequently the redemption of these notes in cash is the one and only obligation that the trading banks of New Zealand are financially able to meet.

The revenue tax which the Government of this Dominion derives from bank-notes in circulation should be obtained from the proceeds of a universal sales-tax on all goods sold in New Zealand and in overseas markets. When primary producers and manufacturers of all kinds of goods are able to obtain non-interest-bearing notes of exchange, these producers of the wealth of this nation must be adequately taxed to pay the cost of the administration of all Departments of State that are not self-supporting.

The sovereign power of law is the supreme authority for the exercise of political force to assure the success of this monetary system. This system was a complete success in the Island of Guernsey, because the Governor of that Island honestly used his almighty governing-powers to make the system operate successfully.

Witness: Mr. F. T. Moore, Auckland.

Mr. Moore: On rising, I desire to compliment the Government of New Zealand upon having set up this Monetary Committee. I feel that there is now some ray of hope for the 75,000 unemployed in this country, who are starving for want of the necessities of life. As I walked in here I saw a queue chains long waiting for the dole, and that will not be enough to feed, shelter, and clothe them. It is a terrible thing to find this country overflowing with milk and honey, with every food for the necessary means of life, and yet there is in our midst poverty and misery, which affects fully a quarter of a million of human souls, because that 75,000 unemployed have wives and children and other dependants, many of whom I know to-day are lying on beds of sickness in anguish, and will probably be carried out in a stretcher or coffin because of the straits in which they are situated. They have only 1s. a day to live upon—a wife and a husband; a sick wife and a crippled husband. Rent absorbs 10s. of the 17s. 6d. they receive, leaving them 1s. a day for the means of life. Life is impossible under those circumstances. I want to next compliment the members of this Committee upon having been selected for this important task. It is the most important task that any Committee has been set up to investigate in New Zealand. New Zealand was never in the desperate position that she is in to-day. I am an old colonist and I saw the slump of the "nineties," but that was comparatively short and sweet, and while we were suffering here Australia was flourishing and our workers shot across from

Auckland to Australia and were very happy. Things restored here when the ability to finance was arrived at in this country. The whole of these troubles are due to inability to finance. When we have ability to finance everything will go ahead. Instead of this wretched Unemployment Board, which I hope will be abolished for ever, and the Public Works Department doing what they are now doing in a manner that is a disgrace to this country, I want to see credit available for our Lands Department, so that that Department can spend £5,000,000 or £10,000,000 annually improving and developing the land of this country and making permanent homes for the people of this country, where they can produce their own means of livelihood and want nothing from outside, just perhaps a little tea and sugar. That is what we want to see; and I submit that my scheme is practical. I am using the word "practical" because I have been a currency reformer all my life, and I am one because my father and grandfather were currency reformers before me. Those two men came to this country in the early days when the Guernsey Island issue of money was in circulation. They were full of enthusiasm for the successful way in which it was working, and they hoped to see it adopted in this country. Their first endeavour was to try and get the Government to adopt that system, but without success. Throughout their lives they agitated for the adoption of this system, and when they died they said, "Continue this agitation, because the day will come when New Zealand will adopt it." That day has come now, and I am glad; and thank you for the fact that I am allowed to stand before you and explain this wonderful and truly proven system. I can tell you what that system was in the Guernsey Island. They wanted a public-works loan to build public markets——

The Chairman.] Excuse me, but it is only right that I should tell you that we had the whole Guernsey Island scheme placed before us in Wellington by the Economic Research Committee there, and we devoted some considerable time to it, therefore there is no need to dwell too long upon it?—I was, in fact, New Zealand secretary for that association, but on leaving Wellington I separated from it. These islanders wanted markets for their produce and they went to the Governor and asked him to raise a loan in London. He said, "Why do you want London money? What is it you want from London? We want nothing from London; we have the materials and labour here to do the job, why not issue our own notes? We will have no flotation or brokers costs to pay; we will have no interest to pay; and while these notes are in circulation we will accept them as legal tender in satisfaction of all debts in the Island and when the premises are completed and earning money, out of the annual rentals earned 5 per cent. shall be set aside to cancel 5 per cent. of the notes issued." Every year 5 per cent. of the rentals earned by those public markets was set aside, and 5 per cent. of the notes issued cancelled. In twenty years the people of that Island were the owners of this building which had paid for itself by the use of money which had not cost 1d. in the way of interest or flotation costs, and I am perfectly certain that the same system can be adopted by New Zealand. I am not a paper-money inflationist; I am a practical man who has managed the biggest industries in this country, who has financed the shipment of cargoes of frozen meat and live-stock in this country. I am the senior member of one of the most capable business firms round Wellington, to say nothing of side lines, exploiting timber and other secondary industries of that sort. What is money? Money is the life-blood of a nation, and money must be kept in constant circulation; it must be constantly coming in to the source from which it was issued, and constantly going out. This systematic system of note-issue will ensure the perfect working of a perfect money system which can be got in no other way. To-day the whole position is complex and complicated; the whole of the world is overburdened with fictitious debts. I am sure that the interest charges alone upon those fictitious debts are too big a burden for the people of this country and other countries without the burden of providing a means of livelihood. That is the cause of the whole trouble of the world to-day, and countries are setting up Banking Committees! In my opinion every country in the world will have to do the same thing. The Macmillan Committee has done nothing of importance. Their system must fail; it cannot continue; the situation is closing in upon them. Let us not wait until an increasing number of unemployed have to suffer the agonies multitudes are now suffering; let us remedy the position at once; let us face the situation. I am very pleased to be standing here to-day after Mr. Harry Valder, one of the finest captains of industry in New Zealand, in my opinion. The best thing that can happen is to revert to the law of Moses, which he suggested, and have the total cancellation of all debts. I was associated with Mr. Valder in business years ago, and he has asked me to re-echo what he said. He also asked me to re-echo the multi-millions of figures that 1d. invested in the day Christ was born at 5 per cent. compound interest would amount to to-day. You have got this wonderful example of the systematic issue and authoritative redemption of notes of exchange; it does not matter what bank-notes are called; they are really IOU's. A bank-note is really an IOU. That is all money is. What a preposterous thing it is to charge interest for such a costless thing as money really is, because we are not handling gold now. I am sure we never will. What gives the £1 note its great value, its omnipotent value, its almighty value? A declaration by Order in Council in New Zealand that it is legal tender currency—that is what gives it value. No man may refuse to accept it. Law is the greatest power in the world—and it is the lawmakers who make money; you lawmakers, in my opinion, do not really realize the important men you are—you are the most important men in this country. In your hands is power concentrated to do what you like—you can make money whatever way you like; you can issue it as you like; you can advance it free of interest. We should have a National Finance Board consisting of twelve capable men sworn to be honest so that they will not be able to do corrupt things or squander money. I am not going to say that this is done in this country, but it is done in other countries—France and America—and it might be done here if men who are not honest are appointed to this important position. I consider that the men who have been appointed to the directorate of the central bank will be New Zealand's leading Finance Board. In coming to this great national monetary system, I want to say that I think it is right that the whole note-issue of the country should come from one central bank, which in my opinion should be the wholesale department for banking, and what would be its functions? Mere functions of dealing with figures—debits and credits; we only require a certain amount of money for circulation. It may be anything

from £5,000,000 to £10,000,000. That is plenty of ready money; let the trading banks have the handling of the money that comes from the central bank. If the Public Works Department wants a loan of £5,000,000, authorized by Parliament, the central bank has simply got to write up its ledger and give that credit by overdraft. Open a debit and credit account. As the Department draws the money it is debited with what it draws. Notes are issued to the Public Works Department. When this is done under our scheme 5 per cent. of that debit would have to be returned to the central bank in twelve months' time, and when twenty payments were made, the whole of that loan would be cancelled, because you have brought about an equal balance. There would then be on the credit side an amount equal to that on the debit side. I want to say that some members of this Committee are reported to have said that the Island of Guernsey people actually paid twice for the erection of their building. That is a fallacy, and one that I must refute.

Mr. Schramm.] They say that it was paid twice owing to the rentals being charged for the stalls in the market?—That hall simply paid for itself; just as it is the duty of every man to render service for money received so is it the duty of every building to pay for itself. The credit advanced was a debit against that building, and that building had to earn year by year enough credit to cancel that debit. There was no double payment in the matter—that is fallacious, and I hope you will grip that point, will see that whenever a debit is created there must also be a credit to cancel that out. We are practical business men, not visionary dreamers, only to the extent that we can look ahead and see the good in a thing and what is possible. I consider that twelve men should be the real financial directors of the country. They must be. They would have to have dictatorial powers; they are the men to say what money is to be advanced. They would turn down any insecure claims. They are the men to say whether the project is sound and assured, therefore they must be dictators, and must also have the power to dictate the purpose for which even a public-works loan is granted. That is actually how I have been operating in this country for forty years. I recall when they suddenly started to send soldiers to the Boer War. The British Government wanted the holds filled with beef and mutton; the big freezing firms said it could not be done—it was an out-of-season order; the beef was not in the country. We took it on. We said we could do it; we had no difficulty about finance. We were empowered to act and pay any price asked. We did our best to buy to the best advantage; we were not like some men who would "rook" the Government. I hope that the Government will take care that the £500,000 Reserve Bank capital is not squandered in the purchase of buildings and premises at two or three times what they are worth.

Mr. Schramm.] You mean the £500,000 of the Reserve Bank?—Yes; that it is not squandered on premises in paying extravagant prices. I would use the Post Office Savings-bank throughout the country to carry out the country work and put the bank in the Government Buildings. We have already got two systems, the Post Office Savings-bank and the trading banks. Use what already exists; do not throw away anything that is useful. When you have the central bank in control of the currency and note-issue for necessary public works and development of land in this country, then the great slump which is hanging over us would disappear like mist in the morning sun. The Public Works could then engage all unemployed able-bodied workers and the Lands Department could engage men, and every one would be at work. Industry would also be able to engage workers, and we would be back to where we were before the slump in a week or two after it was known that finance was available. This is an enlargement of the Guernsey monetary plan for the issue and systematic redemption of non-interest bearing notes of exchange, repayable at 5 per cent. per annum and on demand in the case of advances made on the security of perishable products. As the Finance Board would have to issue all the money required it should have a say in the selling of goods at Home.

Dr. Sutch.] Would you have a price-level?—I believe we could have a New Zealand price-level, but we cannot dictate the price London will pay. The London people will not submit. We should work in the way I have worked when I took charge of the Wellington Meat Export Co., because then I only consigned stuff to London and sold when we knew the price the butchers there would pay us for the goods; we could go into the country and buy goods, and sell them, making sure of a margin of profit. We asked London butchers to quote us the best price they could give and when they quoted a price at which we could buy stock, we supplied them. That is the way this Bank should handle the produce of New Zealand. Farmers in New Zealand will know what they are going to get for their goods before they leave the shore. If the output of butter was sold in that way, it would not be down as it is now. The f.o.b. buyers would have been buying at 1s. and taken the whole lot. They are going to make more money out of it. The New Zealand farmer wants them to get nothing out of it; what is he getting? The lowest price in the history of New Zealand. The men at Home are too able for them. If they find they have got all our output, they will buy the butter of other foreign countries cheap and mix it with New Zealand and sell the mixture as New Zealand at a high price at more than they paid for it. They say, when we buy it is our product; it is not your business how we sell it. This is how they make their money. They sell the best of New Zealand mutton and beef and lamb as English at English prices, and also much of our butter. I know the history of the whole export trade. I am giving you actual facts. No better monetary system can be found than the Guernsey Island plan. History will prove that what I am saying is true; history in the past has proved the workability of that system; it is only a small model, but it demonstrates how thousands of millions of pounds can be issued and redeemed in the same manner. It is a practical method, and as a practical man I want something practical. I want a transparently clear system, and I believe that the Governor of Guernsey, who used this plan, was honest in his administration. The notes were cancelled every year. This is the only scheme which will meet the position. It could be put into force instantly; I would not go through the winter with the people suffering as they are now. I would make sure these people have some chance of obtaining the comforts of life. When I say it is impossible to exaggerate the tremendous social benefits that will instantly accrue by adopting this system of money I state a fact that cannot

be contradicted. It is a wonderfully simple thing. There is no miracle to it. If New Zealand wants £1,000,000,000 a year in order to develop herself, here it is. She only wants £10,000,000 in circulation. It is simply a matter of cashing cheques and writing figures and the central bank can do the whole thing for nothing. Of course it is a plan which any human mind can conceive, and I yield to no other man in brains and ability, in spite of some people saying I am a crazy currency-reformer. I am no such thing. I am as practical and sane as any one in New Zealand. I am a genuine colonial Irishman, no trace of craziness or lunacy, but sound common-sense and plenty of fire and plenty of spirit in order to voice what is inside me—high explosive. I thank you gentlemen for listening to me because I know some of you have said "This chap is crazy. There is nothing in his crazy paper-money scheme. If it had been any good, it would have been adopted before." I spoke like this from the platform when I was seeking to get into Parliament, and I got thousands of votes. That was before the war. I was too busy in the wartime winning the war, using my money and using up my works to prosecute the war. I will tell you how we were forced to buy thousands of pounds worth of bonds and we were only a tin-pot firm. It is worth telling. The Government went to the banks and said to them, "You have got to place bonds among your customers, whose credit accounts show that they can do it." They came to us and we were then supplying the whole of Wellington with beef and mutton, sending in hundreds of cattle a week and thousands of sheep and lambs. They asked us to buy £1,000 worth of bonds. We were financing on overdraft. They said, "Advance the price of meat another penny a pound." So we did, and that brought in £500 a week extra, so that was a levy on the public to find the money for these bonds. That is how the money was found. Mr. Massey said to me afterwards, "You rooked the people." Now, that is how all these war bonds were created. In my opinion the money applied for the war should have been contributed. Now, we come along to the proposal to cancel all these bonds, and even if the present Government keep them going the future people of the country are going to cancel them. They are not going to bear all these debts, when they get the inside history of how these debts were created. I am going to say this: That I know of instances where the banks placed these bonds with clients who had not the opportunities that we had of "rooking" the public in order to pay for them, and they got some other client whose account was in credit to take them over. The banks know how to do things. They take them out of the weak man's hands and put them in the strong man's hands. "This marvellous scheme of finance is the very greatest blessing that God has conferred upon this earth since the day He sent His Divine Son into this world, to prepare the way for the coming of this great scheme of finance." Now, I want you twelve men, members of Parliament, and experts, to be the apostles to put that scheme into operation, and if you do your names will go down to history and will be as greatly appreciated and as greatly praised as the history of the twelve men associated with Our Lord. That is your duty, gentlemen. You are chosen for that high and mighty task because once New Zealand is on that system every other nation on earth will copy it. They will all want it. Roosevelt has got a scheme of devaluing dollars, but where is he going to land? He is going to land in the soup, just as New Zealand is in the soup. When the Bank of England Governor says in all humility and ignorance he cannot see the way out, admits his ignorance, it takes a very all-seeing eye to solve this problem. It is a universal system which will bring the Kingdom of Heaven upon the earth. The first thing is to make the earth an industrial Paradise. We should manufacture all our raw products into valuable articles of commerce to make work for our own people. We should not send Home our low-class wool full of dirt and sand and grass. We should make it into tops before shipping it Home, to give employment to our boys and girls, and there are hundreds and thousands of them idle to-day. They have no work to go to. When they go on to the farms they have to toil for 1s. a day for sixteen hours a day, working in the mud and slush, and they revolt, and I do not blame them for revolting. I have just come off a farm myself. With butterfat at 6d. I said, "Is it worth while?" And I said, "No, I am going to go into the City of Auckland and I am going to advocate something that is going to do good for all unemployed workers and their families." Now we come to the question of the existing system of money, and I say we do not want Karl Marx's condemnation of that system when we have got Christ's authority. We do not want any other economist, we do not want any higher authority. He is sufficient for me and He should be sufficient for every man here. Just before I came off my farm a bull became dangerous and we had to saw his horns off, a painful thing to do, but we did it and in a few days he was all right. I know you men will think it is a horrible thing to do to say that interest has got to be abolished, but you have got to do it. God's will must be done, and it is better that you should do it than you should send men like me out into the country as an agitator, join the "social credit" movement and tour the country advocating this system. I want the Douglas Social Credit movement to take this up. I glory in what they have done, but they have not got the true gospel. The true gospel is here. Give it to them, and they will envelope the whole of New Zealand. It is just simple common-sense. I have never yet presented this scheme to an unbiased mind, an open mind, that would not accept my exposition of it at once. We had Seddon, the great patron of our country. There were six of us waiting on Sir Joseph Ward, asking him to adopt it, but he would not have it. We met in his room and I was speaking, and he got out of his chair and said, "If the Government is going to adopt this system of finance another man can be found for my chair." Nearly every Minister of Lands has been approached by me, which shows that this is no new idea. The man that advocates the issue of inconvertible paper money is on wrong grounds. It is the wrong thing to do. Money is made inconvertible, though, by Order in Council, and I say the issue cost of it is negligible, and therefore that makes the interest charges levied absolutely preposterous. And it is the same with the stock and station agents, who, I have heard people say, are working hand-in-glove with the banks. They get money from the banks for 6 per cent. and they make the producer pay 9 per cent. They "rook" the farmers. They collect a few paltry thousands on deposit sometimes perhaps, but what do they do with it. Straight to the bank it goes. They do not keep it in their hands. They

are only the agent for the procuration of deposits. Now, with regard to exchange: I have frequently carried notes up to £1,000 in my pocket from Auckland to Wellington and *vice versa* in order to avoid exchange. Banks make an enormous sum of money there. That should be altered. We should have free exchange. I say the facts show that paper is wrongfully used to create deposits that are not deposits. Deposits are simply figures written in books of account, and banks are able to use five or six millions of notes to build up these huge tens and twenties of millions of deposits. It is not money at all, simply figures in books, and then I say they go further and improperly use these figures to create hundreds of thousands of further fictitious figures, bonds, debentures, mortgages, and other miscalled gilt-edged securities; the magnitude of this paper-money juggling is amazing. It is amazing to think how thousands of pounds of fictitious value is created. A lawyer writes a document, goes into a bank and deposits it as security for advances, and in some cases banks are not going to get what they advance on it. But to give a lawyer that power is monstrous.

Hon. Mr. Downie Stewart.] Did not the Guernsey plan just write figures on a bit of paper, too?—Yes. But it was the sole system, and not any Tom, Dick, and Harry issuing money. In the Guernsey plan it had the sovereignty of law and the almighty force of law behind it.

Mr. Schramm.] It represented all the people?—Yes. That is so. I say that this fraudulent paper-money juggling must inevitably collapse. I know of men at Home who have been offered over £10,000 to keep off the public platform who are denouncing this banking system. Those men are not accepting the bribe. They are all remaining on the public platform. Now, with regard to the revenue-tax: I say that should be obtained from the proceeds of a universal sales-tax on all goods sold in New Zealand and overseas, and I want to say that when the primary producers and manufacturers of all kinds of goods are able to obtain notes of exchange free of interest these producers of the wealth of this nation must be adequately taxed to pay the cost of the administration. The farmer has got to be taxed at the source of production—that is, the source from which wealth comes. If they proposed a wages-tax of 5 per cent. on the workers of Wellington to pay for war bonds there would be a strike, a revolution, but by an underground method they all paid it and they did not know they were paying it. I finish up by saying: "The sovereign power of law is the supreme authority for the exercise of political force—to assure the success of this monetary system. This system was a complete success in the Island of Guernsey, because the Governor of that island honestly used his almighty governing powers to make the system operate successfully." We have got to get this plan on the statute-book of New Zealand, and this is the first big shot in that campaign, and I am going to devote the rest of my days to firing these shots, and I want to unite all political parties into one great organization for this purpose.

Mr. J. N. Massey.] Referring to your remarks about the Wellington meat business and how you arranged for war bonds, how was it that you increased the price of meat in order to meet the extra taxation?—No. In order to provide the capital cost that was wanted to buy bonds.

And at the same time provide the extra taxation?—But was it taxation? I cannot see that it was taxation. It was conscripting wealth, conscripting wealth to create war bonds.

Actually, a method employed in the conscription of money. Is that it?—Yes. It really was the conscription of money.

But you actually had to increase the price of the commodity that you were selling in order to do it?—Yes.

I am very interested in this Guernsey Island scheme, but you yourself have already stated that they did not have any banks on the island and they purchased what you call costless credit?—Yes, costless credit.

I presume that you agree that the fairest method of collecting taxation is to collect from those who have the ability to pay?—Yes.

Well, have you any official records to show that in Guernsey Island they collected that tax from those who were able to pay?—No. The rentals that the public markets earned extinguished the credit notes, just the same as in Auckland you have the municipal markets here. They are bringing in revenue which is used to pay the interest costs and the capital costs of the loan moneys.

I do not doubt that you are a practical man, but you said that as far as the Wellington meat business was concerned the Government of the country insisted that certain commercial firms should take up war bonds?—We have not the direct evidence of that, but we know that the banks had to sell them. The Government wanted the money.

That is true, but my point is this, that you increased the price of your commodities to meet the demands?—That is the only way we could become purchasers of bonds.

I quite agree on that point. Have you any official records to show that the people in Guernsey Island did not have to increase the price of their commodities in order to find that particular money?—No. You see, the rents for the use of these premises found the money, and, as a matter of fact, it earned more than 5 per cent. per annum, but they only applied 5 per cent. for the cancellation of the mortgage, and they used the rest for upkeep and maintenance.

In your opinion, does not the issue of more money or paper money increase the price of commodities?—It should not do so, in my opinion. What is going to come to New Zealand is a goods standard of value, and I have got another scheme which I could not bring here, another plan following this, a bigger plan than this. This is only finance. The other is a commercial industrial plan and we have got to have prices fixed. Now, it is possible to have prices fixed. When trade-unionism came into this country I was then a captain of industry in the meat trade, and when they came at us with their demands for shorter hours and double rates of pay we said, "We cannot pay." What did the workers do? They said, "Yes, you can. You will have to increase your prices." So we said, "Yes. We might do that." So I took a move in the matter, called all the master butchers in Wellington together, and put the

proposition to them. They said, "We will raise the wholesale price so that we can pay our share of this advance in wages. You raise the retail prices." In buying stock from the farmers in the old days we fixed the prices. When we were sending meat to the English buyers we knew what we were going to get; we fixed the prices, paid farmers so that we knew what we would get out of it, and when we fixed the price we got some of the by-products to our credit into the bargain. So a goods standard of value is a practical thing, and that is what we want. We could return to the farmers of New Zealand 1s. a pound for their butter.

As far as income-tax in New Zealand is concerned it is supposed to be assessed on the principle of the ability to pay. You have spoken about the huge number of unemployed in New Zealand, also mentioned this Guernsey Island scheme. I am looking for information. You have also stated that you were compelled to raise the price-level in order to meet the extra demands of the Government and also to meet the extra demands of the worker. In connection with the Guernsey Island scheme, was there not an extra tax placed upon the whole of the community?—No, none whatever.

It did not raise the price-level?—No.

Have you any official figures to prove that?—I have my father and my grandfather's words, and my father would not tell a lie, and I take his word for it.

I do not doubt you are perfectly sincere about the whole thing?—It is obvious.

I am asking these questions for information. You have no official record?—No. This table would not hold all the literature that has passed through my hands in fifty years on this subject.

I want to get at the facts, and I want to ask you. Did the issue of the additional money in Guernsey Island have the effect of raising the price-level?—I understand not.

It did not raise the price of commodities within this particular island?—I do not know about that. I cannot answer that. What I have in my mind is that the building paid for itself. It repaid the money that was advanced.

Was there not an indirect tax on the whole community?—No. The people that used the market paid, just as the users of the municipal markets pay.

Did it not increase the price of commodities, and if the price of commodities was increased, was that not an indirect tax on the whole community, irrespective of their ability to pay?—I do not know that it affected the price of commodities. I was not the observer; my grandfather and my father were the observers.

Mr. Langstone.] Following on Mr. Massey's question, the difference between war bonds and the issue in Guernsey was that one was interest-bearing and the other had no interest, and if there was no interest to pay there would be no tax to pay that interest?—No. You mean that if bank-notes were issued and there was no interest to pay, you would not want bonds?

Yes?—They would not be necessary.

There is no charge necessary to pay that tax?—No, none whatever.

All that Guernsey had was that they had increased wealth in so far as raw materials were being crystallized in the market and they were that much wealthier?—Yes, and they gained that wealth without paying one copper in interest.

I see you are advocating a sales-tax as a means of getting revenue?—Yes. The State must have revenue.

Do you think a sales-tax is better and fairer than an income-tax?—Incomes are going to diminish so much that I think so. Farmers are getting the costless system of credit to finance; they are able to finance free; when they have produced the goods with the free finance take 5 per cent. off what they produce for revenue-tax.

If the incomes go down and you put a tax on them and prices go up you are going to create a serious position?—Why?

You say incomes are going to be so little?—Yes.

Then if you tax the things that the incomes are to buy, well that will make the incomes' purchasing-power less, because of the sales-tax?—Yes, it will have to be passed on. The consumer has to pay it; the consumer will have to be given a wage that will permit him to pay and the pensioner given a pension that will permit him to pay.

You mention paper money—fictitious money. We have had experience in New Zealand of companies being formed and they wrote figures in a book which made it appear that that was the earning-power of the company whether it materialized or not. If they materialized they became very valuable and powerful things in the country. Do you know to what extent that has gone on in New Zealand?—I do not know, but in the early days if a man wanted to go into business all he had to do was to go to the banks and give them a guarantee and he could draw cheques and carry on when they knew he was good enough. That was the banking system; we could get finance on our joint and several guarantees.

In your practical experience as a business man, have you any knowledge of bonus shares being given to certain persons in companies—been given free—representing only initial figures in a book, but afterwards the earning-power of that company has possibly been 10 per cent., and those shares have been sold on the market at £2 or £3 per piece?—No. I have not had any experience of that. My experience has been more direct. All the leading companies give bonuses, but they were distributed in cash, not in shares.

You think that if we were to get twelve capable men sworn in to properly, honestly, and scientifically administer our financial system and everything else, the economic relationship of trade and industry one to the other would be so studied that we would have no urther trouble?—I do. I think our trouble to-day is inability to finance. I think we should correct that.

Mr. Lye.] Did I understand you to say that you are a member of the Douglas Social Credit movement?—No. I have been to meetings, but I have not been sworn in, but I intend to become a member if my scheme is rejected.

This plan you have placed before us is not the same or in line with the Douglas Credit theory ?—No. Colonel Closey is putting that before you next week, and if he gives you a better scheme, well, good luck to him.

You referred once or twice to costless credit. What is your definition of costless credit ?—A bank-note that costs five farthings to print, that is all.

All right, we will leave it at that. The next question is this: Do you agree that the exchange of a credit instrument of acceptability is really an exchange of that instrument for real wealth ? When credit is issued it becomes a credit instrument of acceptability ?—Yes.

It is acceptable generally, and is that not based on the fact that that credit is issued and becomes a claim or a charge upon some real wealth and therefore becomes a credit instrument of acceptability ?—I think you are right.

When credit is issued, whatever is given—bank-notes or anything else—it becomes a debit against some asset or security. That guarantees its acceptability to the public ?—Yes.

In what respect is that issue of credit costless ?—Because, if it is a note, it only costs five farthings to print. That is the intrinsic cost of it.

I have a newspaper here, why print newspapers if you can print bank-notes and it is costless. Before any note may be issued, has not value to be attached to it to make it generally acceptable ? It must represent and be a charge or claim upon some real wealth ?—Yes, it should only be issued on the security of real wealth.

Exactly; and its exchangeability is determined because it is a charge against real wealth ?—Also because it is declared legal tender.

Exactly. Before it becomes generally acceptable it becomes a definite charge and represents real wealth. Would you say, in agreeing that far, that it is costless ?—In itself costless, but in itself it represents its face value in wealth.

Before it can pass from one to another must it not in the final analysis represent the value of some wealth to make it generally acceptable ?—Yes, when it is declared legal tender.

It is not costless then ?—It is a costless bit of paper; the cost is negligible.

The issue of that note creates a transfer of real wealth from the borrower to the lender ?—Yes, by virtue of its legal-tender status.

So in the final analysis it is not costless ?—It is a costless note of exchange; a costless medium of exchange. Its function is akin to that of a draper's tape; he measures yards of material; we use money to measure pounds of value.

What is your definition of interest that you take such exception to ?—Usury.

Would you agree that the definition of interest is a payment for the use of wealth and in such payment provision is made against loss of capital ?—If you are using wealth. Take a house which is deteriorating in value; the owner must pay rates and maintain it, and when you have to pay rent you are using it; but this paltry token, this bit of paper, which is of no more value than a draper's measure, you do not pay for that.

Dr. Sutch.] How are you going to put a sales-tax on goods that are exported to foreign countries ?—Collect it in London; ship through the central bank.

It should be an export-tax ?—Yes, collect it in sterling and keep the money in London.

You would not add it to the price in London ? It would mean that the farmer would get less for his produce ?—Yes, he has to be taxed; he has to take the medicine. The worker has to be taxed; every one has to be taxed.

In the first paragraph you say, "Departments of State authorized by Parliament to obtain advances on the security of a special tax." What kind of a tax would that be ?—Any sort.

You have not anything in mind ?—Yes. Supposing a Department of State wanted to borrow money to develop land; well, security would have to be given to the bank that that land was going to be developed and the tax would be on the rental value of that land. If it was a railway undertaking the tax would be on the revenue of the railway, and so on. That would do away with this habit of charging the Consolidated Fund without knowing what the Fund will be.

In paragraph 2 you talk about determining whether a project can pay for itself in twenty years. How would you determine that ?—Simply 5 per cent. per annum.

How do you know it is going to return 5 per cent. per annum. That is our trouble with the South Island Railway. They stopped supplying any more money for that because they had an idea they could not get a return of even interest or sinking-fund payments over a period of much longer than twenty years. That was the difficulty ?—In clause 2 local bodies would get their 5 per cent. per annum whether money is wasted or not, because it is a special rate on the whole of the land of the borough; there is no risk there.

We will assume that you build a railway, can you be sure of a 5 per cent. return on it ?—You cannot be sure of it, but there would not be an interest charge.

I realize that ?—If the country was flourishing then the railways ought to earn 5 per cent.

They ought to, yes ?—They should be made to pay.

You mean curtail expenditure and raise the price to the people who use the railways ?—Yes.

In your paper you suggest that in New Zealand there is fraudulent paper-money jugglery and you further use the term "dishonest." Do you really mean that our bank officials are dishonest and that their system is fraudulent ?—I do not think they are willingly fraudulent, but they do not know the "ins" and "outs" of the system they are operating; they do not know the outcome of it.

You could not apply such strong terms as dishonest and fraudulent to those people ?—Well, it is fictitious. It may be fraudulent when they say that they hold cash deposits when they only hold enough gold to pay the face value of their notes.

We realize that ?—It is fraudulent to that extent.

You say that New Zealand is divinely chosen to be the first country in the world to fully enlarge and unfold the immense dimensions of this great medium of exchange, but has not Germany, Austria, and Russia already tried your scheme ?—I have never heard of it.

They financed their local body and State undertakings on such an issue as you have suggested. They tried the scheme in 1922–23 and in Russia even before that ?—Then they probably did not operate it properly. While they issued notes they probably did not mathematically redeem them; it is the mathematical redemption that is the great point.

If you decide on capital works this year to the extent of £20,000,000, how do you know that those notes are going to return to the Government at the end of the year or over a period of years ?—We know that in this country there would not be more than a third of the notes in circulation and the bulk of the loan would be simply figures in books. This system of paper money for currency creates another bigger system of debits and credits; it is only figures. This is the astounding feature of the thing. My scheme would enable Government Departments to finance on overdrafts granted by the Reserve Bank. The only cost is the trifling expense of cheque-books and the entry of figures in the ledgers of the Reserve Bank. When this bank issues as many millions of notes as are necessary for daily currency needs these notes can be repeatedly used to cash Government cheques daily, which sums will be debited until the end of each financial year when the total amounts of the figures debited to each Department of State would be cancelled by order of Parliament. This is our costless system of credit.

WELLINGTON, WEDNESDAY, 18TH MARCH, 1934.

Witness: Mr. B. BECKERLEG.

Mr. Beckerleg: In order that during my remarks the Committee may have prominently in front of it some idea of what really are my proposals, which I submit are desirable in the interests of this Dominion, I propose to give their nature in brief form. First, I suggest that the State should purchase the existing banking system. The reason I suggest purchase is simply to prevent there being any hardship to the shareholders and others interested in the existing banking concerns. It is abundantly clear that this entry of the State into banking could be done merely by an Act of Parliament constituting the State your National Bank and prohibiting any private institution from carrying on banking business. The purchase by the State of the existing system would enable what I submit is essential, if this Dominion is to progress on lines consistent with the modern progress of science and invention—that is, creation of costless credit free from debt carrying interest. That would enable the State Bank under some judicial authority to issue this type of credit generally for the purpose of relieving the existing distress and also thereafter to make it available for the general development of our industries and welfare of our people as a whole. In my opinion there must be embodied in the policy of the institution after its purchase by the State the two principles becoming so widely known from the advocates supporting Major Douglas's theory—that is, first, the just-price factor, and, secondly, the national dividend. The reason I state that those two principles must be incorporated is because whatever system is advocated for relieving distress at the present time seems to be confined either to the idea of extensive borrowing, which the United States is indulging in at the present moment, or alternatively higher prices or higher wages. The need for higher wages is very real. The national dividend is an essential principle of the system for this reason: we know that science, as applied to industry, agriculture, and commerce generally is continually increasing the volume and quality of production and at the same time continually decreasing the amount of labour necessary to produce that increased quantity. That means in its practical application to life that the worker is continually receiving less demands on his time, and under the existing system necessarily less spending-power over any particular year. Therefore there must be in the system a means whereby the worker, all workers, must receive under this system increasingly some recognition in the form of additional purchasing-power, which is not directly attributable to the work they are called upon to do, because the work is a diminishing quantity and production is an increasing quantity. Particularly as far as the Douglas theories and its advocates have been concerned, they have been assailed with the suggestion proceeding from some of our most eminent men that these of necessity result in inflation. I submit that is not true, but, nevertheless, if there be anything in it, and as a matter of precaution, there should be coupled with the State system at present operating an equitable system of taxation. The principle of that would be simply this: If we assume that the maximum amount of wages or other income which is to be free from taxation is £300 per annum, then it should no longer be possible, as is happening to-day, that the man in receipt of an income supposed to be free from taxation is in fact paying very heavy taxation, by duties on tobacco, tea, sugar, &c. With every import tariff there is a reaction which results in the person receiving an income supposed to be tax free. He, in fact, pays a tax although £300 is laid down as the maximum income free from tax.

Mr. Clinkard.] That is merely freedom from income-tax ?—I submit that consideration will show that an income-tax, being in the nature of an equitable tax, merely to withdraw from circulation or potential circulation, that currency deemed excess of purchasing-power, which would constitute inflation, is the only tax which under this proposed system it would be necessary to impose.

Mr. Ashwin.] Currency is not withdrawn from circulation ?—Under the new system it would be. I am indicating this presently. I say, try and treat with the meaning of inflation. If it is assumed that the putting into being or operation of the principles I am advocating would result in inflation, in essence that would merely mean that in relation to the available goods and services for sale, there was too much money and therefore there would be a tendency to raise prices unduly. The equitable

system of taxation is suggested merely as a means of drawing out this excess purchasing-power and doing so on a very equitable system. The basis of the taxation proposed would be these two fundamental principles: Firstly, the tax should be charged in accordance with ability to pay; secondly, taxes should be charged in accordance with benefit derived. If this system increased the incomes of all our people, the actual interpolation of the equitable system of taxation would be merely an instrument to keep the purchasing value of money stable by withdrawing out of circulation any excess tending to inflation. The next point is that the State should receive and expend all our sterling and other proceeds of our exports. That is a necessary concomitant of the assumption by the State of our banking process. That is merely the Government doing what our banks are doing now.

Mr. Langstone.] That will imply you are going to pay them here an internal price-level?—Undoubtedly. The Government merely stands in the place the banks stand in now. For instance, say our butter in London sells in London for £10,000,000. We will assume that the bank is the Bank of New Zealand and the dairy company is the Dairy Association. At that moment there is £10,000,000 of sterling in London belonging to the New Zealand Dairy Association. The bank cables out to New Zealand——

Mr. Ashwin.] For this they can buy £10,000,000 of goods?—Granted, but we are concerned with who gets the sterling. It is still in London.

Mr. Langstone: That is only figures in a book in London?—It is sterling and represents sterling, and the suggestion was that the State should become the recipient in London.

It is more real in figures in a book in London than in books in New Zealand.

Mr. Beckerleg: I do not care how you put it. The point is, who gets the sterling in London? The Dairy Association have been given a credit in the books of the Bank of New Zealand in New Zealand of some figures put there by cable.

Mr. Ashwin.] It was done at the request of the Dairy Association?—I am not concerned with that. Let us convert this into Bank of England notes. They are in London in the custody of the Bank of New Zealand. Who has got the bank-notes?

The Bank of New Zealand?—Which then has the sterling, and I suggest that the State should receive the sterling in like manner to the banks at present.

You mean that the State should do the banking?—Yes, the State should purchase the existing banking system. I think it is clear that if you convert that sterling into Bank of England notes, all the Dairy Association gets in New Zealand is £10,000,000 in figures in books, and the actual sterling is left in the hands of the bank. If you want to take the point further at this stage you will agree that the bank claims those notes as its own.

Undoubtedly?—All it gave for those notes was some figures.

No. It gave that amount in notes in New Zealand?—You are going to say that the New Zealand Dairy Association can get New Zealand notes. Now there are not ten million New Zealand notes in New Zealand. How are they going to get it?

There are?—Have you any evidence of that? There are less than six and a half million notes in circulation, in addition to which each bank of issue does not count or regard the notes of its own issue that it still holds.

It can show you them if you want them. If you go to the bank and ask them they will find them?—No. The bank must and can only issue notes in terms of the Banking Act.

In Government securities?—You are going to suggest, then, that the banks are going to print?

They have got sufficient margin now to put the note-issue up to £12,000,000 or more?—They have, at the moment, less than six and a half million notes, not including their own notes in their hands. That is the amount in circulation. Now, Mr. Fussell, from the scrappy amount of evidence that I have been able to get hold of, indicated to the Committee that notes in the hands of the bank were merely pieces of paper.

Until they are issued?—Yes. The reason for that is that a bank-note constitutes two things, an asset and a liability. A Bank of New Zealand note in the hands of the Bank of New Zealand is therefore cancelled out, except as a piece of paper with a potential right of issue, because the bank is holding by that the asset and the liability. As soon as it issues that note it takes advantage of its purchasing or payment power, but correspondingly it brings into being its own liability to honour that note on demand. It neutralizes it. Therefore, the six and a half million notes in circulation do not take cognizance of the amount of each bank's notes in the possession of each bank. But in addition to the £10,000,000 from London there are to-day £21,000,000 of free deposits. How are those people going to get their notes?

It could be done under the existing law if they wanted to?—There are, in addition to the £21,000,000 of free deposits, probably anywhere about £10,000,000 to £15,000,000 unused overdrafts, agreed accommodation. Add those on. In addition to that there is upwards of £40,000,000 or thereabouts fixed deposits. Now, the actual assumption of banking is that these notes will not be called upon, and I do not mind telling you that the bank to-day cannot honour its agreed and admitted legal obligations to pay its depositors.

Why?—Let me put it to you this way: Why did every bank in the United States close its doors for ten days.

Dr. Sutch.] They have different banking laws?—I am not concerned with it. I am asking why.

The reason is that they did not have the power of note-issue. Our banks have?—I am not asking that. I am asking why. The reason was that they could not give out the notes. They could not honour their obligations.

Mr. Ashwin.] But I say that our banks could?—I am quite prepared to make that a point of issue for later consideration.

Dr. Sutch.] It is not a point of issue. It is just a fact?—You say the fact is one thing, and I say it is another.

Mr. Schramm.] It is logical that they would not close their doors if they could pay ?—The Bank of England, four days after the outbreak of war, had to suspend payment because it could not do it.

Dr. Sutch.] But they have different banking laws. Under our legislation, as it exists to-day, our banks can print notes to any extent as long as they have a Government security ?—Not in excess of three times the amount of its gold.

Mr. Ashwin.] No. That provision about three times the gold is suspended entirely ?—It has to have gold or a fiduciary issue backed by Government securities. This is taking us nowhere. I am quite prepared to go into the issue at a later stage and demonstrate the utter inability of banks to honour their commitments.

Dr. Sutch.] As far as we are concerned the whole Committee is quite clear on the fact that the banks of New Zealand can issue notes as long as they have Government securities at the back of them, and they do not require any gold ?—Precisely. Let us put it this way : It is agreed at last that the gold is unnecessary under the existing law, so the justification for the gold standard has no foundation.

Mr. Ashwin.] But we never had a gold standard here ?—I am only too happy to accept that. Is there in existence a sufficiency of notes to honour the present commitments of the banks ?

You mean have the banks got enough printed off ?—Yes.

Mr. Schramm.] We would have to look at what the law says on that point ?—The banks have the power to do something in the future, which would, when it is done, put them into the position of being able to honour their obligations. The point, however, is that they are not at the present moment in a position to do more than do something which will enable them to do it.

You mean that they have not the power of note-issue, now ?—No. I had intended merely to set out in these five simple points a sufficient indication of my proposals in essence, so that you should have them clearly in front of you during the time I was speaking, and I think you will agree from that that it raises my proposals as a direct contrast to the present system. In other words, our present system is a very wonderful system. Our present system has made possible the wonderful industrial advance of civilization generally. Our present system, however, by its very nature, has certain defects. The extension of bank credits made possible in Britain after 1694 when the Bank of England was first started, enabled the advance of Britain's industry. But for the ability of the banking system to facilitate production, we should have been considerably backward in our present development. One of the weaknesses, however, of the present system, is that it does not finance the consumer. I will touch presently on the defects of the system, but what I want to bring up at this stage is that my evidence resolves itself into this : Here is the present system as we could and should run it. That is the direct comparison which my evidence on my proposal brings up against the existing system. We start off, first of all, by purchasing it and then we indicate the advocated changes which cannot be made under the present system, but which could be adopted under a State system. There is a further remark that at this stage I should make clear, and that is I am criticizing systems and not persons. It is the system, and not the personnel of the system, that I am criticizing, and under State purchase, certainly until such time as equally remunerative positions could be found, it would be incorporated in my idea that every bank manager and officer should be retained in his present position. If the banks can afford to pay them and make a profit, the State could afford to pay them and save the profit. So I want, first of all, to emphasize that no one is to be hurt, but every one is to benefit. In connection with any banking, monetary, or industrial policy, it must be remembered that so far as this little country is concerned it must divide the purview of its operations into internal and external, and within the Dominion of New Zealand the power of our Parliament is subject only to certain requirements of consent by the Crown on certain types of legislation. The power of our Parliament is absolute, but when we go outside this little country New Zealand cuts very little ice indeed. A further point on that is that while, in every individual country, and subject only to external conflict, either to commercial interests or otherwise, each individual nation can do absolutely what it will with its own people and its own systems and industries, there is a very great responsibility to international or even Empire co-operation. And therefore, as to those who will say New Zealand cannot do anything without either Empire co-operation or international co-operation, I would like that fact to be borne in mind. Now, the proof of that in the first place is Ottawa and in the second place it is the London Economic Conference. We know, with all due regard to the Dominions, and with all due regard to Britain, that the Ottawa Conference was largely nothing more or less than a bargaining chamber, and we received a promise from Britain of a three-year free market and Britain received from us a promise of some preference for British exports into New Zealand. We know that, although Britain has been wanting to quota our exports, she did ultimately adhere to and honour her promise, and the Conference of fifty representatives of farming interests summoned by the Prime Minister had a good deal of the responsibility taken from it by the communication from the Imperial Parliament that the quota system would not be applied for some time. Yet, as far as our obligations to Ottawa are concerned, we had Professor Murphy and a Commission set up to receive evidence on the lines which would enable us to honour our Ottawa obligations, but for some curious reason, and in, I believe, quite an improper manner, we elected to raise the exchange on London from 110 per cent. to 125 per cent., and that immediately acted as a tariff against British industries, and did nothing to promote a friendly spirit between the Dominion and the British manufacturers. It has been suggested, in fact, that there is trouble between Britain and New Zealand on that very point. If you look at the London Conference, we know that there were fifty-six nations represented at that Conference and we know that while, when its abortive objectives became clear, Ramsay MacDonald diplomatically left it, that it might again assemble in the future, we know no fruitful results came out of it, and we know that since then in particular the various nations of the world have been paying considerable regard to export duties, tariffs, bonuses, and the like, and it is abundantly clear that the people of the United States realize that they must work out their salvation themselves. And I submit to you that it must be borne upon you, if you follow and

carefully consider the position, that the salvation of New Zealand must be worked out in New Zealand. And I will also submit that it can be worked out. Now, let us come to the task of the Committee. What is it? The task of this Committee is to find a better monetary system. Let me first of all ask the Committee this: Has this Committee, which has now been in existence some considerable time, agreed upon a definition of an acceptable system to be preferred to the present system?

Mr. Ashwin.] The Committee has not deliberated at all yet. That is premature, I think?—Is it premature? The Committee has to find a better system, and therefore it should have some regard as to what that better system should be able to do. It you were appointed to go and find out what sort of a college would be suitable for a certain institution, you would have to go and examine plans and all sorts of other things to find out what sort of a college would suit, so I submit that the Committee should have some reasonable idea of a better monetary system.

Mr. Murdoch.] Would you make up your finding in a case before you had heard the evidence?—No. But if I was asked to do something I should certainly want to know what it was I had been asked to do.

Dr. Sutch.] We have not been asked to find a better monetary system. That presupposes something that we cannot presuppose?—In other words, your assumption is that there is not a better system.

Not at all?—Let us turn to the order of reference and see what it asks you to do. "To inquire into the monetary systems or standards which have been advocated as preferable to our present system and . . . to report upon such proposed systems or standards, with particular reference to their examination or adoption by other countries, their practicability, the probability of their adoption promoting the development of industry and the welfare of the people of New Zealand." There is your task. Here is the present system, and you have got to find some practicable system to be preferred to the present system, and which will promote the industries and the welfare of this Dominion. That is the main purpose of your task within the terms of your order of reference.

Mr. Ashwin.] That is a matter for us to decide, as to what interpretation is to be taken from the order of reference?—Certainly. Will you give me another definition.

We want to know whether you have got a scheme to put forward which you consider is better than the present one?—I submit to you that the Committee's function is properly discharged if it says that, upon the evidence, it is satisfied either (*a*) that there is nothing to be preferred——

Mr. Clinkard.] Supposing you confine yourself to illustrating your system and leave us to adjudicate on the matter when it comes to the proper time?—I must, first of all, have regard to the order of reference.

The order of reference is a matter for us to determine, not a matter for the witness to determine. We have to inquire into the various systems which may be advocated as preferable to that which is at the present time operating. You come forward and you say that you are able to suggest a system which, in your opinion, would be preferable to ours. We are sitting here to hear your evidence, and we will take your suggestion in its proper time together with other systems. If we can find one that is preferable in the opinion of the Committee to that which is operating already, we would be justified in reporting to that effect. If, on the other hand, we consider from all the evidence that it would be better to take certain action to improve the present system, or any other way that we consider, according to the evidence, after it has been taken, not before. It is not our place to adjudicate on any suggested scheme until all other schemes have been put forward, and we are at present engaged in taking your evidence of your particular claim?—In considering my scheme, or any alternative scheme under the order of reference you have put before you certain guide-posts or precautions. Now, the order of reference not only covers your consideration of the evidence. It must of necessity govern the person who intends to submit evidence, and the system which I have to advocate and which you have to consider must have relation to the requirements of the order of reference, and, therefore, I must claim and deduce my evidence, that this system will promote the welfare and industry of our people, and that it will be practicable. You have to have regard to the nature of the trade and industry of the Dominion, and you have to have regard to economic relationships between New Zealand and Britain, New Zealand and the Empire, New Zealand and foreign countries. That also comes within the terms of the order of reference. You have been instructed to report with particular reference to the question of other countries examining or adopting the proposed or suggested system or standard. Now there is one very important phrase in the order of reference which says not only must you have regard to the nature of our trade and industry and economic relations in foreign countries, but all other relevant factors. Now, that is a very important phrase, because it means that any factor which directly proves or tends to prove that the submitted scheme is better or is not better, that is a relevant factor within the meaning of the order of reference; and I also suggest that it assists us very greatly in ascertaining whether or not a submitted system comes within the order of reference.

Mr. Clinkard.] I would like to say that the Chairman of this Committee has at no time rejected any evidence or attempted to put any curb upon any individual who has come before us. Every witness has been free to advocate whatever he considered was necessary and it will be our duty at a later stage to sift those out and find out if in any case they are not in accordance with the order of reference. You will see that the order of reference is very wide in order to avoid exclusion, and no exclusion has taken place?—That is perfectly true. I frankly admit that. I have had the privilege of reading the correspondence between the Committee and Major Douglas. I have also had the privilege of reading a letter from the Prime Minister to an organization in Auckland respecting the existing financial system. I may say quite frankly that I am quite in accord with the Committee's attitude in not being prepared to prejudge the existing system or to assume that it is a fallacy. These other relevant factors may be summed up in three words, What New Zealand is, what it has, and what it wants. I am not going into all the other relevant factors, but we know New Zealand is a British Dominion, we know it has a population of approximately one and a half million, we know it has very fertile soil and a genial climate,

and we know what we want. We want help and assistance and relief and cure of the unemployment. We want the restoration of wage and salary cuts. We want the elimination of hardship and the suffering caused by what is termed the depression. In other words, we want prosperity in this Dominion for everybody; for every section of the community there must be an improvement, because I submit that there is no section of our community which, generally speaking, has, since the advent of the depression, benefited at all. Bank shareholders have not benefited. They are suffering to-day in common with us and every section of the community, and it is the imperative duty of this Committee, if possible, to help in relieving that distress, and it is one of the relevant factors within the order of reference that you should consider the distresses which occur in this Dominion, and the stability of any advocated system as a means of relieving that distress. The chief defect of the existing system (and it is upon such defects that I base my suggested improvement) may be said to be its utter and absolute impossibility of co-relating itself with the advance of science, production, and civilization. What I mean by that is this: We know that under the existing system unless a man is born rich he must work and sell his work, either his labour or the services which his work results in or the goods that his work results in, in order to get money, and therefore in that manner and for this purpose work equals money and money in a civilized community is the only purchasing-power. Now work, which is money and purchasing-power, is quite meaningless unless it is related to goods and services. Money in itself has practically no intrinsic value. You cannot eat it or drink it or smoke it or wear it. So that money has merely a notional value, which is the confidence that the person who receives money in exchange for goods or services has, that he in turn can later on get goods and services in exchange for the money which he has received and will later tender. The truth of the fact that the value of money is notional is very well exemplified in what is termed the German inflation. The pre-war parity of the mark with sterling was twenty marks to the pound. At the height of the inflation it took 480,000,000 marks to equal the pound. That meant that people to whom German marks were tendered in exchange for goods realized that they would have to give more marks than twenty to get goods equal to sterling in value, and that increase went on and on until at last the whole currency was cancelled, and thereafter it might be said that the notional value of the German mark in relation to goods and services had ceased to exist. You could not buy anything with it. The notional value of money finds its purchasing-value declines or is enhanced just according to the notional value it has in exchangeability to goods and services which is given it at any given time. Arising from that is the fact that the notional and the changing notional value of money does not commence with the people. It is entirely governed by banking institutions, and it is the banks who say what that notional value is. During the war sterling and the franc were held together and when America came into the war the dollar, sterling, and the franc held together, notwithstanding the stupendous excess of American exports and imports over to the production of war material. After the war the national value of money was finished and the French franc started to flag like the German mark. By taking certain stringent measures the franc was stabilized at 128·8. To-day sterling is so depreciated on the exchanges of the world that it only takes about 80 francs to make a £1 sterling. All this money is only an adjunct to goods and services.

In the United States to-day there is over 1,000,000,000 horse-power of machinery. That machinery is using inanimate energy in the place of man-power. In order to get the amount of man-power equivalent annually to that of the machinery in the United States we take over fifty times the adult labour of the whole world. There is in the States to-day a chassis factory which works seven days a week, twenty-four hours a day, and needs only one attendant. I do not want to worry you with figures of this nature, but that could be repeated *ad nauseum*. There is a factory in the United States which in 1927, as a result of invention, and as a result of thirty-seven men working thirty-seven days, made and installed machinery in compliance with this invention and that factory could turn out ten thousand times what it could turn out before. This replacement of man power by inanimate energy is continuous and rapidly increasing, and the body of professional men associated with the Columbia University and commonly called the technocrats indicated that the depression is forcing employers and industries to pay increasing regard to the use of new inventions. They must cut costs, and therefore when they must cut costs they must try and cut labour so that continuously you will find that as regards what is termed production—which constitutes the only real wealth—the quantity and the quality is improving at a stupendous rate and at the same time it is reducing the amount of labour necessary to produce it. I am going to suggest that in the last fifty years at least, the goods and services have been increased by ten times and that in doing so the need for labour has been decreased 50 per cent.

Captain Rushworth.] Your point is that the wages of the machinery are not distributed as purchasing-power?—Exactly. Let us take all the farmers, all the professional men, all the merchants, everybody else in this Dominion. Is it not a fact that in order to merely carry on reasonably successfully each and every one of them must receive over the year more than he pays out.

Mr. Ashwin.] You are assuming that the price stops the same and the wages stop the same?—I am assuming, Sir, that if you make that matter of price the point at issue you will find that modern prices were many times higher than the old prices. We know that labour has worked as low as 6d. a day. Under the present system there are only three ways in which new money can come into existence. The first way is by the sovereign power of the State through coinage; the second way is through the banks—notes, but chiefly credit; and the third way is the counterfeiter, and Professor Soddy has said and has demonstrated that the only difference between the banking system and the counterfeiter is in favour of the counterfeiter. So far as the issue of forged notes is concerned and the issue of the bank credit or bank-notes is concerned, providing they were used for the same ends the result would be exactly the same, but the forger having issued his notes they get into, and remain in circulation, whereas bank credit or notes are both liabilities and are ultimately cancelled.

Mr. Langstone.] The forger does not want them back?—No. But the bank at any moment can contract its note-issue. Now, the value of money depends entirely on its relation to goods and services.

Dr. Sutch.] Not entirely. The quality comes in to a certain extent?—The quality of money depends on the quantity of money. The generally accepted theory is that if the amount of money is increased in relation to the same amount of goods that the value of the money tends to decline and the value of the goods tends to go up.

Dr. Sutch: I do not think we should accept that as a causal sequence.

Mr. Langstone.] In New Zealand a pound-note made of paper, 20s. made of silver, or a sovereign made of gold—all different qualities in money—just taking them as money will be worth exactly the same amount?—Absolutely.

Mr. Clinkard: As long as the confidence in the paper remains.

Dr. Sutch.] My point was to show that the quantity of money was not the sole determinant factor?—If you will read the history of the present depression impartially and reasonably fully, you must agree that the continuous and increasing expansion of purchasing-power through this medium resulted in the crash. More and more purchasing-power was continuously being issued and therefore it was found that speculators could get more and more figured paper profits, but overnight the Federal Reserve Bank of the United States required the progress margin to be reduced to 7,000,000 dollars. Within three months the whole of the stocks of the United States dropped 75 per cent. of their value and were worth only 25 per cent., because this bank credit was based very largely on various securities and when the bank required that credit to be drawn back people had to sell their stock and all were selling their stock. That definitely happened. It proves that the difference between the counterfeiter and the bank is in favour of the counterfeiter. Counterfeited money is of an inflationary nature just as is the bank creation of £5,000,000 of credit, because at a single stroke the amount of money is increased by £5,000,000 without a corresponding increase of goods.

Mr. Ashwin.] That is obvious?—That means to say that naturally the bank creation of money which results in produced goods is inflationary and therefore it depreciates the value of all the money previously in existence. We know the State coinage of this country is approximately £2,000,000 in silver and between £1,000,000 and £500,000 in copper. There is not another single pennypiece of new purchasing-power created by the State in this Dominion and therefore the continuous rise in the amount of purchasing-power has not come from the State. We know that it comes from bank creation.

Dr. Sutch.] Do you not think it comes from the extra wealth that has been produced in England?—No. I think you will agree that New Zealand during the whole course of its financial history has only on two occasions been able to reduce its national indebtedness. You see where this thing has come from. In 1694 the Bank of England was formed and roughly at that time the procedure of carrying on was to anticipate taxation and then when the taxes were collected to pay back the borrowings. Within three years of the constitution of the Bank of England the national debt of Britain was over £3,000,000. Finally, the increase went up to nearly £2,000,000,000. That merely indicates the amount of the British Government's liability, the increased national debt. It does not even cover local-body indebtedness, &c. It does give some indication of money not created by the work of industry going to make up this industry.

Mr. Langstone.] But on that point the counterfeiter never put it into operation and the Government never put it into operation?—Certainly. Now we come to consider, then, that as far as this debt is concerned it is being made up largely, in fact almost entirely, by bank-created credit, and that exposes in a very complete manner one of the fallacies of banking which has been believed by most of us until comparatively recently and that is that banks lend deposits. The banks' representatives will still continue to foster that idea. Let us assume that we each have £1,000 of free deposit and £1,000 of fixed deposit at a bank. What would we say if to-morrow morning we opened our free-deposit book or our fixed-deposit book and learnt that according to the bank we had only £500 of free deposit left and £500 of fixed deposit. We would say, What right has the bank to give away our money, and yet with that practical example in front of us the fact of our bank-book from year to year always indicating that this decrease or increase is by our paying in or drawing out, we have continued to accept this silly idea that the banks lend deposits when every one of us individually can see that our fixed and free deposits do not diminish and the bank always admits that it owes us that particular amount.

Dr. Sutch.] The Post Office Savings-bank takes deposits and shows those deposits at a certain amount. What does the Government do with that money?—I will leave that to you to answer. I am not concerned with the Post Office Savings-bank—it is not the same principle.

The money is invested?—Who is it invested with? You are asking me whether the Savings-bank do this—they do not lend money.

Dr. Sutch: I have not on hand exactly what investments the Government have from the Government Savings-bank.

Mr. Ashwin: About £45,000,000.

Dr. Sutch.] Are those deposits lent or are they not?—I am quite content that you should answer the question, it has nothing to do with the question about which I am speaking. I am talking about our ordinary banking system.

Mr. Schramm.] Surely Dr. Sutch must compare like things?—In so far as I am speaking of the bank overdrafts and in so far as the Government bank does not lend overdrafts I cannot see the point of the question. I am quite satisfied that unless we stick to the point at issue we cannot get anywhere.

Dr. Sutch.] I am not suggesting that has anything to do with it; I am not suggesting advances are created from deposits?—Is not the point I am putting up this: I am saying that until recently people generally have accepted what has been given definitely in evidence by bank representatives before this Committee, that banks lend their deposits——

You made the statement that if the banks lent their deposits the deposits would have decreased, but the Post Office Savings-bank has a certain amount of deposits which do not decrease, but they are lent ?—As soon as you place money in a bank, whether in a Post Office Savings-bank as investment or as ordinary fixed or free deposit, that money as money becomes the property of the bank. All that you are entitled to is to have the amount put to your credit, and if on free deposit the right to draw the corresponding amount in cash at any time.

My question was this: You said that the proof that the banks had not lent their deposits was the fact that their deposits did not decrease. Is that a proof ? Does the Savings-bank not lend its deposits because the deposits do not decrease ?—Certainly not.

Mr. Lye.] If the commercial or trading banks do not lend their deposits, when those deposits are made they become part of the bank's resources; where do the banks make the advances from ?—By writing figures in a book.

You do not suggest for a moment that if I make a deposit of £1,000, and somebody else wants an overdraft for £1,000, the bank acts as agent ?—I definitely deny that. I will show how that is worked presently, in what is termed the cash currency circulation, and you always have and only have in respect of money that you put in the bank on current account an acknowledgment of the amount you put in, and a promise by the bank to honour it whenever you want it.

If the advances are created by merely writing figures in a book and allowing persons, firms, or companies to draw upon the bank to that amount, is not that power to grant credit limited by the amount of assets or securities held by the bank ?—In effective banking practice the actual limit and the basis of the ratio is the amount of available cash they have. The principle is this—it has been shown by banking experience over a long number of years—that the amount of cash necessary to cover all banking business is approximately 14s. in the £100. The British banking system is worked generally on advances of ten to one of cash, and therefore the advances are really limited by the amount of the cash the bank has available. The banks say, these people having £100 will only come here on average, and on the same moment from day to day and year to year, for an amount not exceeding 10 per cent. in cash, therefore the banks feel they can safely lend up to this amount. One of the difficulties in America was that the banks were not conservative in that way.

Did not the law in America compel it to be 25 per cent. ?—That was not in actual cash.

Might it not happen that my deposit is actual cash ?—But it does not belong to you immediately it goes to the bank.

I get a credit in the bank's books ? They lend on that cash ?—I will go into that presently.

Captain Rushworth.] We have had expert evidence quite recently showing that the banks do not lend their deposits, but can we put it this way, that in the existing law the banks make their advances against Government securities ?—To the extent that it is accompanied by right to issue, the banks could probably work it out.

The banks make their advances against public securities, and they could make up their present advances without any deposits at all ?—Absolutely.

The Chairman.] You have £50,000,000 in overdrafts on the one side and £55,000,000 fixed or free deposit; you say the banks never lend their fixed deposits. Suppose this side was called upon, what then ? Would the other remain ?—I will put it to you in an illustration I will presently give.

Dr. Sutch.] You explanation to Mr. Lye was wrong as far as New Zealand is concerned; our banks do not lend credit and have regard to their cash basis ?—Professor Belshaw and Professor Soddy said they do. Belshaw referred to our system and Soddy to England.

This point has been gone over: that there is no direct relationship between their cash and their advances. The banks have the right to print notes as much as they like as long as they have Government securities against them, but it is not applied in this way ?—I will illustrate it. If the bank has the right of printing £100,000,000 of notes, and on that it could lend £1,000,000,000 credit, could it lend £1,000,000,000 on £50,000 notes ?

Our advances are to the extent of £50,000,000, but on race-days the circulation goes up by, say, £1,000,000. This indicates that there is no necessary relationship between the amount of cash in circulation or in the bank's books or vaults and the amount of advances. It may be true of England and America; it is not true of New Zealand ?—I will leave it to the Committee presently. I will prove both by the functioning of our present banking system and the failure of the American banking system that, as a matter of fact, banks do and must have regard to the amount of available cash at the moment their advances are drawn or potentially drawn.

Dr. Sutch: It is not true of New Zealand. The amount of cash that appears in the bank's books or in circulation depends on the advances rather than the reverse.

Mr. Clinkard.] You have a very good illustration, but are you not overlooking this fact—the banks in New Zealand pay heavy duty on their notes, but only pay that when they are put into actual circulation. There is nothing to prevent them having quite a large quantity of these notes not yet put into circulation, which if the demand came—— ?—That is actually true. Dr. Sutch said an extra £1,000,000 might be brought into circulation. I will illustrate it. We will assume that the Bank of New Zealand has a total issue of £7,000,000 notes; that is the total notes printed by the Bank of New Zealand. Of those notes we will assume that actually in circulation there are £4,500,000. Where are the other £2,500,000 ? We know that amount of notes is in the bank's own hands, as pieces of paper, £2,500,000 of its own notes. As far as the bank is concerned it also has a right, according to the present practice and the amount of Government authorities, to issue £20,000,000 of notes. I say that the Bank of New Zealand in relation to its advances must have regard to its notes, and the banks generally must have regard to the notes in circulation. The Bank of New Zealand also has in its possession not only £2,500,000 notes, but also notes to the Commercial Bank, the Bank of New South Wales, and the other trading banks which go to augment the silver and copper of its own actual cash

at the moment, so that the actual cash of the Bank of New Zealand does not include the £4,500,000 at all, but it has £2,500,000 of its own notes which are not in circulation but actually in its own strong-rooms, ready to go into circulation. In addition to that £2,500,000 it also has a certain amount of Commercial Bank notes and other notes. We will say there are £3,000,000 of these notes, and it also has a certain amount of silver and copper. The total cash available for this bank upon which to base its advances is £2,500,000 of its own notes, potentially issuable; it has £3,000,000 of notes of other banks, and, we shall say, roughly £500,000 of silver and copper.

Mr. Ashwin.] It also has the £20,000,000 it could issue?—It has the right on its holdings to print an additional £20,000,000; what is cash and what is it used for? Till-money. The thing we all need, and the thing we draw out from our credit as we need it from day to day. We spend it and other people put it back into the bank again. Surely if this bank has an aggregate of £6,000,000 of its own notes, other banks' notes, and silver and copper, that is its total cash immediately available for use by that bank, it could later authorize the printing of more notes.

Mr. Langstone.] On that point, directly they see that there are £6,000,000 instead of £2,000,000, they call in overdrafts instead of issuing extra?—They have the option at that stage of retracting their advances or authorizing the printing of more notes. Cash reserves must have a ratio to advances because advances mean demands people can make on the bank. If the bank gives overdrafts or other accommodation which represent the right to come to the bank for cash, if the average requirement of cash to credit is ten to one, we must assume that this £1,000,000 of cash can issue £6,000,000 of advances. Supposing the bank increases that £6,000,000 to £600,000,000, would that cash suffice to meet the requirements? The banks have got to keep a ratio of cash to advances. You must of necessity have a ratio between advances and cash. As soon as the bank sees the amount of its advances going up, it can print more notes, if it wants to. Cash and advances have in banking practice a relation.

Dr. Sutch.] You can assume I know the simple illustration you have given. How the banks create credit or give advances is not limited by any considerations as to the amount of cash held?—I never said so. Your suggestion was the cash and advances did not need to have a ratio.

I think we had better leave this?—The ordinary man with a vegetable-shop has got to have the amount of stock that he thinks people will demand. The amount of demand by customers of the bank for cash is a simple illustration of the vegetable-shop. The bank has got to have the cash resources, and that is worked on a ratio of cash advances.

Mr. Ashwin.] You imply that the volume of credit in New Zealand has in fact been limited by the cash resources?—No. If there is £20,000,000 of potential cash which can be credit, then at once you see that the banks could increase their cash in terms of their required ratio just so soon as they increase credit.

From a practical point of view, that is the only essential point. The volume of credit is not actually limited by cash?—I do not suggest they have. I think the banks have ample resources to treat their overdraft customers more liberally and make available to the Government the wherewithal to restore wages and salary cuts.

Mr. Langstone.] The present deflationary policy of New Zealand is more unjustifiable than ever?—Undoubtedly. Let us assume that we want to borrow some money from the bank; that is the way in which bank advances are created. People are prepared to borrow and the banks prepared to lend money. We have £1,000,000 Government war bonds. At market value we could go along to the bank and produce this security and tell them we need an overdraft accommodation up to £500,000; a credit limit. If it was approved the banks could issue a credit limit of £500,000. At the moment that is not a debit nor is it a credit; it is just figures. It is like a piece of paper in bank-notes because if we use the asset value of that, we create a liability value of it. We are going to buy a business from Mr. Y, whose credit figures at that time are x pounds.

Mr. Ashwin.] What you are speaking of is not an actual advance, but is merely an authority to draw?—It is merely noted for the convenience of the clerk. The account ledger is not credited with £500,000, but it bears an impression to the satisfaction of the paying clerk that satisfactory arrangements with this particular client have been made, and he can draw up to £500,000. It is a credit limit, not an overdraft. We are going to buy Y's business for £250,000. We draw our cheque for £250,000 and give it to Mr. Y, and he puts it in the bank, and subject to recourse, Mr. Y's credit balance has increased from x to x plus £250,000. Our credit limit, as soon as our cheque comes back to our bank, becomes an overdraft of £250,000 and a balance of credit limit of £250,000. The effect is that free deposits have gone up by £250,000, and overdrafts by £250,000. The increase of free deposits came from our overdraft, therefore the overdraft increase of £250,000 has resulted in £250,000 extra of free deposits.

Mr. Langstone.] It all originated in the bank?—Yes. Nothing happened but some figures were created, first as a credit limit and as an actual overdraft.

Mr. Ashwin.] That is only true, of course, so long as the transaction was wholly internal?—Yes. We must recognize that our power internally is absolute, but externally it is rather negligible. But with the additional factor I suggest that the State should be entitled to the proceeds of her exports; the State could do exactly what the banks are doing. We pay for imports in New Zealand out of sterling in London in the possession either of our banks, or through our banks in New Zealand.

Mr. Langstone.] If that £250,000 credit had been used to buy imports, the deposits would not have gone up?—If you assume that we have paid that £250,000 to a firm who happen to be banking in our bank, the deposits would have gone up to that man's credit in our bank.

Mr. Ashwin.] His credit at the Bank of New Zealand would have gone up?—If we paid that £250,000 to Mr. X in London for some imports we had received, our figures would have been reduced and his figures in London would have been increased in that way, and the deposits in London would have been increased by an advance in New Zealand.

Mr. Clinkard.] Provided it was confined to the same institution?—Let us assume I am an English manufacturer; I send out goods, credited with £250,000. If I am to be paid you will agree that I

should have the wherewithal to pay into my bank account in London £250,000. Therefore when I get in London the payment through a New Zealand institution at the request of a customer of a bank in New Zealand, it would not matter where I was banking. My figures, whether on fixed or free deposit, must of necessity increase.

Mr. Ashwin.] That is outside our bank ?—Yes.

Mr. Langstone.] If you are a manufacturer in England and I am an importer, I buy off you and I am to pay here as soon as the documents arrive, and I have not got the money. I go to my banker and he gives me the credit here before the goods have arrived. When the goods have arrived, I sell the goods to the people of New Zealand, receive the money, go and pay the banker the accommodation given me, and that cancels out the credit ?—That is true. We agree that at least on that simple representation there has been an increase in the free deposits and in the advances, and it is clear that the source of the advances is not the deposit, and I think it is equally clear that the source of the deposit is in fact the advance, as far as that illustration of the creation of overdraft is concerned. That overdraft at no time came out of the deposit, but in many cases resulted in a deposit; it is an inversion of the popular theory of banking. The banks, if they wanted to help the Dominion, could with the co-operation of the Government wipe out this overdraft.

Mr. Ashwin.] You mean that the advance people could get £50,000,000 of goods for nothing ?—Why not ? They have cost the banks nothing. The point is that if that is possible by co-operation with out banks and the Government, why should so many farmers be groaning under the pressure of contracted overdraft accounts ?

Why should any of us work at all ?—I do not think that is involved. I am merely indicating the absurdity of assuming that advances are made out of deposits.

Of course it only means that additional £50,000,000 is spread over the whole community in the shape of a decrease in the value of things ?—I am not suggesting it should be done, but it could be done.

If I have a pound, you have robbed me of half my pound-note to give to the other fellow ?—Instead of going through the process of raising exchange, which decreases the purchasing-power of our domestic market, through raising the price of our imported goods, and which in any case has to be paid for by the general community in order to help one particular section of the community, we could borrow on London. We would get a credit in London which if you converted it into notes again, those figures would reappear to the credit of the Government in New Zealand, and if you assume mortgages were £200,000,000 the Government would write out two hundred cheques for £1,000,000 each. Each account would go up by £1,000,000. Nothing would have happened except an internal inflation to the tune of £200,000,000 unaccompanied by any increase in cash.

You would get £200,000,000 more imports ?—No. There is £200,000,000 of Government credit in London. What firm or individual in New Zealand has the right to pay for his imports from London from the £200,000,000 of Government loans ?

Not until the Government spends it in some shape or form ?—I will show you. Having got a credit in London, only the Government can use it if it is Government money. If we borrowed in London, we would have £200,000,000 of credit in London, and you could again convert that into notes. You know that is our credit. You know the banks sent out a cable, and subject to expenses and exchange, that £200,000,000 reappears as credit in New Zealand. Nothing else came over but authority to put figures in a book. The banks in London debited us with £200,000,000, and turn round and say we have got nothing left in London.

While we hold the £200,000,000 credit in New Zealand we have the right to demand that £200,000,000 back from the bank in London ?—No.

The Government, having got the £200,000,000 credit in New Zealand say we will buy £200,000,000 goods in London, and asks the bank to provide £200,000,000 in London ?—Once you have spent it you cannot convert it into sterling funds. The Government borrows £200,000,000 from London. It draws two hundred cheques each for £1,000,000; those go out to two hundred mortgagees and the Government has nothing left. Having issued two hundred pieces of paper, it has nothing left.

But the private people have got it ?—The Government cannot now turn round and get any of this money in sterling. The private people wanting to pay for some imports in London they go to the bank here with some of their own figures, which may or may not have come from that loan, and they buy some of this £200,000,000 of Government credit that was stolen from us.

Hon. Mr. Downie Stewart.] Why do you call it stolen ?—May I say that it would be stolen but for appropriate governmental legislation which legalizes it, and therefore the word "stolen" in a technical sense is incorrect. The sale constitutes the retention by the bank of £200,000,000 in English purchasing-power in exchange for £200,000,000 of figures which cost nothing to produce.

Mr. Ashwin.] I suggest that that is entirely disproved by the fact that the ultimate position is exactly the same as if the Government kept the £200,000,000 in London and simply used that London credit to buy goods, and brought it out directly in the form of goods ?—Do you not agree that in the last analysis we have to buy back our loans and our interest on those loans and our imports out of our exports ?

Yes ?—Then if we had used these figures in New Zealand without having first to create a debt, there would be £200,000,000 in London that we would not have to pay out of our exports, and we have £200,000,000 of increase in New Zealand that would do just the same thing.

I agree with you that we have got to pay off our London loan out of exports, and I also said that in the first case we received that much more additional imports ?—No. Let us keep to the one point. Here are our exports, which have got to pay Government loans, theoretically, because they are never paid actually; they are only converted and increased. We have got to pay Government loans, interest on the Government loans, and we have got to pay for our imports all out of our

export proceeds. Therefore, the more we borrow in London the less our exports can be used to pay for imports.

Yes. But at the time you borrow the loan your imports are up?—You cannot pay for your imports until first of all the bank has (subject to the Hon. Mr. Downie Stewart's objection) sold the £200,000,000 of sterling in exchange for some costless figures out here. Then and then only can the people out here, through the instrumentality of the banks—and still further increasing the banks' figures out here, get the use of sterling which previously belonged to the Government in London. But here is the real point: Your national debt in 1910 was £74,000,000; in 1932 the debt was £281,000,000. That is an increase of £207,000,000, a large part of which came from London, and you have no more cash, comparatively speaking, than you had when you had only £74,000,000 of debt.

But we have received the difference between £74,000,000 and the present London debt in goods?—No. You must agree, first of all, that the imports cannot be paid out of Government loans. You must agree that the imports must be paid out of exports.

No. I do not at all?—But you agreed a moment ago that exports had got to pay our Government loans and the interest on our imports.

Only when there are no loans?—But you cannot pay for imports out of Government loans until after the banks have stolen it. How can you use £200,000,000 belonging to the New Zealand Government to pay your bill?

Mr. Langstone.] Let us put it this way: Suppose that the Government are going to tax the people here, and then, for the taxing of the people here, they have a credit in London?—They do not need the credit in London from borrowed money, except to the extent that it was imperative that they should have something in London to provide moneys actually then due by the Government in London.

The point I was trying to make was that if they tax the people here and raise a loan in London at the same time, instead of buying goods or sending goods over to pay for anything, they use the loan to pay for it and they use the tax that they have raised in New Zealand to pay for the services here.

Hon. Mr. Downie Stewart.] Your argument is simply this, that instead of using other people's credit we should use our own?—Precisely. That is what I am coming to, and I was about to do it through this suggestion about this £200,000,000. I was going to say that the only difference between the two methods of doing it was that the Government, without more ado than the intention to do it, simply writes those figures in the books of the banks and issues two hundred individual cheques each of £1,000,000. It then transfers that £200,000,000 to the credit of two hundred individuals at the rate of £1,000,000 each. Now that happens if we simply write figures in a book out here without going to London. When we go to London the only difference is that you add on to this, this silly idea of borrowing £200,000,000 as a credit, getting the cable which results in this out here, and having your credit washed out, and you have not done more than if you had written those figures in a book without going to London.

Dr. Sutch.] You have. You have had £200,000,000 worth of goods?—How?

The Government pays somebody in New Zealand and they go to the bank with that money?—But the Government has £200,000,000 in London. How can they pay for imports.

That stays in London. It does not diminish until an importer draws on it?—An importer cannot draw on it until first of all, by the silly method of sending out a cable, it is allegedly transferred to New Zealand. Then the New Zealand Government having at that moment, in pursuance of the cable, got a credit of £200,000,000, the bank can actually then make anything available out of that £200,000,000 to the people of New Zealand.

Mr. Ashwin.] Put it this way: Supposing we had no London funds at all. You could wipe out the banks?—Then, and then only, would it be necessary to borrow money in London to pay for imports, until such time as your exports were there. But the wiser course would be to wait until your exports in London could pay for your imports. The point at issue should surely be this: If we can pay two hundred mortgagees in the very same manner with the very same cheques it will have the very same effect of increasing their figures in the aggregate by £200,000,000 and reducing the mortgages by £200,000,000. If we can do that very thing here in New Zealand without going to London for a cable, and if, instead of doing it in that way, we go to London for a cable, it puts an additional £200,000,000 on. Well, why should we go to London for a cable?

I understood that. We were discussing your statement that £200,000,000 inflation in New Zealand was the same thing as borrowing £200,000,000 in London?—It is exactly, to the tune that you are dealing internally.

Mr. Clinkard.] But since you want to issue it to the other end it becomes a different question?—That is merely taking a fragmentary portion and trying to prove that, as if that were a test of the whole. If it be granted on the assumption that we are ever going to pay our debts, we know that we can only pay our debts and the interest on our debts and also those things that we import out of our exports.

Mr. Langstone.] We cannot do it by cabling?—No; therefore, if we divide the load of our exports into three, we find that the first part of the load is to repay in theory (because it is never done in practice) and the real load of your exports comes in your increasing exchange, that is the second part of your load, and the third part of your load is imports. Now that is the load that your exports have to carry.

Mr. Ashwin.] Apart from borrowing?—No. This is your Government loan and your interest, and your imports or exports have got to carry the load, so the weight or the burden of paying for Government loans is external of course. The next load on the export is to pay the interest on those loans.

But if you pay it off you will not have any interest?—But we do not pay it off.

Why include it then ?—Because I am telling you I propose to lead on from this to show you how impossible this burden is, but I am not allowed to get away from this £200,000,000 loan.

Mr. Clinkard.] I agree with you about the tremendous load ?—The only load that we pay in respect of our overseas obligations is the interest. We cannot pay the principal. The loan is funded from time to time in conversion—in other words, we receive more money than the amount of our loan.

Mr. Schramm.] That means we are increasing out debt all the time ?—Exactly. In other words, more and more is required from exports to pay interest on borrowed money instead of imports.

And as time goes on the position becomes more impossible ?—Over 50 per cent. of our national taxation goes to pay interest commitments. Over 80 per cent. of our rates is needed to pay local-body loans and debt charges. You cannot do anything to-day unless you borrow more money.

Mr. Ashwin.] We are not borrowing money to pay the London interest. Your contention is that our national debt has gone up from £74,000,000 to £281,000,000 and we have got nothing for it ?—We have got nothing that we could not have got without it.

We have got a lot more goods from Britain ?—How can you pay for imports out of Government loan moneys. Here is £200,000,000 of Government credit in London. Can you tell me how you can use that to pay for your imports ?

Either Government imports or private imports. It does not matter ?—Let us stick to private imports. How are you going to pay for them out of Government loans ?

We will put it this way. The Government indirectly spends that £200,000,000 ?—There is £200,000,000 on Government credit in London, and I am asking you to tell me how, out of that £200,000,000 of Government credit in London, you can pay for private imports into New Zealand. The point really is that, instead of going to London for a cable to get £200,000,000 to pay your mortgagees to help your farmer in New Zealand, under the present banking system you could have paid off that £200,000,000 to your mortgagees in New Zealand without the need to go to London. If, therefore, without going to London to borrow money, we can do the same thing in New Zealand, is it not a silly thing to go to London to borrow money to do what we can do in New Zealand and thereby create a debt carrying interest, instead of not having a debt. That is the first simple proposition. The second proposition is material to the questions that have been asked and that is, if, ultimately, all the interests on our loans overseas and theoretically the loans themselves and all out imports have to be paid out of our exports, then if we borrow money that we do not need to borrow, have we not increased the amount of our exports that is being merely paid or used for interest and theoretical loans and thereby reduced the amount of our exports available to buy other imports ? Then why continue the folly ? Why not allow your exports increasingly to pay for imports instead of cabling for the purpose, to use figures in a book.

Mr. Langstone.] We do not have Great Britain coming to New Zealand and borrowing money, do we ?—No. Under the system which I propose the Government would make available these figures and there is nothing else that we use except as to 0·7 of 1 per cent. All the rest is figures. Now that would be the position under the advocated system. There is no value in figures unless they really represent wealth in goods and services. I also suggest that if you had borrowed that in London and. with all due respect, the banks had taken it over on receipt of a cable, you would at that moment have £200,000,000 more credits for the banks to give you. You would be taxing yourself so much to pay the interest that you would not be able to import anything. Now if £200,000,000 is borrowed to-day and interest at 5 per cent.—that is, £128. That would mean that you would multiply your £200,000,000 by 128 to find out what it would be in the future, so that while you had borrowed that and were actually spending it for imports you might get more imports temporarily, but having exhausted it you would find the amount of imports that you could use would be decreased.

Mr. Ashwin.] But if your capital money was wisely borrowed and wisely spent you ought to have that much more exports to pay for it ?—That £200,000,000 would go to reduce mortgages and other things like that. It would not result directly in anything but allowing the farmer to sell his butter for 10d. instead of Is. 6d. and still make a living.

You gather from that that the Government debt has been incurred to pay off mortgages ?—How much of our debt has been paid in reproductive work. £56,000,000 is invested in our railways and we known that, generally speaking, they are running considerably at a loss, so that if you exclude reproductive work it must be clear that all our debts have really become a burden round our necks.

Broadly, I agree with that.

Mr. Langstone.] Getting back to your point, with that £200,000,000 overseas you import more goods into New Zealand and you have £200,000,000 of money or credit available in New Zealand to produce that class of goods in New Zealand. Does it not reflect that way again ?—Yes.

Mr. Lye.] And you suggest that under the new system which you advocate that the State should provide the necessary credit itself and lend it to the people free of interest and free of cost ?—May I come to that presently. I intend, of course, to cover that, but briefly and for the purpose of your question I will take the State creation of credit. Now the first thing I will suggest is that of all the many pressing needs that this nation has for the use of credit or money, there is no more important need than to relieve our unemployed. I would suggest then, that there is no more pressing and important need after that than to restore the wage and salary cuts. And I would further submit in respect of those two that there is nothing that the State could do, whether with costless credit created by it or borrowed credit by the banks, that is more important to them, to the people concerned, and to the Dominion, because the amount that you would give to the unemployed would be spent largely as an increased amount in the shops, improving the position of the retailers. The increased salaries and wages again would be spent in the shops and everybody would benefit, so that there is the point of the most acute distress, the point of the State's paramount need in carrying out its proper function of Government, the greatest good for the greatest number. And at the same time even I, as a lawyer,

would benefit more by the handing of that money to the unemployed and to the wage and salary people: through the retailer and the merchant it would ultimately reach me, so that in that way the State's right of credit should be first used to relieve that distress.

Mr. Lye.] Free of interest?—Yes. The worker would not get it as a gift at all. He would merely find that, instead of being unable to work and therefore getting no wage, he would be given work and then a wage. It really comes back to this, we can forget realities, we will look through monetary spectacles. These are realities. In the first place, nothing is produced without work. Now, admitting that some of us waste our time, all work must of necessity equal goods and services, therefore new work must of necessity equal new goods and services. All wealth is goods and services. Why should we worry about things. They tell us we have been extravagant. How can we be said to be extravagant with the labour of this Dominion when there are seventy thousand men that we cannot use? That means to say that instead of seventy thousand men all working and turning out potential goods and services this Dominion is going short every week of the goods and services that seventy thousand men could produce and the rest of the people are being taxed in order that they may merely live. Therefore through the loss of seventy thousand men's services there is so much less new work and therefore less new goods and services brought into existence. Take the unemployed in relation to the State. Now, the State writes to the local bodies and says go through all your works and all the desirable services that you need to have maintained. We have been told our roads are going back, but, in addition to that, go into all the works of a desirable nature that need to be undertaken, but do not be unduly extravagant. All those local bodies would make reasonable plans and would come to the central authority. Now you would find that the Government, having given wages to those men, they would find their material condition improved, and allegedly the retailers would start to get the benefit of the increased demand, while when the seventy thousand men started work you would need more stones, more cement, and transportation, and everything else, and all your industries would start to employ more themselves. Within three months you would not have an unemployed man here. Instead of taxing yourselves £4,000,000 for unemployed it would be only necessary to make provision for about £4,000,000 of State credit by just writing the figures.

Mr. Ashwin.] Would you keep on doing that?—You would not need to. It would be absorbed. At the end of the year, though you have written £4,000,000, that is on the assumption that you are going to pay seventy thousand for doing nothing—before three months have gone they would have ceased to exist as unemployed, and you would find that of that £4,000,000 you would probably not use more than £3,000,000.

The first year's wages would be paid from this additional issue of notes. For the second year are your wages to come out of rates?—No. This thing is going to dispense with rates and taxation. All work pays for itself when exchanged. We go back to the primitive times when you had a system of barter.

Mr. Beckerleg: I shall assume that I have now covered the initial statement of my proposals and I started by pointing out some of the defects of the existing system. The first defect which I think I at least attempted to point out was that the present banking system, being substantially the only source over a long period of years from which the additional purchasing-power which has come into being can go from, cannot meet the position of modern industry, because that additional purchasing-power always starts as a debt carrying interest. Therefore, although while the borrowed bank-created credits are being spent they do obviously make available an immediate purchasing-power and thereby grant periodical relief during the initial stages of the borrowing and the total period of spending, yet so soon as they are spent they become a debt. They have to be repaid theoretically at least, and they create an increased call upon the national resources by way of taxation to meet governmental loans, rates to meet local-body indebtedness, overdraft interest, mortgage interest and the like, in so far as they are treated for those purposes. Now, it is clear that if owing to the continued and continuing increase in the volume and value of goods for sale it is necessary that a continual increase shall take place in available purchasing-power, then one has only to take into effect the repercussions of interest to realize that whilst it may be a stimulant it ultimately is an actual drag upon our civilization. I further submit that I have already proved, and if need be, am prepared at any stage to prove, that the figures which the State get, having purchased the existing system, created for itself and used for the purpose of relieving the present distress, and for later purposes of national development, those State-created figures not giving rise to a debt from the incidence of required taxation, of local-body expenditure required rates, those figures will do every single thing that the borrowed figures can do and have been doing, and they will free it from the increasing burden of accumulated interest on growing principal sums. Now, indeed, if that little statement is indeed true, if the figures are correct concerning what this Government in New Zealand, having absolute power internally, can do, all in New Zealand that borrowed money from any source can do, then we are left to consider the external position. I submit that it is clear that all our external obligations whether at present utilized in repayment of loans, or in the actual payment of interest, or in payment for imports, all those external payments must be necessary, if we are to remain solvent and carry on, be paid for by the proceeds of our exports. We have need for thought, generally speaking, when we can find goods to pay for goods outside of New Zealand. Now, it is openly clear that no bank in New Zealand simpliciter, nor Government of New Zealand carrying on a banking system in New Zealand simpliciter, can create figures acceptable to other nations. You cannot pay for imports from Britain in New Zealand currency. You cannot pay for them in New Zealand credits simpliciter, and therefore if you want to pay for goods in England you must pay for them in sterling or the respective and corresponding sterling in the banks in England. If you want to pay for goods that we have imported from America you must ultimately pay for those American obligations in the dollar or the dollar credit figures. We pay our American obligations in

dollars through the transference and conversion of a proportionate amount of our English sterling credits into American dollars. Now, it is therefore clear that both nationally and internationally the bulk of all transactions involve figures and only figures. I do not want to be understood by that to say that there is nothing behind the figures, that there are not securities of various natures, governmental or otherwise, but the actual operations involve figures and only figures. Now, a merchant in Britain sends to a merchant in New Zealand some English machinery, and we will assume that the cost of that machinery, leaving out all matters of bank charges, exchange, Customs duty, and so forth, which the Englishman must receive in England, in sterling cash or sterling credit figures, is £1,000. The New-Zealander who takes to the bank his cheque in favour of his own bank for £1,000 plus or less exchange plus or less the debt and other charges, plus or less the bank charges, his figures are immediately reduced in New Zealand by £1,000. The New Zealand bank cables to its agent or head office in London and that head office makes available to the payee the £1,000 in English sterling, and that is the alleged transference of credit. Now, the ordinary transaction, however, is usually requiring payment either on sight or ninety days cash against documents, as the case may be. Accompanying that importation of £1,000 worth of British machinery into New Zealand are bills of lading and the appropriate figures of drafts, and they are usually cleared through the bank, and when the bank has agreed on the basis of receiving its own customer's cheque for the appropriate figures it then clears the papers of the importer who is able to take his papers and go and take delivery of the goods. In no case does that involve, generally speaking, the actual handling of cash. The New Zealand importer having x figures to his credit draws his cheque in favour of his own bank for £1,000 and immediately his credit is x minus £1,000. Whatever method is adopted it ultimately reacts on the English merchant who previously had y pounds to his credit having y plus £1,000 to his credit. In each case they are only figures, and that is why we are able to work both nationally and internationally on a very small amount of cash nationally and internationally and a very small amount previously of gold internationally. And as far as international settlements in gold are concerned, that is already falling into the limbo of forgotten things. Gold does not interest us as individuals or as nations directly. Gold was always, generally speaking, only of use to banks of different countries. We never paid for our English imports in gold, and assuming that our banks settled with Britain or elsewhere in gold that was their privilege and their obligation. So that the gold standard as an exchange factor had reference only to banking institutions, and since 1914 the colossal totals involved in settlement of international trading balances has rendered gold even for banking purposes of international settlement not only impossible, but it has been almost abandoned, and the settlement of international trading debts is effected by the debtor country and the debtor banks paying interest instead of settling in gold, and nearly all the world is off the gold standard. Now, in the order of reference there are both alternative systems and alternative standards, and it becomes material therefore to consider what we mean by monetary system and what we mean by monetary standard. As far as the monetary system is concerned, with the exception of the comparatively small percentage of citizens *inter se* those transactions which are done actually in cash currency, our monetary system, whether national or international, is needing more than everything else a clarified banking system, which are almost synonymous terms. But our bills of exchange drawn on London have to be cleared through banks and they result either in a decrease or an increase of our figures according as to whether we are paying for imports or receiving money for exports, and in England the expanding payee's or payer's figures are either increased or decreased and bills of exchange as such have absolutely no meaning except in so far as ultimately they react and are cancelled and paid in the raising and lowering of figures through a bank. Just try and imagine all the day, the ordinary little purchases of life which take place other than through the bank. All our tradesmen, generally speaking, day by day or periodically through the week take the credit amount of their savings, less their till-money, for the ensuing day into the bank, so that we find that our monetary system is made up of two things and both those two things involve the use of the banking system, and that is our cash currency circulation and our credit instrument circulation. We have a cash currency in this Dominion of roughly £10,000,000, and roughly £5,000,000 of that is in the hands of all the branches of all the banks and £5,000,000 of it roughly is in the hands of all the people. When you take money to the bank on deposit, that money ceases to be yours. There is a House of Lords decision to that effect. It becomes the property of the bankers, so if you take £100 of cash to the bank, that becomes the property of the bank and goes to swell the £5,000,000. All you get for it is an increase in your credit figures, maybe of course crediting you by reducing your overdraft, corresponding to the amount of cash you put in, and the bank thereon becomes entitled not merely to say that they owe you that amount, but to pay you that amount upon demand. According to banking practice you do not need more than about 14s. in cash in every £100 of all banking transactions. Taking the English cash ratio, the bank assume you may use up to 10 per cent. and the bank has therefore £90 of your cash upon which it could lend £900 upon proper security. I am concerned with the fact that all cash becomes automatically the property of the bank, and stops in this reservoir and is continually being drawn upon by cheques and paid into by deposits. That is one of the main features of our monetary system, and I claim that while it is termed a monetary system it is a very essential part of our banking system. So you can see on that point what I mean by saying, when you examine the monetary system, the monetary system and banking system is very largely one and the same thing. There are certain differences, but they are substantially the same thing. The next type of transactions is credit transactions, and these again are worked as the most substantial portion of our monetary system and banking system. Our credit transactions work out like this: A, B, C, and D each have to their credit at the bank £500. We know that if they place cash in the banks, they have not got £500 of cash each in the bank; according to legal decision that cash belongs to the bank, and therefore this is only a figure potentially convertible into cash. If A buys from B, and B from C, and C from D, something to the value of £50, A having bought from B takes out a cheque-book and there, without any notes or silver or copper coins, he simply fills in the date,

writes in B's name as the payee, writes in words and figures £50, signs it and gives it to B. He makes out a piece of paper called a cheque and hands it to B. B takes it to his bank—if it is the same bank the same clerk will probably attend to it. He looks at the ledger, and sees that A has the amount. He adds £50 in figures to B's account, and goes to A's account and takes off £50. A is left with £450 still in figures. As far as individual banks are concerned all the transactions that take place over the whole of the year between the customers of the same bank involve raising the figures of the payee and reducing correspondingly the figures of the payer or drawer, and it does not matter whether the payee is operating on a credit account or an overdraft account. But wherever he does operate on an overdraft account, that overdraft creates to its own extent, to the extent it is used up to its limit, deposits in the account of the payee and in that way banks create new purchasing-power, new money. If B buys something from C, B gives his cheque to C for £50, and C has now got £550 instead of £500, but B is back on £500. That is all that happens. C buys £50 worth of stuff from D; it makes his figures £550 and C's figures are now back to £500. Now D buys something from A, so D takes £50 off his account; it leaves him with £500 and A with £500. They are back where they started. That is a simple illustration of the ordinary transactions in which A, B, C, and D each starting with £500 of credit figures, buy respectively from each other, and of course sell. Having passed their cheques their figures are where they started. A has lost £50 of his original stock or goods, but he has £50 of new or additional stock or goods from D, and so on. That is all there is.

Mr. Langstone.] Suppose the bank bought something that way, where is the difference ?—Do you mind if I leave that until later ? If you take a bill of exchange you can see that as far as the bill of exchange, a cheque is really a bill of exchange, a promissory note is a bill of exchange; they all come under the purview of bills of exchange. You will find that if those transactions were respectively done between the four centres of New Zealand and done by bills of exchange, subject to the bank exchange, exactly the same thing would happen to bills of exchange. The same with promissory notes and letters of credits; they only react in reducing the figures of the person who has drawn on them and increase the figures of the person who has received them. Where they are in the same town there is no exchange; where they are in different towns there is a certain amount of exchange, increasing according to the amount being transferred by cheque. When you get transactions between England and New Zealand, subject to differences which might take a considerable time to explain, the same thing really happens and nothing else. You can understand why it has been estimated that 99·3 of the transactions of the world take place on figures. You can also understand from the proof that if this goes out on overdraft, it creates new deposits elsewhere. That is what Professor Soddy means when he tells us that of the existing wealth of all Britain to-day, 97 per cent. of it is bank credit, and you know the bank does not create credit for any one except as a debt on security, carrying interest, and if 97 per cent. of the total wealth of Britain started as a bank credit, you must appreciate that in the aggregate it is a total of 97 per cent. of Britain's wealth that is a debt carrying interest. You can also get an explanation of the rise in the British national debt and local-body debts. The utter inability of the banks to create the continually increasing amount of purchasing-power is its cardinal difficulty. In the system I propose (and I would ask you to take it that these are not my proposals; there are many better and more able men than I who are advocating something along the same lines) that defect will be overcome because the State will issue credit without going to London for a cable for external loans and then issuing internal obligations to its people for a transfer to credit internally. The difference between the external loan and the internal loan is largely this: You get £10,000,000 of credit in London; you convert it into bank-notes. When the bank sends a cable and debits you with the £10,000,000, the banks have the £10,000,000 of English bank-notes and can then finance the people of New Zealand who want to pay for imports from Britain. If the Government, instead of getting it cabled had used it directly to make payments in England, to that extent it would have used the power to convert it into bank-notes. When you came to local loans, however, this is really what happens so far as the New Zealand Government is concerned. When you borrow a local loan, if your fixed deposits are £38,000,000 and your free deposits £17,000,000, and if the Government should float an internal loan, then to the extent that the banks permit, or those free deposits were matured and converted into Government stock, that would result in a transference not of the actual figures, the Government credit; if it took £5,000,000 from the fixed deposits, the Government would get £5,000,000, and the £38,000,000 would be reduced to £33,000,000, and if £5,000,000 of the £17,000,000 were used, that would be £12,000,000, and figures to that extent would be placed to the credit of the Government. In each case these are new figures, nevertheless the substance of the transaction is that fixed and free deposits would have been reduced by the amount that the owners have taken up the internal loan. But when you have the £10,000,000, this carries interest, as has been suggested just as a camouflage. This would be the same value exactly; it would not start as a loan, would carry no interest and be no debt. You will notice that if you leave free deposits undisturbed, it would amount to a new creation of £10,000,000, but treated the other way it merely amounts to a transfer of credit. The next defect in the present system is in so far as until recently it was definitely claimed to be based on the gold standard. It has been admitted, I believe, before this Committee that that bogy at least has had to be surrendered. Nevertheless, in our papers from time to time the big men of Britain and other parts of the world still keep telling us that we will remain solvent just so long as we remain on the gold standard. The fact that at least theoretically the gold standard has not been abandoned is to be found in the fact that the price of gold, whilst practically all nations of the world have abandoned it, is nearly double what it was when an operative gold standard was in vogue. They still use this gold fiction to endeavour to confound those who advocate the utter un-necessity for gold. There are three principles of the gold standard—one is the settlement of international balances, the second is allegedly stabilization of money, and the third is the note-issue. There is a certain amount of overlapping between the three. In 1914 Britain went off the gold standard and did not come back again

until forced by America in 1925. You can clearly understand therefore that Britain managed her international parities without the use of gold for a period of eleven years. From 1931 onwards, Britain and an increasing number of the nations of the world have not made any attempt to settle in gold. They have suspended the gold standard, therefore we find that those who advocate and support the present system have, in the face of such an obvious truth, to sustain the old camouflage that it was essential to have the gold standard in order to settle international trade balances in gold. As far as the stabilization of money is concerned, although a great amount of time and power has been exercised in trying to tell us that gold stabilized is money, is not this the gold standard; for £3 17s. 10½d. in money equals one ounce of gold, and one ounce of gold can be sold or bought for £3 17s. 10½d. Those figures are actually repeated in the new Reserve Bank Bill of New Zealand, therefore you find that the only thing gold does in relation to money is to put up, as it were, an exchangeable commodity. The fact that you get 1 oz. of gold for £3 17s. 10½d. of money or that for 1 oz. of gold you can get £3 17s. 10½d., how, putting in two things that will buy each other has any practical application to the stabilization of money is more than I can see. I cannot see the slightest connection. Definitely and absolutely internally, and equally definitely so long as we are off the gold standard externally, between the ability to change gold for money, in its relation to prices. The next point is that it is utterly and entirely artificial. In our country and in Britain and other countries, they had to have effective legislation which made it obligatory upon the banks to give an ounce of gold for £3 17s. 10½d., or to give that money for an ounce of gold, and in 1914 in this country it was suspended and has never been re-introduced, and in Britain abandoned in 1914; from 1925 to 1931 it was re-established. Therefore we see that it is an artificial stabilization of gold to money in the sense of cash, and cash to gold. As soon as that artificial stabilization gets off, we find that £3 17s. 10½d. rises up to £4, £4 10s., £5, and up to £7, so that stabilization even of money and gold is purely and entirely artificial. If gold is not being used as the settlement of international banking standards, it is being accumulated largely because certain international obligations are settleable in gold and largely because our banking is still striving to make us look forward to again coming back on gold, and immediately the vital truth becomes extended throughout the world that the gold standard is impossible, and can no longer be effectively maintained, so soon will the price of gold go down to its commodity value. We have a special enactment called the Reserve Bank Act. Right through the series of inspired articles published by our present Minister of Finance there was the statement that this was a national institution. There was a statement that one of the essentials in respect of any monetary system is that its purchasing-value, its conversion of value from money into goods, should be stabilized. It is clear that these were prepared articles, and are so referred to by the Manager of the Bank of New Zealand, but in the article published in the *Herald* of 8th September, Mr. Coates says, "In fact, all our business and all our values are in terms of money, and as is now generally recognized, if the currency is not kept sound and relatively stable in value, trade and industry are seriously upset, and there is grave disorganization and trouble." You see that in the ordinary workings of banking exchange throughout the world. I am leaving out the alleged Government forced rise of 110 to 125. Banks have credits in various countries. Taking our banking system, we will restrict ourselves to New Zealand and London. The associated banks have a certain amount of credit in London and also in New Zealand. If there is therefore a large excess of imports into New Zealand, their New Zealand credits are drawn on to send Home and pay for them. Their New Zealand resources, subject only to this right of creating money, start to disappear. If, on the other hand, we send Home too much exports, then again the banks, in order to pay the people in New Zealand, have to draw too much on their London resources. The banks do not care about imports and exports as such, but they do care in keeping their own position sound, and if they find their London balances are being too heavily drawn on, they put up the exchange against London, and *vice versa*. That you will find is how banking is alleged to recall exports and imports, and we find actually that it recalls them primarily in order to maintain the soundness of their business. If they had no credit to draw on London, the banking institutions would soon come to an end. In the same article, towards the conclusion, Mr. Coates says, "The functions of a central bank are thus all designed to promote stability, without which business is unsettled and haphazard and steady progress is impossible." I cannot go into too many aspects of this, but in a later article, published on the 9th September, he said the functions of a central bank are very important and purely national in character. I want to emphasize two things, the alleged purely national institution and the national character of the functions of a central bank, and the cardinal importance of stabilizing the value of money—that is, the amount of goods that can be bought with money. In an article published on the 11th September, the third article, he says, "The essentials of a good monetary system can be briefly stated as a stable unit of value and an efficient method of maintaining that value." He goes on to state how money was evolved, and points out that the pound was originally one pound of silver by weight. Gold was bought by silver. "We have now reached the stage, however, when money is represented for the most part by nothing more than pieces of paper, bank-notes, cheques, bills, &c., and intricate machinery to preserve its value has become necessary. The value of money is, of course, the quantity of goods or services that can be obtained with it, and from the nature of things it is obvious that the unit of value can never be fixed in the same hard and fast way as the unit of length or weight is fixed." Why that cannot be fixed, I do not know, but it is said in that newspaper article that it cannot be fixed. We know that our competent statisticians in this country can give us week by week, and quarter by quarter, what are termed index figures of house expenditure, groceries, clothing, and various other things. As those things represent real wealth and as money is only needed and should be only used to enable those things to be produced and obtained, why, if those things can be so readily ascertained, under a properly managed State system, the issue of money cannot be made to correspond in the sense of increasing or decreasing, if need be, wages, as justified, I do not know. Nevertheless

the whole object is to stabilize money. "As we know to our cost, values do change considerably, and for the infinite benefit of all mankind it is to be hoped that with the advance of monetary science, better methods of preserving stability of values will be evolved. Deliberate control by a central bank is a step in that direction." So this series of articles is permeated by two things in essence; one is that this is a national institution and the other is the importance of stabilizing money. In the original draft Bill, section 12 read "that the primary duty of the bank shall be to exercise its control over the money and credit in terms of this Act to the end that the value of its bank-note be made stable." That is now cut out. It then went on to say, "and generally to promote the economic welfare of this Dominion." Those are very important words. The very necessity for the Reserve Bank was almost couched on them, and they were deleted from the Bill when it was passed, and therefore we find in respect of this new governmental institution, so much in the nature of a national institution, and from which the stabilizing factor respecting the value of money, the stabilizing commodity, has been definitely withdrawn, that we are left with the elimination of the particular and the retention of the general—that is to say the words in the Act were given, by a series of specious reasoning, to justify all sorts of banking policy matters, but it is very easy for us to know whether the pound-note has in fact been stabilized because either we can get the same amount of butter, or we can get more or less. If we can get the same amount with the same amount of bank-notes, we know that the stability of the value has been maintained and the primary duty of the bank carried out, but if we find prices go up and down, then we know that the bank is either consciously or because it is otherwise unable, definitely failing in its primary duty. The astounding thing really is that this important piece of legislation, which I suggest still further hampers, as things are now constituted, the state of the people in resuming their sovereign rights to create and issue credit and cash, this wonderful piece of legislation took place during a time when prices falling as they had disastrously fallen was of stupendous importance to every section of the community, with the effect that the farmer found, in relation to his butter, that the pound-note had increased in purchasing value from 1s. 6d. a pound in cash to 10d., and therefore the stabilization of money was not attained and money was not stable, but its purchasing-power increased. When we find that happening in a piece of legislation like this, issued, fostered, and inspired by statements that its primary duty was to stabilize the value of money, and then we find this deleted, I suggest it is time to look very seriously into the present banking system. In these inspired articles Mr. Coates has indicated that the Reserve Bank is merely confirmatory of the present system. All through these articles he has said this, "The duty of the Government is to lay down the monetary policy and the duty of the Bank is to carry it out." He has said that many times. It is later admitted that the Bank, in its operations, is merely confirming the existing system. On the question of the monetary standard, however, the experience of the past has shown that our trade is facilitated if our currency is based on sterling. This being so, the onus is on those who advocate any other basis to show that it would be more beneficial in practice, having regard to the fact that external trade, and particularly trade with Great Britain, is so important to this Dominion. Accordingly, in the Reserve Bank legislation it is proposed to do no more than confirm the existing voluntary system. In other words, go on just as you have been going on.

Mr. Schramm.] Heaping up debt all the time?—Exactly. "And place the administration of it in the hands of an institution specially constituted for that purpose." In 1913, when the Federal Bank Bill of the United States was passed, there was exactly the same promise that the bank was to exercise its control over money and credit to stabilize prices. In other words, to stabilize the purchasing-value of money, and when the Bill was passed the same thing happened there as happened here, that that obligation of the bank was deleted. I take it that when this piece of legislation, which ultimately became law, was before the House those words had already been deleted. In view of the fact that this is a national institution, we should assume that it would be State-owned. The State should own its national institutions and in those articles, after showing the imperative necessity of the State having a central bank and a State policy being conducted, and it must be a national institution, we sell our birthright for thirty pieces of silver, a mess of pottage. In other words, £500,000 of public capital that we do not need under the provisions of the Bill. The Government is authorized to pay in and required to pay in £1,000,000, and given power to do so by way of security, so the £500,000 of public capital we find is in order that there should be no political control, and yet this article breathes nothing else but the fact and the necessity of State control, and they try to tell us that this necessity for State control and absence from political interference is by taking the ownership of it out of the Government and handing it out to Tom, Dick, and Harry. So we find that the piece of legislation which we have was not what we were promised and not what we were induced to support. Now, this is very material as to the existing system, because this piece of legislation is to be used confirmatory with the existing system. We find, therefore, that, confirmatory with the existing system, although a national institution, it is not State-owned. We also find that the Governor is to be a man of banking experience, and we now find him to be really a man from the Bank of England. I believe him to be a very excellent man, and always I am to be taken as speaking against systems and not men. I do, however, think I am fair in saying that the present Governor might not have been appointed the Governor of our bank had it not been known that he was orthodox and sound in his financial understandings and methods.

Mr. Langstone.] Do you think the Bank of England would have any say in the appointment?—Definitely I do. I believe that this bank was brought into being under pressure from London, and I am not alone in that. The General Manager of the Bank of New Zealand has published a newspaper record to the same statement. He first of all said, "dictation from London," and the Minister of Finance contradicted that.

The Chairman.] A biased statement, of course. You must admit that?—I am merely putting it that so far as my expression of opinion in answer to an interpolated question, is that I am not

alone. Mr. Gibbs, first of all, spoke of dictation. Mr. Coates contradicts that, and Mr. Gibbs said it was something like a voluntary conversion. This is what Mr. Gibbs said in an article printed in the *Herald* of the 14th September, 1933. Mr. Gibbs said he considered the Minister had carefully avoided any useful criticism, and had failed utterly to give any satisfactory reason for setting up a central bank in New Zealand, and I submit that there was no cry amongst the people or institutions or sections of the community of this country for a central bank. He also goes on to say, "The Minister denies dictation of the London financiers. Supposing we substitute 'pressure' he may perhaps be not so ready to deny that. It is possible this was couched in diplomatic language akin to a voluntary conversion. He may have been asked to introduce legislation voluntarily, but 'if you don't' . . ." Those are Mr. Gibbs's words.

The Chairman.] He did not say anything about the taking of the gold in that speech did he?—No. Not in that one. Sir Henry Buckleton is sometimes even more on the point, because he deals with the Reserve Bank system in the United States, and we know that although that was established in 1913 and prior to the war had functioned for over twenty years, that it was utterly unable to stand up to the strain imposed upon it anything like so well as our own banking system in this little Dominion.

Mr. Ashwin.] That was explained, as to why that was so?—I am merely saying that the Federal Reserve Bank system did not stand up so well as our present system without the Reserve Bank. As many as eighty to one hundred banks per month were going out in America. In fact, when the banks had to close their doors because they had not a sufficiency of cash to pay those whom they were owing an obligation to, and when the President authorized and distributed notes to the tune of over 2,000,000,000 dollars, he refused to allow a certain number of banks to open. But the point I really make is that the Reserve Bank system of America was not a pattern to show that we needed a Reserve Bank, when we had got on so well without it. It is consistent with and confirmatory of the suggestion that it was brought into being by pressure from London, that some circumstantial evidence is to be found in the requirement that its Governor and its Deputy Governor had to be men of banking experience. We know that its Governor is a man who previously was in the bank of England. We know the Bank of England, of its twenty-four directors, has eight representing American interests and four representing German interests, and its Chairman or Governor, Sir Montagu Norman, was, previous to his appointment, a partner in an American bank, and we see that perpetuated in the appointment of our Governor. We know also, that as far as the deputy is concerned, that he must be a man with banking experience, and I believe that has already reacted in New Zealand in some one who might otherwise have got the position not getting it. Under section 31 of the Act you will find that of the other directors it is specially provided that one other director may be a director of an existing banking institution. It is very important, in this so-called national institution, that we should have regard to the fact that the Governor, the Deputy Governor, the three State appointees, and the four shareholder appointees, are all, in the first place, to be appointed by his Excellency the Governor-General by Order in Council, which means, as you well know, appointees of the Government in power, and furthermore the fact that this Governor and Deputy's tenure of office is seven years, and that the State appointee is for five, and the shareholders' appointee for five, and the shareholders' appointees retire one at a time after June or July, 1936, that means that for a considerable time the whole conduct of this Bank will be in the hands of directors appointed by the Government that was a party to the deletion, in Committee, of the very thing they promised, the obligation to stabilize money, and which has gone on record as saying it supports the existing system, which it knows is not free from defect. Section 3, subsection (3), places in the hands of the Board the general conduct of the Bank, but by the section later operating the general conduct of that business is placed entirely in the hands of the Governor, one man, and the only thing the Governor is unable to do in pursuance of his statutory authority as given by the Act of Parliament, are those things which, by the rules or regulations must be done by the Board. Now, if the Governor falls sick or is absent then the Deputy Governor can take his place and if the Deputy Governor acts, whether properly or improperly, no one is concerned to say so or challenge his acting. It is conclusive evidence that he was entitled to do so. And then by section 34 an Executive Committee is set up and there the Governor and the Deputy together with one other director, who may be either nominated by the Board or merely acting with the concurrence of the Governor and Deputy, these three, all of whom may, two of whom must, be men of present banking experience, have every function of the Board, and can do everything that the whole Board can do. This, if you please, is a national institution, and where the nation comes in I cannot see. That is the institution which is a relevant factor in considering any system that is being put up because if it could be shown that under that Act the State of this Dominion could and probably would do what is necessary to remedy our troubles, then it would be almost a sufficient answer to any proposed system, but you can see clearly that that is taking us nowhere. Further, it is a bankers' bank. It is so described by Mr. Coates in his articles. It is so by sections 13 and 14 where the Bank is empowered to do certain things and is prohibited from doing certain things. I propose now to deal with the note-issue in relation to gold, to show that there is only 10s. worth of gold behind the English note, 1s. behind the Australian note, and about 18s. behind the New Zealand note. The best application of it is this: Let us take unemployment. We know that so far as unemployment is concerned it has come into existence during the regime of the present system. We know our Unemployment Boards are telling us they cannot do the things they would like to do because they have not got the money. We know that Mr. Forbes has refused the restoration of wage and salary cuts on the same basis. As far as unemployment is concerned, under the present system the whole position is hopeless, and there does not appear the slightest break in the sky. Under the new system it can be demonstrated that immediately you bring this in you get all your own credit, somewhere about £14,000,000, without going to London for it. Now, that would be because those figures had

been used without directly bringing into being work to pay for them, but the point is that, having got your local bodies to pass plans, and having approved of those plans, within three months you would find that your men would be absorbed in work and every section of the community would be benefiting and it would not cost you the £4,000,000 it is now costing you in taxation, and you would have got rid of unemployment once and for all.

Captain Rushworth.] That would be a call on further production from our factories?—Yes. If we estimated the amount we would require to pay the unemployed over twelve months that would be roughly the £14,000,000, but long before that the unemployed would be put into positions so the work that they would do would create new goods and services which would give value, and that would be absorbed by private industry and we would find in three months unemployment would be cured and prosperity would be starting amongst our people, and we would not at that time have existing the £14,000,000 of figures that we write for the purpose. If you take the wage and salary cuts under the present system, what can we do? What does Mr. Forbes say? We cannot do anything. The state of the finances of this country will not justify the restoration. It is so ridiculous. From His Excellency the Governor-General, right down through all the Cabinet Ministers and every member of both Houses and every officer and employee throughout every Department of State, all those people are wage and salaried classes. All the people who load and unload our trains, our ships, our motor services, of every description, are wage and salaried classes, and we find that the purchasing-power of this little Dominion, at least as to 80 per cent. is made up of the purchases of wages and salaried people and their dependants, and you find that the domestic markets of all other nations more or less are made up in the same way. Now, a system that cuts wages and salaries 10 per cent. and 10 per cent., with a 5-per-cent. sales tax and a 5-per-cent. unemployment levy, is merely reducing the largest portion of our domestic purchasing-power. Similar things have taken place in Britain and elsewhere. France is about to make an economic cut of about £50,000,000, and the reaction is that they have reduced this purchasing-power. You have reduced the sales of the retailer, and therefore the sales of the wholesaler and importer and manufacturer. In other words, import three hundred thousand Asiatics to-morrow, give them 1s. a week and rice as their wage, and within three months what is your general wage in New Zealand? Somewhere about 1s. a week and rice. And what retailer could carry on business? But under the new system you at once restore the wage and salary cuts, and you estimate the amount of figures that is necessary to do it and you write those figures to the credit of a Government Department called the Wage and Salary Adjustment Commission. You do not have to go to London for it. You do not have to raise an internal loan for it. You simply put it there and so you increase the purchasing-power of your people, and therefore you enable more butter and everything else to be bought and the thing pays for itself, because all work results in goods and services.

Mr. Schramm.] And you do not have to pay interest on the money either?—That is so. It does not matter what phase of our economic life you take. If you take the farmer and you suggest that it is necessary to give him assistance by a bonus, why penalize the rest of the community to do it. Why go and raise your exchange on London to benefit those who should be benefited and those who should not. It is costing us infinitely more to maintain that exchange-rate in London than the farmers are getting benefit by, and it is reacting prejudicially to the rest of our community, and is of necessity reducing the purchasing-power of our wages and salaries in respect of goods imported.

Mr. Langstone.] It means further deflation?—Yes. It does not matter what section of the community you go to, the whole prosperity in a material sense of our whole Dominion, depends on, rises, and falls with the state of being of our wage and salaried classes. Therefore, anything we can do to improve the position of the purchasing-power of our wage and salaried classes will react through every other section of the community. Even the members of Parliament will get a better "screw." So you see that the very fundamental of this State system is that it can do without raising mortgages, loans, or anything of the sort, without creating debt, without creating taxation to pay interest on debt; this system will do precisely what the present banking system could do, but there will be no debt. You could at once start creating to make good the present gap in purchasing-power which everybody admits exists, and it would use the difference between the purchasing-power now available and what might be available without really estimating it by simply creating these costless figures and giving them to the unemployed, putting them to work, restoring wage and salary cuts, and the like.

When you say costless figures you mean at the cost of doing it in the ordinary banking way?—Precisely.

Hon. Mr. Downie Stewart.] Could you quote us some cases in which your scheme has been tried? It has been tried hundreds of times you know?—In a world which is advancing so very rapidly, if we had waited for some one to show us how to fly the channel before any one would try to fly the channel, we should never fly the channel.

But they have tried it hundreds of times?—It was tried in what is known as the Guernsey experiment. It was tried in one of the Australian railways and in both cases it worked on lines that I have indicated. The Guernsey experiment was the creation, under the authority of the Governor, of what were called Town Hall bonds. I do not think it should be necessary, in connection with what can be demonstrated in a manner to carry conviction, to find out others who have done it, but whether that be so or not is it not preferable that we should do this even if it did mean inflation, even if it did mean this or that, rather than that we should perpetuate the present distress in this Dominion, where somewhere about seventy thousand men, involving nearly a quarter of a million of people with their dependants, are on the borderline of starvation, only receiving a sort of charity dole, not even for sustenance purposes, but merely to keep peace within the Dominion, where every section of our community is labouring under increasing distress? Is it not wise that if we can see and

demonstrate that these costless figures will do what the borrowed figures will do and do it without the debt and require no interest, then I suggest it is worth while giving it a trial, even if it had not been tried before.

The cases in which it has been a success could be counted on the fingers of one hand ?—And so could the cases in which it has been tried.

There are hundreds of cases in which it has been tried and failed.

Mr. Schramm.] It could not be worse than the present system could it ?—No. The point is it has been suggested that the places where it has been tried and succeeded could be counted on the fingers of one hand, and I believe that is probably correct, and the places where it has been tried and failed go into hundreds. I suggest that that is not so. I suggest, for instance, the Russians are not doing it, and we saw recently the requirements of taxation in Russia to the tune of £350,000,000. If you go to Ireland you will find they are doing it.

Captain Rushworth.] One of the failures was the experiment of the Commune in Paris during the few weeks that the Commune ran ?—Yes.

Of course it was put down by force ?—Yes.

Hon. Mr. Downie Stewart.] One of the few successes was in Paris, too, in the 1870 war ?—Yes. I put it this way : That the thing is not necessarily to be accepted on the instances in which it succeeded or failed unless that is accompanied by a knowledge of how it was applied. I am satisfied that if the system I am advocating were put into being in this Dominion to-morrow and were exercised without care that it would fail. I am prepared to admit that—that it would react in such a stupendous increase in the volume of currency and credit beyond that already in circulation, and that contrary to whatever we might say, it would result in prices rising. Professor Soddy has pointed out the danger under such circumstances, of this reaction.

Captain Rushworth.] It is dangerous to handle 100 volts of electricity ?—Precisely. If the Government were not to take necessary precautions as to control of the volume of credit released, of course it would be a disastrous fallacy. I do very sincerely sympathize with what the Hon. Mr. Downie Stewart has said. I feel that it is essential that a system along the lines that I have indicated should be applied accordingly, that there should be an endeavour to perpetuate in the new system generally, the same relief system as now exists ; that there should be a clear determination to see that whilst we have distress that is so really grave, that pre-election promises are carried out and that relief is granted. It should be seen that where the distress was greatest, and also as a practical business proposition, that too much credit was not being extended, and also that additional credit was being justified by the use and the results of what had been made in gradually extending the system. But here is the cardinal point. There exists in the world to-day, between the ages of twenty and thirty-five, working merely with existing facilities of production and distribution, enough men to make and distribute annually goods and services constituting a standard of living at least twice what now obtains, and the services of those under twenty and those over thirty-five will be needed instead of allowing their services to be wasted, and the figures that you create are merely a proportion of your distributionary services. If your figures do not correlate in cost to the things that you have to distribute, then the things that you have to distribute must correlate to existing figures. What did the Right Hon. Mr. Coates say, Christmas twelve months ago ? We have cut down the staff of the Public Works Department by 41 per cent. and shortly an additional 9 per cent. will be cut down. Now the point I am wanting to make is that that is an instance, and Mr. Forbes' refusal that the amount of the wage and salary cuts should be restored, is the fact that we are making the production of goods and services come down to these low salary figures, instead of raising them to the level of the real wealth of goods and services which is capable of being produced to-day. So that that is the limiting factor. You can then turn round and you can help it develop your public works by putting better roads, trains, and transportation, &c., and in every case the money that you spend is merely to pay for goods and services which the worker has brought into being and you are only paying for the result of work done and goods produced, instead of reducing the workers because you have not figures to pay them with. I had intended to put before the Committee and cover many other aspects than those I have, but as I would wish the Committee to question me on anything which I have said on which they are not clear I will not take up any further time. It had been my intention to follow right through every phase of our national activity. I would like you to bear in mind that the system I propose is the present system, and not some new fanatical system at all. It is the present system bought by the State and run by the State ; the system having been purchased, the present difficulties can be cured and substantial improvements to the system and the position under the present system could be added to it, and it should become the servant of this nation.

Mr. Ashwin.] You have stated that the value of money depended upon its quantity in relation to goods and services ?—Substantially.

In dealing with the question as to whether banks lend their deposits, you used an example to show that an increase in advances, if used for internal transactions, led to corresponding increase in deposits. But you stated those were only figures in a book. But does not the very example you use itself show that these figures in the book are really a record of real transactions arranged through the bank, but outside the bank ?—Oh, definitely yes.

Therefore they are not only figures in a book ?—They are the figurative reflection of real transactions. Wherever they involve creation of new figures in order that the facilitation of the new transactions may be effected under the present system, it is done by the creating of the figures out of nothing on security by charging a man interest for it and doing nothing more than could have been done had the State created the figures.

Does it not amount to this, that one man, who would really become the depositor, has a stock of, say, grocery goods and he transfers those to the man who obtains the advances and in exchange

the other man secures a deposit at the bank? Now that deposit at the bank really amounts to the fact that the depositor has the option at any time to obtain not the same goods back again, but an equivalent value of goods?—Yes. The bank has to that extent created new purchasing-power.

But there is that definite relationship between the existing advances and the existing deposits?—I do not quite follow you there. I will follow you to this extent, that wherever the bank by way of overdraft or what is tantamount to an overdraft, creates and lends figures representing credit and purchasing-power and they are used to buy goods from a man, who thereafter deposits those figures, that the action of the bank is the creation of new wealth which is facilitating a new sale.

But that is tantamount to this, that the depositor has lent to the advance man a given quantity of goods and in the expectation that when he wants it he can get back an equivalent quantity of goods?—Granted, but has it not resulted primarily in proving that the new purchasing-power came from an overdraft, and therefore overdraft created deposits to that extent, because that is really the point at issue.

I first of all want you to admit that there is more in it than just mere figures in a book?—Oh, certainly. The main point I make as to whether these things called bank-created advances are mere figures in a book, is in a sense that so far as the bank is concerned it costs the bank nothing. They merely write on a blank piece of paper certain figures—or on the side on which are denoted credit figures—and those figures are by reason of the supreme thing, that wonderful thing called confidence, capable of being exchanged through the medium of a self-created cheque for goods.

The bank was only the machinery which really enabled the advance man to borrow goods?—Yes. But it is not merely answered so simply as that. What you say, Mr. Ashwin, is definitely true. I have called them figures in a book, more in relation to their method of creation, but I agree that those figures, in terms of any monetary system in which the people have confidence, will do all that metallic coins or printed notes or any other type of money would do, and they do reflect, and to the extent of its purchasing-power represent, a real transaction which but for that creation under the present system would not be possible. I have indicated there are only three ways of producing the increasing purchasing-power which increasing freedom needs. I also admit that the present system has been largely responsible for the expansion of Britain and the world industrially, but the main point should be—taking those figures which have been so created by the banks, and which do start a debt requiring to be repaid—is there any fundamental difference between such figures created by the State having purchased the banking system, and the figures created by trading under the present system of borrowing money in London with the corresponding creation of this same type of credit figures in New Zealand?

My point really was that the debt that existed was really as between the advance man and the depositor?—Oh, no. I borrow from a bank and I use that borrowing by actually paying a cheque and creating an overdraft. I pay that cheque to the man and he gives me his goods. I owe him nothing and he owes me nothing. I lend the banks an amount equivalent to the goods and it costs the bank nothing to create it.

The point is that you borrowed goods?—I did not. I borrowed money. I used the money I borrowed to buy goods.

You said there would be no harm to the depositor if all the advances were remitted and were replaced by a State issued credit?—I did not say that there would be no harm to depositors. I did say that by co-operation with the banks and the Government the banks could remit the amount of the present overdrafts and give to the people who now owe it an equivalent spending amount on the same security. It would cost the banks nothing and it would cost the Government nothing.

You admit that it is an inflation and that the depositor would suffer thereby?—Certainly. Every time that the bank creates an overdraft and that overdraft is spent, that is a definite inflation of the currency before that advance.

Will you admit that in granting the advance the bank has regard to preserving the soundness of the system?—The banks have always regard to preserving the soundness of the system in so far as it affects the banks. The banks unfortunately under the present system are under compulsion complying with a policy that is laid down in New York. London compelled us to go in for a period of deflation.

How?—By calling for reductions. Go to Auckland and look round at the business firms there. I could point you out scores.

You were talking about the unemployed and the suggestion was made that £14,000,000 additional credit be issued. I think your idea was to let the local bodies have it to employ the men on roads and waterworks and such like jobs?—Yes. That £14,000,000 which is created is just like the overdraft-created figures. It is merely a figure and is not an inflation. When your credit limit is drawn on and used, then it becomes an inflation. If the Government out of that £14,000,000 made a grant to the various local bodies to be spent on approved works there would be no inflation, and when the men started the work and brought into being new goods and services then there would be no inflation, because the amount of new goods and services brought into being would be in being before the amount of payment was made.

The point is that in the first year I gather this £14,000,000 would be used to pay wages?—No. £14,000,000 was to be written to the credit of the governmental authorities.

The point is that in this first year I gather that the seventy thousand men were to receive this £14,000,000 as their wages for work done?—I said, Mr. Ashwin, if you remember, that within three months you would not have any of your seventy thousand men left unemployed.

How is the thing to operate? They are to be given work?—They are, first of all, to be given this amount, but in anticipation of being paid the local bodies were to put in schemes, which on being approved would make demands on the unemployment.

The money is made available to the local bodies ?—At once.

That covers your first year, but in the second year do you pursue the continuance with those works and then are you going to issue a second loan ?—But you have not issued your first year's. Your unemployed have disappeared.

Where ?—Why, they are being absorbed in industry at the end of three months.

The question I want to get at is really the class of work they are to be put on to ?—Why not wait until the end of the twelve months.

No ; you are putting a supposititious case, and you have got rid of the unemployed in a manner that seems to me to be too good to be true. You are going more or less to get the local bodies to put these men on to capital works ?—Yes.

And in the first year you propose to make this £14,000,000 available to the local authorities to pay them their wages ?—Not merely definitely, absolutely, and only. That is merely a suggestion. That £14,000,000 is to be made available to provide the wherewithal to pay for the new goods and services which the labour of those men if properly and adequately employed would bring into being.

That is not a permanent solution of the problem, because the local authorities cannot go on employing them indefinitely on capital works ?—Are we not getting away from fundamentals ? What is the real difference between a wealthy New Zealand and a poverty-stricken New Zealand ? I will tell you : the difference between a wealthy New Zealand and a poverty-stricken New Zealand is in essence the difference between a populated New Zealand, reasonably employed in its own reproductive works, and an uninhabited New Zealand, and the seventy thousand men who at the present time are a drug upon the market ought to be making New Zealand wealthier to the tune of the amount of goods and services that seventy thousand men can turn out. If you do not want these men and their dependants, send them out of the country, followed by the rest of us, and you will cure the unemployment.

Mr. Clinkard.] You are suggesting £3,000,000 are going to put all those men into work ?—It is desirable in the interests of the unemployed themselves that finance should be made available wherewith they can live reasonably, and then I recommend the desirability of the local bodies who get the benefit of the services that at present are going to waste providing public and desirable works whereby these men might be put to work. I then indicate that the increased spending-power of these people will improve the position of the retailer and the wholesaler and all sections of the community ; the local authorities will make heavier demands upon companies and the nation will "take up its bed and walk." Any idea of perpetuating unemployment year after year is contradictory to the fact that new work results in new goods and services, and the only thing we are concerned in is the production of new goods and services.

Mr. Ashwin.] You said this morning that a London loan cannot be used to buy imports ?—Directly. When there is £200,000,000 in London to the credit of the New Zealand Government, at that moment the New Zealand Government can spend it or part of it in London in payment of Governmental loans or anything in or through London that it likes, but no individual importer while that loan in London remains to the credit of New Zealand in London, has any right to use it in payment for imports in Britain. I say it cannot be used for imports while it is a Government loan. When it ceases to be a loan, then it can be used to pay for imports.

Then cannot the Government use it ?—Yes.

Is that not imports ?—The point between us is whether it could be used to pay for imports. When we talk about exports and imports in New Zealand, certainly Government imports are included. When you ask me the question whether loans are to be used for payment for imports, the suggestion is that our London loans pay for our private imports.

If it is not used to bring out additional imports, how do you suggest we get the benefit of the loan ?—I am trying to tell you. I say you could do it without a loan. The only thing the loan does is something costless credit would do, but the loan gives you a debt, but in the ultimate you pay for all things out of your exports, and then you had not borrowed for them.

You contend that we borrow money in London simply for the pleasure of paying interest on it ?—Certainly we do. I would refer you to the *Herald* of 4th April, 1933. You will see there how Australia could no longer go on to the London market for the pleasure of paying interest, but she still wanted money. The banks of Australia received from the Governments of Australia from June, 1930, to February, 1933, an additional £65,770,000 in Treasury notes, and on the security of these notes the banks of Australia created figures that did not previously exist and without a thing from their depositors, new Governmental credit to the tune of £65,770,000 was created. It was practically all used in Australia. This was the position in Australia, and I would like you to read that article, because it gives to you a very definite explanation. The floating debt in Australia in June, 1930, was £20,330,000. I am going to disregard £4,000,000 of Treasury bills which were discounted. At February, 1933, that had gone up to £86,000,000, a difference of £65,770,000 of new credit money, created by the banks on the security of £65,770,000 of Treasury bills. Before that money was borrowed, the cash of Australia in notes, silver, and copper was about £60,000,000. After it was borrowed, it was less. Did not the Australians, through their Government, give Treasury bills to the various banks to that amount, and if they had printed those Treasury notes and handed them out for goods in Australia, would not they have done the same thing, and is not the only difference that they are paying interest on them ? Our floating debt, according to the *Financial News*, is £105,000,000.

Hon. Mr. Downie Stewart.] That is a misprint ?—I thought it must be.

Mr. Schramm.] I understand you have studied the position about Japan ; could you tell us why the Japanese manufacturer is such a deadly menace to the other countries of the world ?—I do not think I could constitute myself anything like a reliable source of authority on the subject. I was given a circular issued by the Bank of New South Wales relative to the Japanese situation, and it contained a considerable number of statements of a somewhat contradictory nature. It indicated

that the banking system of Japan and the Government had largely co-operated in order to help its exports. In the articles, copies of which I gave to the Committee, it was indicated that the Japanese representative at the World Economic Conference in London said that the reason Japan was enabled to meet the position was the use of free credit. That is somewhat discounted in the bank's circular, and therefore one is a little hesitant to expound so confidently as I would have done before, what I believe to be the true reason. Nevertheless, I do say that the true reason must of necessity be consistent with the articles recently appearing in the paper, and the definite advice of the Japanese representative at the London Economic Conference rather than the bank's circular, because Japan is selling to-day on the London market, retail, properly working, fully equipped fountain pens at 2d., bathing costumes at 3½d., complete tea-sets in Canada at 7½d., and throughout the world there is a flood of Japanese industrial products being sold at prices which I submit are below the material costs of the material involved. Therefore it could be done by no other possible method than by the Japanese Government saying to the manufacturer, the difference between the cost of material, the cost of manufacture, the cost of the freight and import duty in the country of importation, and what it should have showed him plus his profit, will be issued by the Japanese Government through the banking system. Probably it was a subsidy to that extent. That I believe to be really correct. At the same time it would appear that the Japanese bank interpolates between the manufacturer and the Government, and if that is so, and I am inclined to think it, then Japan is really largely subsidizing her manufacturers in establishing a market in the hope that they will later maintain them at a cost to the Government of increasing its national debt. Under the system I propose, however, what I had previously understood was definitely being done by Japan could be done, without cost. You will realize that it is only the interpolation of the Bank of Japan that is responsible for the debt; if the Bank of Japan was owned by the Government, all it would cost the Government would be the writing of the figures. When any merchant takes the money proceeds of his goods to the bank, all he gets is figures in a book, and his right to this cash currency-note. It does not matter if his pens sell in London for 2d. in sterling, which we will say is equal to 10 yens; it does not matter what they fetch in London; if he wants 25 yens for them, whether he receives it in the ordinary way or receives it by help of the Government, he has all he wants. The Government would owe the bank 15 yens. If you cut out the bank and use the State bank, it is done without increasing the Government obligation. In that same way the just-price discount regulator is the only thing which will enable us to get a greater purchasing-power into the hands of our consumers without raising prices, without inflation, and without working a hardship to the retailer and others.

Hon. Mr. Downie Stewart.] As I understand it, the essence of your scheme is the issue by the Government of paper money?—No paper, but credit.

How are you going to get it round?—Just as now. For instance, the Unemployment Board, we will say, under the present system are generally getting £4,000,000 of money to spread in relief. That £4,000,000 of money comes into being something like this: we all pay our 1s. and so forth. A cheque for £1,000 is drawn on the bank in order to pay a particular unemployment camp. You draw your cheque, it goes to the bank; you leave £3,999,000, and you have that £1,000 going out of your bank by cheque. You have got that in pounds, shillings, and pence. The only difference is that if you want to put £14,000,000 there instead of £4,000,000, it is not the same thing.

That is not the question. How are the Government going to pay the unemployed under your system?—Just as now.

In cash?—You will agree that they have this velocity of circulation.

Do or do they not pay the people in notes as at present?—Exactly, but not by needing to create new notes.

Where would they come from?—By printing Government notes, no more new notes need to be created.

Your point is that they do not carry any interest: you are issuing Government paper money?—In the sense that it is now issued through the banks, carrying a tax. There is really no difference.

There is all the difference in the world. The virtue of your scheme is that this is costless money?—Yes.

Then what is the difference between your scheme and all the schemes for issuing paper money that have gone right through the last few centuries?—My scheme is not to be branded as a paper-issuing scheme, because it is essential in its operation that we should take over some £5,000,000 or £10,000,000 of paper notes, and thereafter use these paper notes and the same silver and copper as now exists, without issuing new notes. Unless you will be more precise as to the other schemes you refer to, if the other schemes were paper-issuing schemes, I decline to permit this to be so described.

What is the distinction between your scheme and the other schemes that have been tried?—What are the differences?

I will read you one paragraph dealing with the question of when it has been successful and unsuccessful, dealing with the Government's right to issue money instead of banks. This is from "Principles of Economics," by Professor Taussig: "Hence there always springs up a plentiful crop of persons who advocate still further additions to the monetary supply. Most people have only vague notions of what money is, what are its functions, how it affects prosperity. Their instinctive attitude is almost always that of welcoming an increase in the money-supply. Especially during and after periods of rising prices, the panacea of ever-plentiful money has many ardent advocates. Sober sense sooner or later returns to the great mass of the community and the projects of fiat-money advocates are brushed aside. But one of the greatest objections to paper issues is the unsettlement which they cause in people's ideas on the nature and effects of money. Absurd notions emerge, and the simplest lessons of economics must be retaught. The right adjustment of the monetary system—intrinsically a task of very great difficulty—has to be undertaken in face of a tumult of ignorance

passion, and dishonesty" ?—Using ordinary English words in their ordinary meaning, there is no similarity between what is being described here and what I have described. That is full of references to paper money. Mine is merely the present system purchased by the Government, and instead of such new money as from time to time may be found to be needed and would under the present system be borrowed from London by a cable, such additional money shall be written and then used. That does not involve over-plentiful money, any additions that should not be brought into being.

You said there was going to be enough money to pay the unemployed and restore cuts, &c. ?—Although I said £14,000,000 in figures, in my opinion we should not use more than £3,000,000 over a year, which is less than the present £4,000,000.

Every time that has been tried experience has shown it cannot be worked. I will read on: "The cases of resort to paper, without ensuing depreciation and unsettlement, can be counted on the fingers of one hand. The most notable is that of France in the war of 1870–71. The notes of the Bank of France (which were made virtually Government paper, not exchangeable for specie) were issued in large amounts to aid the Government in its financial exigencies during and after that great struggle. Yet the situation was handled with such caution and skill that only a slight specie premium appeared, lasting a short time only. The possible gain from a resort to paper was secured in this case without any serious drawback. The probability of overissue, with all its disturbing consequences, is the main ground for condemning paper money. To this must be added the corresponding disturbance of the reverse process—the return to specie payments. So unsettling is a paper money regime that no community has willingly retained it, and every advanced country which has fallen into it has sooner or later extricated itself. Though paper money may do all the work of a circulating medium, it does so with a constant prospect of backsliding. Whether there is enough of it, or too much, or too little, is always a matter in the discretion of the Government for the time being. The value of specie, on the other hand, is deeply rooted in the established ways of mankind. For any one country, its value is not within the control of legislation at all. Its international acceptance gives it a basis on which the currency system of a country can rest securely. Hence every capable and ambitious community which has resorted to paper money resolves in the end, even at great sacrifice, to get back to specie" ?—All those notes are paper money; mine is not.

You admitted it was ?—I did not admit it was a paper issue. I said I deny that it is a paper issue. The mere fact that it happens to involve the taking over of £10,000,000 of existing bank-notes because they are already in existence, does not constitute mine a paper issue. There is no necessity thereafter to issue one additional paper note, except to the extent that our prosperity so increases that there is insufficient to use as till-money. If you want to get rid of paper money, why not print or use silver money or gold money; paper money is nothing more than a symbol; they are all merely symbolical. A curious thing about the criticisms which are so often directed at those of us who demand a reformed currency, is that you can borrow a debt carrying interest, thousands and thousands of millions, and we see Britain creating that. There is no hardship in that. It is not a paper issue. But if the Government and the people are to issue it and it issues it not merely as Government notes, but if the people are actually to take over the present system and remove the difficulty of a debt-created loan carrying interest, why that should be viewed as being a paper issue, I certainly cannot see.

But you have just admitted to me that it was ?—I must leave that to your future consideration. I must respectfully disagree that I have answered it at all.

If we do not admit that your paper money is issued by the Government, what you call costless credit, then I have no further questions to ask you ?—I simply would ask you to note that my real objection is to have this described as a paper-issuing-currency scheme.

Mr. Clinkard.] Assuming that all that £14,000,000 was expended, that would be the expenditure of credits, would it not ?—Yes.

Has the expenditure of credits a corresponding influence in inflating prices that the expenditure of cash would have ?—Yes. The expenditure of £14,000,000, if used by the unemployed simply for relief and to do no work, would have a tendency to inflate. It would be inflation.

I quite understand that the lesser advantages from the utilization of it would have an effect ?—But taking the simple question, the creation and spending under the system I propose of £14,000,000 of credit on the assumption that the workers did not do any work would, to that extent, be inflationary, because it would mean that as the workers had not brought any more goods or services into being, and as the amount of credit had been increased by £14,000,000, your balance between money and goods would, to that extent, have been inflated. It is not necessarily inflation yet, but if the work was done then of course it would not be inflation.

Assuming that the work was done as you suggest in advantageous public works and so on, that would not be an increase in consumable goods, and consequently the circulation of that £14,000,000 would have an effect on prices ?—That is perfectly true, but I would ask you not merely to take the contrast in that simple form, but let us take the effect of this £14,000,000 of costless credit used in the creation of £14,000,000 of good public works, and the expenditure of £14,000,000 of borrowed money used for the same purpose.

I am not advocating borrowing £14,000,000 from anywhere. When you were referring to Mr. Coates's remarks as to banking, he said in that report that you read that it was the best known method. I do not think it was quite correct, but you interpolated yourself that it was the only method. Now, assuming that some of us may go a very long way with you in recognizing the weaknesses of the existing system, we have got to be very careful that we do not get out of the frying-pan into the fire ?—That is why I suggest that you should try the present one, because it is so well known.

That is a fairly big order ?—It will not cost you anything. Divide the shareholders of your banks into A and B. A are shareholders in New Zealand. Then take the present thing in this way: Mr. X is the owner of £10,000 worth of bank shares. Mr. Y is the owner of £10,000 worth of bank credit.

Now this man, before the new system comes into being, sells his shares. What does he get? He merely gets his credit figures increased by £10,000, and he loses his shares. He has transferred them and sold them. Now that means that, if that was a private buyer, that private buyer's credit figures would be decreased by the amount that he has given to Mr. X. There would be a transfer of the credit figures of the purchaser to the seller in consideration of the transfer of the shares by the seller to the buyer. Now, supposing the Government, under the new system, did that.

That would liquefy a big amount of credits, would it not?—In the ultimate the only difference between the State buying and the person buying is that whereas there is a transfer of figures from the private purchaser at the moment, the ultimate result, as far as the seller is concerned, is an increase in his figures. When the State buys there is an increase as to the market value at the date fixed by the Act, and therefore, as the Government is now exercising the function of the private banks it is only doing what private banks do when they buy shares and securities on the market, giving to the people that they buy from figures which have cost them nothing to produce.

That would be really turning the shares into a liquid form of credits, and consequently there would be a tendency to inflation?—That is so, and therefore would not be an excessive amount in bringing into being those higher prices that we are all so fondly crying for. So the difference between inflation, deflation, and par-flation is that par-flation is taking any given period, and therefore you take the purchasing-power of money in relation to any given commodity at that period. Between 1928 and 1932 the value of our currency appreciated in buying value between 300 and 350 per cent.

I quite understand all that, and I recognize that a certain measure of inflation may be absolutely necessary: or shall we call it reflation? But what I feel anxious about is that every one of your suggestions, even the advantage that you are referring to as the just-price factor, that again is inflation and all these different things collectively appear to my mind that the tendency must be in their cumulative results as a dangerous inflationary proceeding?—I am quite prepared to admit that in the simple form in which you have put it. Then there are two factors to which we must have regard, and one is that the creation of this money and its expenditure is going to create and increase available goods and services. That is one factor and therefore to that extent it would tend to counteract the inflationary tendency.

But all these things are more or less speculative?—So is the inflationary effect of this creation of credit. If we are going to test it I admit your simile and therefore you must agree that the making available of this fund to local bodies to put more men to work and to buy more goods from the retailer, to cause the wholesaler to get more from the manufacturer, and cause the manufacturer to make more—you must agree that that is going to help the inflation, but the value would be obtained from the money in the sense of new goods and services. Now, if there is anything in the proposition I have put up you have got science and invention as I indicated continually increasing the amount of goods and at the same time cutting down the amount of work. Therefore, there is another factor which is necessary to take into account in considering the inflationary nature or tendency of certain parts of the proposal, and then there is the third factor, and that is an equitable system of taxation.

I thought you were rather severe on our proposed central bank. I think you will recognize this, that under the existing conditions our Treasury bills and so on are discounted at very heavy discounts, and those discounts go to the banking institutions. Now, assuming that our central bank, with all its alleged imperfections, is operating, even though it discounts at the same rate, all profits go back, so it does not really make much difference to us whether we pay interest so long as they do not go out of the holding of the central bank?—I am quite prepared to admit frankly that in relation to Governmental borrowings on Treasury bills, the Reserve Bank should mean a very considerable saving to the Government. In fact, referring to the Australian illustration, in 1911, there was established in Australia the Commonwealth Bank, which has been accused of being a reserve bank. It certainly functions partly in the nature of a reserve bank. Now, during the war, when Sir Denison Miller was at the head of that bank, the bank financed the Australian Government on loans to the tune of between £300,000,000 and £400,000,000, and it did so at 5s. 7d. per cent., and made 2s. per cent. profit, whereas previously the trading banks had charged the Government £3 per cent. So you see, in that way it should be a help to the Government.

I was really trying to draw your attention to that fact, because I thought you seemed to be rather wholesale in your condemnation?—All that I complain of in that respect is that, instead of saving what you could, you are only saving just a small percentage. You would not need to borrow on Treasury notes at all.

Supposing the bank gave us the Treasury notes free, or where they would charge us 5 per cent., take the 5 per cent., and then afterwards pay it back to us again as accumulated profits?—The banking system has to be studied infinitely more deeply than the profits that the banks make out of it. That is negligible. I am not concerned with the profits that the trading banks make. I am concerned, however, with the fact that the trading banks are operating under a certain policy which is reacting on the individual nations prejudicially.

You quoted the Bank of New Zealand, or certain officials, in their wholesale condemnation of the establishment of the central bank. Surely you realize that by the establishment of the central bank the Bank of New Zealand loses her very best customer. She will never have another customer equal to the New Zealand Government?—Is not the Government approximately a half holder and owner of the Bank of New Zealand?

A third. And in this case she takes the lot, with the exception of the 5 per cent.?—Yes. But she does not own a share.

She does not need to?—Yes she does; because, at least allegedly and in public theory, the shareholders control this bank so as to prevent political interference. Actually, it merely stultifies Governmental control and really leaves the control with the present banking system.

I was in favour of entire control by the State, but I am very hopeful that this concern is going to function in identically the same way had it been so controlled, and if not, future legislators can alter the constitution ?—But it is our job to do it now in the midst of a depression.

I think that the step which we have already taken, assuming that the bank functions as it should, will enable us to get our supplies at the lowest possible cost, and is an evolution in the right direction ?—I am very much inclined to agree with you, and I am certainly inclined to agree with you that those who are appointed as officials in this bank will in all probability discharge their duties as faithfully as they possibly can, and, save only to the influential control which I believe exists under the existing system, that they will do their best for the shareholders and the Government, and it might well be a considerable advance so far as the governmental interests are concerned. But I am more concerned with what has not been done than with what has been done.

Dr. Sutch.] Do you read *Hansard* ?—Very seldom.

I thought you did not; otherwise you would not have used the word "surreptitiously" in regard to clause 12. The Minister of Finance gave a very clear explanation in the House as to why it had been removed ?—I am quite satisfied to say that whatever those who were primarily responsible for the framing of it, and who had the power to put in or take out whatever they said had to go, did have to go and did go. I am very pleased, indeed, to know that that was actually brought before the House, and I would be very pleased to have the reference. In what way was it brought out ?

It was not surreptitiously removed ?—What was the reason for its removal ?

You remember the quotation from Cole where he says you cannot have stability of exchange-rate and stability of internal price-levels generally ?—No ; I have not read Cole.

First of all, the Minister of Finance pointed out that stability might mean anything ?—Well, why did he not point it out in his articles to the public ?

He also mentioned that stability of price-levels might mean the manufacturers' price-level, the wholesale price-level, the retail price-level, the import price-level, the export price-level ?—Is not there correlation between them ?

Not necessarily. It leads me to my next point. Have you ever tried to compile an index number or operate anything on an index number ?—No.

You have not read Keynes or Cole on the subject of index numbers ?—No.

Then you would not make the statement that you did, that it is an easy thing to operate on an internal price-level ?—I did not make that statement. What I did say was that our statisticians in this country, day by day, week by week, and month by month, and year by year, were able to give us the index figures showing the cost of rent, groceries, and so forth, and therefore I could see no insuperable difficulty to being able to maintain the price-level.

I do not dispute that we have had the indexes of the Government Statistician available, but the fact still remains that it is one of the most difficult things that monetary theorists have run up against to construct any system on a stable price-level index. They do not doubt its desirability. Keynes has a chapter on it. You can read it for yourself, Cole also has it and many other writers ?—Is it or is it not desirable that the purchasing-value of money should be made as stable as a primary duty imposed upon a responsible institution can make it ?

I cannot answer that because the word "stable" does not mean necessarily to me what it means to you ?—I am going to take what Mr. Coates has held up to us that it meant.

I am not defending Mr. Coates or representing Mr. Coates. I am asking you questions ?—I am asking you in order that I may answer your question. The position is this, that your question arises out of certain statements made by him relative to the removal of certain important words from section 12.

The only word I am objecting to is "surreptitiously." Do you still hold to that ?—No. I withdraw that fully in the sense that you have assured me that it was not surreptitiously done, but that it was mentioned in the House properly. I say I am interested to find out how it was mentioned, but I think it is too important a matter to leave my question unanswered, and apart from the fact whether the word "stable" can or cannot have different meanings, is it or is it not desirable from the national viewpoint, that when, three years afterwards, I am called upon to pay, I should be called upon to pay with an amount equivalent in purchasing-value to what I received ? And the difficulty of accomplishment should not in any way prevent it being a primary duty of our Reserve Bank Bill to try and stabilize the purchasing-value of money.

What is your question ?—The first question was, is it desirable to try and stabilize the value of money ?

I think it is far too difficult a job to define the word "stabilize" ?—But do you think it is a desirable thing to stabilize it ?

Not necessarily. I think we can have falling price-levels and prosperity. There are examples of that ?—You say "Not necessarily." What am I to take out of that ?

I have just given you an example ?—No ; you have made a statement. You can have prosperity with a falling price-level, providing other charges are falling also.

You admit that we can have falling price-levels and prosperity ?—Yes. But, unfortunately, we have got a depression accompanied by falling prices.

Do you think that the price of our exports has anything to do with our prosperity in New Zealand ?—Undoubtedly.

Can we have prosperity apart from the price we get for our exports ?—Of course we can.

So that under your scheme it does not matter really whether the price of butter is high or low ?—No, I do not think you are entitled to put it that way. You are putting it rather too drastically. The real importance of the price of our butter in London has nothing whatever to do directly with the state of our prosperity in New Zealand, but it does affect us because if the price of our butter is

low we are unable, out of the proceeds, to pay the interest on the moneys we borrowed when the prices were high and the rate of interest is high, and it is because of the endless debt creation by overseas borrowing which should not have been started, which should not have been gone on with, that the export figures in that regard attained a very material relation to our prosperity, because we have got to tax our people all the time to make up the difference.

Do you think that the fall in the price of butter has deprived New Zealand of actual real wealth ?—Let me put it this way: If the fall in the price of butter be taken as a simple and significant fact, while those things which butter is translated into the purchase of remain at their previous level, of course the fall in the price of butter is a catastrophe, but if butter and other things fall equally, then, but for the fact of our exports being needed to pay interest on loans, if our butter fell 50 per cent., and the things we changed our butter for fell 50 per cent., where is the difference ?

I am not suggesting there is a difference. I already know your point ?—Then why expect me to answer a question simply whether the fall in the price of butter affects us. The suggestion that our exports do or do not affect our prosperity in New Zealand cannot be answered without a very considerable scope of ground being covered. The question as to whether or not the fall in the price of butter affects our prosperity covers a very wide field, and if you elect to ask me questions so framed then obviously you must expect just the type of answer I give.

I object to your inference that my questions are not fair. I am making this point: Butter has fallen in price. I am also making the point that that has meant to New Zealand a loss in real wealth. That is all the point I am making. Can you give us the authorities from which you quote in regard to Japanese free credit ?—When I came before you in Auckland I handed in to the Committee some copies of a paper and it said that a delegate representing the Japanese Government had indicated that there was free credit. Since I have been before the Committee in Auckland I have received from some one a circular issued by the Bank of New South Wales, and it therefore is quite possible that I may have to qualify the remarks I had made. But I did say in that regard that if the idea of free credit was being issued so far as the manufacturers' work was concerned they probably have done it through the Bank of Japan.

As far as your bank scheme is concerned, are any of the credits issued repayable ?—Oh, yes. The credits which would be issued by the Government to profit industry would start off by being precisely on the same basis as now, except that the interest charges would be made commensurate with the need to restrain the free use of that credit.

And which one would not be repayable ?—Non-repayable ones would be those which had been created for the State and used by local-body departments.

And the greater State activities you have the more non-repayable credit you have ?—Yes. And doubtless such credit, resulting as it would in the accumulation of increases in fixed deposits, would have an inflationary tendency because money is saved only through the bank operation of cancellation.

Why not pay off your old debts instead of taxing to pay them off ?—Of course, you appreciate the fact that I have had little enough time to actually develop that. I would have said that all our internal debts would actually be paid off.

How do you propose to do it, by taxation ?—No. It is obvious that in drawing up and putting into operation a scheme of the magnitude as is of necessity involved in my proposals, such a scheme should so far as may be possible be carried along existing lines so that there should be as little disturbance as possible and that the amount of use that could be made of the creation of free State credit be exercised gradually and as those in charge of the system felt that they were working safely.

Does your scheme differ materially from that of Colonel Closey ?—I do not know his scheme. I should probably imagine it might well be different. As far as Major Douglas is concerned, I must admit that I am not at all satisfied. I am of opinion that any assistance to be of national benefit must of necessity be under some scheme incorporating the principles I have submitted, and the greater the extent to which those principles are used the greater would be the measure of success of the new system.

In Auckland you said that our national debt represented a deficiency of B payments ?—No. I never identified myself with B payments. I said that wealth equalled purchasing-power in relation to goods and services.

In Auckland you said that we should be able to absorb in New Zealand our surplus butter and avoid all threat of the quota ?—No. I will retract that if I said it.

In talking of Mr. Coates' articles what did you mean by the word "inspired" ?—I was merely referring to the belief held by the chairman or general manager of the Bank of New Zealand, who indicated that these articles had been prepared for him.

Do you think there was any truth in that statement ?—If you assure me that those articles were written by Mr. Coates I will accept that unhesitatingly, and will withdraw what I said. I assumed that Mr. Coates, as a very busy man, had had it prepared for him.

The Chairman.] Had you known the relationship between Mr. Coates and the banks I do not think you would have attributed such an action to him ?—I was meaning that they were not his actual words.

They are his words all right. You also said that the setting-up of the Reserve Bank had resulted from pressure from London ?—Yes, and I think I have support for my contention.

I can tell you that the setting-up of the Reserve Bank in New Zealand was not on pressure from London, it was purely on the initiative of the New Zealand Government.

Captain Rushworth: Not on that of Sir Otto Niemeyer ?

Dr. Sutch: Not at all. Sir Otto Niemeyer was in Australia advising their Government and the New Zealand Government thought that it was an opportunity to ask him to visit New Zealand.

Mr. Beckerleg: I think now you must be speaking not so much from knowledge as from what you believe the facts were.

Dr. Sutch: I am sure I am speaking from knowledge.

Captain Rushworth: You were not in the country then.

Dr. Sutch: No, not when the original Reserve Bank Bill was introduced, but I was here in 1931 when Sir Otto Niemeyer paid a visit to the country. Mr. Chairman, I am afraid I cannot pursue this discussion further, because I am not at liberty to discuss the matters of the Department. Another statement you made—you said that the Bank of England almost forced the Government to take on an employee of that bank for the Governor of the Reserve Bank of New Zealand. It is quite definite that the New Zealand Government did its own choosing and not the Bank of England?—Those who were in charge of the Bank of England, and I am prepared really to acquiesce in that.

The New Zealand Government again took the initiative in choosing their man?—You may not have known of the pressure that was brought to bear.

In fact it is absolute nonsense to suggest that the central bank was set up in New Zealand on pressure brought to bear from London?—There are quite a number of people, Americans and others, who made what they believed to be very exhaustive inquiries and have very cogent proof and who have given utterance publicly to those statements, and therefore I would rather adhere to my present belief on my present knowledge and be consistent with them than accept another version of the affair.

Mr. Langstone.] Is there anything that the central bank can do or will do that could not already have been done by the Bank of New Zealand or the Treasury?—May I put it this way, with a certain amount of change the Bank of New Zealand could, I believe, have done all that the Reserve Bank could do. Under its present constitution and its present public holding I doubt whether or not it could have done it without certain additional legislative authority. Substantially there would have been no difficulty in the Bank of New Zealand carrying out the functions performed by the central bank.

It was the Government bank and had the State of New Zealand behind it?—It could have been made so, just as the Commonwealth Bank of Australia.

With regard to the £200,000,000 of farm mortgages. It is quite a common thing to-day to have amalgamations of various companies into one?—Yes.

Would it be that they cancel out the old scrip and give new scrip?—Yes.

When you do cancel out mortgages it would be only a matter of giving the present mortgagees the credit in the State bank and the mortgage could be transferred to the State?—That could be done.

And that would mean then that the mortgagees would have a credit in the State bank by way of cheque that they can go and borrow on as they please?—Definitely.

And would not need any more issuing of notes unless there was any greater volume of business?—That is so.

And that 5 per cent. of £200,000,000 would be £10,000,000, but the State by this process would be able to reduce it down to £1,000,000—that would mean that there would be £9,000,000 left in the books of the farmers for their use?—Yes.

And there is no drastic change there from the borrowing of to-day?—No.

There is not a great deal of difference in that than there would be in the amalgamation of companies that we have seen going on?—Very little difference.

With regard to the protection of home industries and your British and foreign industries. If we pay a farmer an internal price-level of £2, we sell at Home and we only get £1 for it, and then there is the Customs duty of 25 per cent., which is 5s., so that when those goods land in New Zealand they cost £1 plus 5s., which is £1 5s., where is your other 15s.?—The farmer having sold goods in London to the value of £1 and the internal guarantee price-level being £2, the farmer would receive from the State bank the equivalent of £2 to his credit; that having happened he would then cease to be interested in his butter. Now, the butter is converted into London sterling and the London sterling is only £1. The New Zealand importer goes to the bank in New Zealand and puts up the corresponding New Zealand amount to get the use of that £1, so that then it comes out to New Zealand, and then there would be this 5s. tariff. Now the difference really, Sir, is not estimated at 15s., is it?

Yes, 15s. That exporter is able to get £2 and he is able to buy with the £2, that is buy it back for £1 5s.?—Yes, that is just a little bit difficult to follow you right through, but it does seem that way.

That is your discount in business?—I think the difference is this, that the goods coming into New Zealand costing £1 plus 25 per cent. constitutes an entirely different transaction involving different people.

Yes, but it is affecting the country. Do you not think if we have given the farmer £2 of income for that which is only worth £1 overseas, that when these goods come into New Zealand they should be the £1 plus another £1 to make the internal price of them the £2, and that £1 would go back into the Government exchequer?—It could be done.

What is the difference between the 5s. and the £1?—The point really would be this: So far as the purchaser is concerned in New Zealand, if he bought in New Zealand the same type of goods that is manufactured in New Zealand he would really pay the £1 5s. which is the imported price less the 25 per cent. discount which would give to the home industry the preference which might be necessary.

Does that not presuppose that you are going to fix the internal price-level of all goods?—Not necessarily. I think you appreciate that the farmer is given £2 of credit in New Zealand in the general national interests. Now, as far as goods coming out to New Zealand are concerned, there is really no association except an ultimate recording association between the butter for which £1 sterling lies in London at the disposal of the Government, who has accounted to the farmer for £2 in New

Zealand. The importer orders those goods from London and the goods come out here. The farmer's transaction is really complete in the sense that he has paid for his butter.

That is only half the transaction ?—That is the farmer's transaction. Let us bring a £1 5s. article in, Sir. So far as New Zealand manufacturer is concerned he would be given, as it were, a concealing bonus in respect of his own goods and to that extent he would be able to compete with the English manufacturer quite apart from the tariff.

The point is here, that you are giving this one particular person an advantage. He is able to buy £2 worth of goods for £1 5s. ?—Yes, but he might be buying 15s. worth of New Zealand goods which otherwise he would not have bought.

But he is getting an undue advantage ?—That is where your equitable system of taxation comes in.

There is this about it, if you are going to deal with your internal and external price-level you must make your import into the country and your export out of the country under right proportions ?—No. That would neglect the difference between exports and imports. The farmer's £2 is in respect of export. The needs of export should be merely to pay for imports. Therefore the farmer having paid for the export, if he has 15s. that is an amount which can be used for the purchase of additional goods made in New Zealand and which in the aggregate would help the sale of New Zealand goods.

Do you not think if you put sufficient money into circulation and fixed your price-level as well you would not have any need for a price-level ?—I do not agree with you.

It is the price which is the central feature in all values ?—I think we are very close together, but there just seems to be a little gap between us.

It was given on evidence that under the present system of banking it is utterly impossible for the ordinary banks to meet the ordinary people or to have anything in common with the ordinary people, because they do not use the banks ?—That is substantially true.

And therefore that any banking system that we have must be big enough and wide enough in its operations to cover the mass of the working-class of the community ?—Very definitely, Sir.

Mr. Lye.] I presume that under your system that you propose to create credits for the State and the local-body needs free of interest ?—Yes.

You propose under the application of a fixed-price regulator to make available credits to the industries of New Zealand ?—Yes.

The internal price-level will be fixed irrespective of London tariffs ?—Yes.

These credits which are supplied to the industries will not be repayable or subject to any rate of interest ? They are going to enable purchasing-power to be supplied to the people of New Zealand ? I quite understand that ; it is going to involve a tremendous amount of money, if you are going to fix the internal price-level without regard to London parity ; to ensure that our unemployed can be profitably employed and have purchasing-power, is going to mean a tremendous amount of money ?—I would say it is not necessary, because it would tend immediately to concentrate attention upon the Dominion's industries and tend to diminish their imports.

By virtue of the fact that we have absorbed our unemployed, would it speed up the velocity of circulation of goods and services ?—Yes, I think so.

That is the construction I have placed upon what you have meant to convey ?—That seems to be very largely on the lines I had hoped to convey.

If that is the case, that it does not require a tremendous increase in the volume of currency and credit, then of course the inflation to that extent would be checked ?—Yes.

If, on the other hand, it did not work out in practice, it would possibly mean resulting inflation ?—Definitely.

What effect would it have upon those who have real wealth in the form of assets and securities ?—It would improve their prices and help to bring prices back to the level it was on previous to the slump.

What has been the practice as the result of a policy of inflation being put into operation ? Does it not destroy the actual value of money in the assets and securities ?—Yes, and also it has achieved considerable purchasing-power.

I want to know, if you can tell me, what would be necessary safeguards to prevent the inflation from getting out of hand ?—The safeguards respecting inflation should, in my opinion, be, first, that no undue unconsidered lavish expenditure should be indulged in ; second, that the type of expenditure should be as far as possible along present lines and channels ; third, that in any quantity of State credit to be issued, it should be proportionately divided giving most to those who are in the greatest distress, the unemployed, and in that way generally relieving the distress of that section ; fourth, regard should be paid to increasing the credits. That type of payment which would react to the benefit of the community, payment to the unemployed, &c., would react to the benefit of every other section of the community. Regard should be had as far as possible to see that the local-body creation of credits are used in desirable and reproductive works in the sense of works giving essential service. In that way I feel confident that initiated carefully, and fearlessly for that matter, somewhat on those lines, there should be no undue expectation of inflation, and finally, the equitable system of taxation would adjust and remove the tendency to inflation.

But would you provide the banks, and upon what conditions would you provide it, with money necessary for land-development ?—The constitution of a public Department with qualified business officers capable of looking after the Department, the writing of the credit, and the requirements that no expenditure could take place unless the loans and general nature of the expenditure had been approved by Parliament or a Select Committee.

The loans to be subject to repayment by the borrower with interest ?—Interest consistent with the reproductive nature of the works.

WELLINGTON, THURSDAY, 4TH APRIL, 1934.

Statement submitted by Mr. W. S. CEDERHOLM,.

Preamble.—It is an untenable position that "all the people" should be indebted to "some of the people" for a sum greater than "all the people" own, yet this is the position in the world to-day. The troubles in New Zealand and the world are both industrial and monetary, but as this is a Monetary Commission I will deal with the monetary question only. I will say, however, that, with Government co-operation, the monetary position can be used to dominate the industrial position, and a proper balance can be obtained. Let me put an analogy thus: A man is run over by a motor-car. He sustains a fractured skull and a broken leg. Now the fractured skull represents the monetary position, and the broken leg the industrial position. Now we could not say that this man is suffering from "just a fractured skull" or from "just a broken leg." He is suffering from both injuries, and, to carry the analogy further, if we could only repair one of the injuries at a time it would be better to attend to the fractured skull first, and the head would then dominate and help the broken leg to recovery. This scheme has for its objective the raising of price-levels to a level of approximately that obtaining in the year 1928. I think it is generally agreed by statesmen, bankers, business men, and any others who give the matter thought, that a rise in the world price-level is desirable. There is a difference of opinion, however, as to how to effect this, and the level at which to stop. The following scheme suggests the level at which to stop, and a way to accomplish the object:—

The Scheme.—This scheme favours the retention of the monetary system based on a gold standard, and I would urge upon the New Zealand Government to make representations to the Imperial Government that, as soon as the chain of central banks is functioning throughout the Empire, the currencies based on sterling within the Empire should be anchored permanently to gold. It is suggested that the ratio should be £7 15s. 9d. to the ounce of gold of the following alloy: 444 grains of fine gold, 24 grains of fine silver, and 12 grains of Swedish copper to the ounce. the incremental value accruing from the revaluation of gold stocks to be resumed by the State (this has already been provided for by New Zealand, in the Reserve Bank Bill passed by Parliament) and placed in the Consolidated Fund for the purpose of relieving general taxation. (It may be pointed out here that it is not until the price of gold is definitely fixed by Government action that it is safe to use the incremental value for currency purposes, and this explains why the general price-level in England has not risen appreciably, although the market price of gold has almost doubled.)

It is proposed that relief be afforded in New Zealand by suspending for one year the whole of the unemployment taxes, which total in the vicinity of £4,000,000. This would increase the spending-power of wage-earners, salaried class, those in receipt of income other than salary or wages, and of the unemployed. Moreover, £4,000,000 of entirely new money from the revaluation of gold would be pumped into even-spread and rapid circulation through the medium of the unemployed. It is not considered necessary that gold coin should ever be restored to general circulation, but that the gold should be held in a convenient form for the backing of the currency, and for the settlement of international balances. If, however, it is found necessary to restore gold coin to monetary circulation, then the present sovereign would have to be reminted, and either halved in weight or made full weight composed of 222 grains of fine gold and 258 grains of other metal to the ounce. If the proposals outlined were adopted it would have the effect of releasing money for the relief of taxation of approximately £4,500,000 in New Zealand and approximately £179,964,239 in England. The price-level would start to rise immediately, and would ultimately stabilize at a level of approximately that of the year 1928.

Although it would be possible for this scheme to be applied to New Zealand alone, and a separate currency maintained, in my opinion this is not desirable. It may be pointed out that in England, to stimulate trade and industry, cheap money has been made available, and no doubt in anticipation of stabilization at a level somewhat as suggested herein, and that President Roosevelt has already temporarily anchored the dollar to gold at 59·2 per cent. of its pre-war gold content; and no doubt his ultimate object is to reduce it still further to, say, 50 per cent. The pound sterling in self-defence must follow suit ultimately, so the above proposals would bring the New Zealand pound, the pound sterling, and the American dollar into line. The New Zealand exchange-rate would automatically come to parity with sterling, and would be subject only to supply and demand.

The price of sterling gold in New Zealand currency on Thursday, 8th March, 1934, was £7 17s. 9d. per ounce, and the price of fine gold on the same date in New Zealand currency was £8 11s. 5½d. per ounce, so that the suggested fixed price is just 2s. per ounce less than the market price in New Zealand currency on that date.

Now let us examine the balance-sheet of the issue department of the Bank of England on 8th March, 1934. Here it is:—

Liabilities.	£	*Assets.*	£
Notes issued in circulation	370,219,833	Government debt	11,015,100
In banking department	80,759,506	Other Government securities	245,084,493
		Other securities	357,410
		Silver coin	3,542,997
			*£260,000,000
		Gold coin and bullion	190,979,339
	£450,979,339		£450,979,339

* Amount of fiduciary issue.

You will see on the assets side there is an item "Government debt, £11,015,100." This is an amount owed by the State to the Bank of England, for which no tangible security is held. Then there is an item "Other Government securities, £245,084,493." This, of course, is a tangible asset. Then we see "Other securities, £357,410," and "Silver coin, £3,542,997," making a total of £260,000,000, which represents the amount of the fiduciary issue. Then we have "Gold coin and bullion, £190,979,339," making a total on the assets side of £450,979,339. Against this, on the liabilities side, are the items "Notes issued in circulation, £370,219,833," and "In banking department, £80,759,506." These two items, of course, balance with the assets side. Now, let us apply our scheme to this balance-sheet and see what result we get. Here it is:—

Liabilities.	£	*Assets.*	£
Notes issued in circulation	370,219,833	Government securities	245,084,493
In banking department	80,759,506	Other securities	357,410
Balance due to Government	179,964,239	Silver coin	3,542,997
		Gold coin and bullion	381,958,678
	£630,943,578		£630,943,578

Amount of fiduciary issue, £69,020,661.

By this adjustment we have wiped out the Government debt of £11,015,100, and the Bank of England now owes the Government £179,964,239; the fiduciary issue has been reduced to £69,020,661, so you will see that the untenable position referred to in the opening words of the preamble has been converted into a tenable one. There may be those who will say that this is a "monkeying" with the currency. Let me tell them that this is not the case. It is simply an adjustment to correct the unsound money position which was permitted to arise by the Government of the day, during and just after the Great War.

In conclusion, I may say that I am firmly convinced that if the foregoing scheme is adopted it will solve the monetary problem, and restore confidence and financial balance.

Protection of the Exchange Position.—When the exchange-rate comes to parity with sterling, all exchange transations to be carried out through the central bank. On any transfer of money from New Zealand to London which the Government is satisfied has been held back to take advantage of the fall in the exchange-rate, the Government to resume the difference (which would be £20 in every £100 of New Zealand currency so transferred). As an alternative: The price of gold could be pegged at 25 per cent. above sterling and gradually reduced in steps, say 5 per cent. per annum for five years, and a gold export tax of 25 per cent., reducing in the same ratio. Both of these methods protect the exchange position from overseas profit-taking. The first method would cut the exporters' exchange subsidy at one blow, and would leave the Government, after deducting London exchange held in New Zealand, with a balance on which an internal loss would have to be made. However, the cost of imported articles would be reduced, and the British manufacturer would be placed in a better position to compete on the New Zealand market. The second method would cut off the exporters' exchange subsidy in steps of 5 per cent. per annum, which would be eliminated in five years. The Government would be able to dispose of the excess London funds without loss; but the cost of imported articles would be loaded with the exchange subsidy reducing in 5 per cent. steps, and the British manufacturer would be penalized but reducing in the same ratio.

Witness: Mr. W. S. Cederholm.

Mr. Cederholm: I say in my scheme that it is to correct the unsound monetary position which was allowed to arise during and after the Great War. I will therefore give you a brief history of the depression, showing the way in which the monetary position became unsound. Some say the depression is due to Jewish financiers, but there have been many other causes. As a matter of fact, with regard to the financiers, the big financiers of the world have been the victims of this depression. They have not made profit out of it at all. There is not one that has made anything out of the depression. They have all lost. In fact, many of them have lost all that they had. Financiers, of course, can create a depression in one commodity and profit by it, but when you look into statistics you will find that all the big financiers of the world have lost money very considerably through this depression. I have some graphs here. I had to invent this machine. It is perhaps rather crude, but it illustrates what I wish to point out, and as these graphs come into the report which I will read, I will illustrate to you how they fit in with the scheme.

Bankers will tell you that the troubles of to-day are in no way due to any defect in the present monetary system, and what they state is perfectly true. The monetary system, as a system, is perhaps as near perfection as it is possible to get; our troubles are due not to the monetary system, but to the fact that we did not adhere to the principles laid down in that system. Let me illustrate to you through a series of graphs a little of the history of the depression, and its relationship to the monetary system. The monetary system in England in 1914 both for internal and external purposes was anchored securely to gold; in other words, England was on the gold standard internally and externally. Now, the first graph illustrates the controlling factor in the monetary system, the gold standard, which is closely bound up with the law of supply and demand. Let me explain to you how it works. Imagine you are looking at the back of a train—we will call it the "National Currency Train"—and its function is to go about the country exchanging currency for commodities and *vice versa*. In other words, it acts as the vehicle of distribution and exchange. It is only when there is an adverse balance of trade that the train is called upon to go overseas. The gold standard is based on the principle that gold, being the measure of all other commodities, including labour, the price of gold must be fixed, and the price of all other commodities must be free to act and react to the law of supply and demand. Unless these conditions be present, the gold standard cannot work smoothly.

To a great extent during the war years, and since, these conditions have not been present. You will note that I said, in stating about the gold standard, that the gold standard is based on the principle of gold being the measure of all other commodities, including labour, the price of gold must be fixed and the price of all other commodities must be free to act and react to the law of supply and demand. What I mean by that is that there has been an influence in the world since the war to make labour the standard of value. Now, with regard to that, the gold standard is something fixed. Here is a steel rule. If you want 6 in. of a material, with this steel rule you can be sure that you will get it, and therefore this steel rule can be accepted as a standard. Now, suppose that the price of gardener's wages is fixed at 2s. an hour and you get one man to dig up your garden and he takes four hours to do it, it would cost you 8s. You get another man to do that work and he might take a day and a half which would be twelve hours. That would cost you £1 4s. Now, how could you make a standard out of that. As I say, that is an influence that has been in the world, and no doubt we will have to do something to correct that, because it is not good that labour should be the standard of value, not good for labour itself, but that is an influence that has been taking place and I just wanted to point that out at this particular place.

You will notice that the train runs on a standard track, the width of which is £3 17s. 10½d. On either side is a compartment; on the left we have five hundred weights of 1 lb. standard weight each. This compartment is called "Borrowers' Commodities"; on the right we have five hundred similar weights, and this compartment is called "Lenders' Currency"; at the top we have the "Supply and Demand" compensating chamber, with a movable diaphragm actuated by "Supply and Demand." You will notice the open way between the main compartments and the compensating chamber which allows free exit or entry. The purchasing-power as between borrowers and lenders or commodities and currency is in inverse ratio—that is, when there is an oversupply of commodities it takes less currency to purchase them, and so stimulates consumption; as consumption increases and the supply gets less, the amount of currency required to purchase them increases proportionately, and this in turn stimulates production and so the compensating chamber works automatically. Now, providing that the train is not tampered with, it will work automatically and cannot possibly get out of order. This was the position in the year 1914, but then the war broke out, and the Government of the day, to stimulate activity in war equipment production, found it expedient to expand the currency. This in turn raised the price of commodities, which, again, in turn necessitated a further expansion of currency, and so it went on until in 1928 we reached a stage of what I shall call balanced inflation.

I was speaking to a gentleman on balanced inflation, and he said there was no such thing. I had to coin that term myself, because I have never heard it, but I spoke to another very shrewd business man and he said he had never heard it called that or anything else, but he said that explained it. What we have arrived at here is, we have got now one thousand weights of ½ lb. each on either side. That means to say that, although I have called these ½ lb. weights, there are those who maintain that they are full 1 lb. weights, in 1914 they were 1 lb. standard weight, but as soon as the first expansion of currency took place these weights ceased to remain 1 lb. standard weight. That is why I have termed them just weights, because we do not know exactly what weight is in them. We know them also as pounds, but we do not at any time know exactly what the gold content of our pound is. As a matter of fact, our New Zealand pound at the moment is approximately 9s. 11d., but it fluctuates from day to day.

The Chairman.] The weight came down in your illustration?—Yes. The point is, that when we arrived at this stage of balanced inflation we had one thousand weights of ½ lb. each on the Lenders and Currency side, and, of course, we had a similar inflation on the other side. That meant to say that it took two of the pounds to buy a commodity that could be bought for one in 1914.

Mr. Clinkard.] It has been contracted somewhat since has it not?—Yes. The next graph will show that.

Now balanced inflation is not a dangerous condition providing your exports balance approximately with your imports, but when the currency train has to go overseas and goods sold on your inflated market have to be paid for on the gold standard the trouble starts, and there is a considerable loss of gold. At this period Russia came on the scene with her five-year plan and flooded the English market with goods which were sold at prices with which British industry could not compete. This brought about a fall in commodity prices and caused exports to decrease and imports to increase and, coupled with war debt payments, made a very heavy drain on the Bank of England's gold reserves. The irony of the situation was that a big portion of this gold was paid to the credit of Soviet Russia, who had repudiated a debt to England of over £1,000,000,000. The Bank of England, to protect the solvency of the country, restricted credit, and so was the instrument which brought about the great fall in commodity prices. This cut the inflated value right out of commodities, but left the borrowers' inflated debts intact, and so the balance of the currency train was upset and brought about a state of "unbalanced inflation" which ultimately forced England to abandon the gold standard. This state of unbalanced inflation is with us to-day and is the cause of most of our troubles.

Now, that is the state we have with us to-day. We have our debts, which are stated in pounds, and the money with which we pay them is worth only half. I will show how this position is rectified.

My scheme corrects this position and restores the equitable balance between debtor and creditor; it puts the currency train on to a new standard track, upon which, if it be not again tampered with, it will go on working smoothly for all time.

Mr. Lye.] That shows clearly that under a system of inflation it is quite possible for a mortgagee to have his investment repaid to him in the the depreciated currency, and thereby would suffer a very heavy loss?—No; because the point is this: He would not suffer a heavy loss, for the simple reason that practically all the commitments in the world were readjusted to that inflated level, and what he actually lent was a half-pound and by this adjustment he gets back his half-pound.

But you were talking about 1914 level and this state of inflation which you say exists to-day. If in 1914 he lent 100 full pound-weights, he is getting paid back with the depreciated currency, a pound which is only worth half?—Yes. That would be so if he lent in 1914, but very few of the loans go so far back as that. It is possible that there may be one or two, but most of them have been readjusted since then. On a rising market a man would not keep his money long, at 1914 value. He would certainly speculate, and that is what everybody did, and that, to a great extent, is the cause of a lot of our troubles to-day.

What is the width of your train ?—£7 15s. 9d., exactly double the gold standard price of £3 17s. 10½d.

If you devalue the pound sterling there is a lesser gold content in the sovereign ?—I propose to reduce the gold content of the sovereign to half, but, as a matter of fact, this scheme really means a little bit of appreciation in the New Zealand pound. On the 8th March figures (that was Bank of England returns) the price that I propose—this standard price—is 2s. an ounce less than New Zealand currency was at that date, so it means appreciation of the present New Zealand pound—that is, not quite the 25 per cent. depreciation on sterling.

Is your solution, then, revaluation of the gold content of the coinage, if it is gold coinage ?—My solution, as far as this particular part of the problem is concerned, is to remint the sovereign and alter the gold content from 123½ grains to the sovereign. Now the new sovereign, if we restore gold to circulation, will be composed of 11 carat gold, which, of course, would be a far more satisfactory monetary gold than 22 carat, because it would not wear in the pocket so much.

Dr. Sutch.] Would you have it in circulation ?—I really think that there is only one reason why gold should be restored to circulation, and that is that it is very handy. For instance, when you are travelling, if we only had notes we would have to pay exchange on them if you got to London or anywhere else in the Empire or any other country, whereas gold can always be exchanged. It is accepted throughout the world as an international standard.

The Chairman.] Internally, you would agree that notes are much more convenient ?—Decidedly. That is the only thing in favour of restoring gold to circulation, for travelling abroad, and no doubt arrangements could be made perhaps to get it for that purpose. Otherwise there is no necessity at all, but I have seen it suggested that it would be unnecessary for us to hold gold at all. It is absolutely necessary, of course, for us to hold gold, because it is the only medium that we can use for international settlements. Suppose we had an adverse balance with the Old Country, the only way that could be balanced up ultimately is by gold. We can probably do it for the time being by borrowing, but it must be settled in gold ultimately, and therefore we should have gold held either in New Zealand or in London ; it does not matter where it is held as long as it belongs to us and can be credited or debited.

Dr. Sutch.] Would you have the gold held in England rather than here ?—It does not really matter where it is held.

Mr. Lye.] Owing to the devaluation of the gold dollar in the United States of America, whereby the dollar has been debased, Great Britain has got to make her payments to America in gold dollars. Would you agree that through the devaluation of the gold dollar Great Britain has been given a measure of relief in the matter of repayment of her obligations to America ?—Most decidedly. Her debt has practically been cut in half. That is why you have heard nothing about the war debts recently.

For the purpose of assisting Britain to meet her obligations to debtor countries and arising out of that, I want to put this question to you : If, by international agreement, the price of gold is fixed at £7 15s. 9d. permanently, there must be a tremendous advantage accruing to the gold-holding countries ?—Most decidedly.

In my capacity as a member of the House I placed a speech on record in 1931 where I advocated international agreement before the last Economic Conference in Great Britain, that international agreement should be arrived at by increasing the price of gold by approximately 100 per cent. and then, in consideration of Great Britain agreeing to that increased price-level for gold to be permanently fixed, that the United States of America and other creditor nations could estimate the amount of money that was owing by the debtor nations, because they would be getting the ultimate advantage of the increased international fixed price of gold. Would that, in your opinion, have been a way out, of getting relief from the heavy payments of war debts ?—Of course, I would have to go into that.

It would certainly have lightened the load ?—Yes, I should think so.

This is an ascertained fact, I believe, that of all gold won in recent years over a decade, 86 per cent. of the gold won is won from countries within the British Empire. Then, having agreed internationally to increase the price of gold, Britain would have nothing to lose, although, not being a great gold-holding country, she would get a reduction in her war debt obligations, and automatically, because the increase of gold won from time to time was obtained from countries within the British Empire, it would ultimately work out to the advantage of Great Britain to have reached such an agreement ?—No. That does not affect it at all. As a matter of fact, ultimately, that would not affect it, inasmuch as you could make the price of gold what you like. It only affects the actual holders of gold at that particular time when you make the alteration of price. Gold that is won afterwards has to be paid for at the increased price of production. It makes no difference whatsoever where the gold comes from, but that explains why President Roosevelt is getting the gold in now. The point is that there is only one way for him to purchase gold—that is, with paper dollars. Now paper dollars are orders for American goods. It is obvious, for instance, that as President Roosevelt has temporarily anchored the dollar to gold at 59·2 of its pre-war gold content, if he reduces it still further to 50 per cent. a profit will result. Under ordinary circumstances this would be a gravely dishonest action, but as the gold purchased comes mostly from France it is a means of getting even with France for repudiating her debt, and is therefore justified.

If 86 per cent. of the total gold won over a period of years is got from countries within the British Empire, then the output of gold produced within the British Empire must be worth a correspondingly greater amount ?—Only nominally. It makes no difference, because, when you increase the price of gold you increase the price of all other commodities, including wages and the production of gold ; therefore, if you double the price of gold you will double the cost of production. You are no better off as far as that is concerned.

I quite agree with that, that produce and service are related to the gold price ?—Most decidedly they are.

But have you found that, when a country has been on the gold standard, prices have always borne a true relationship to the price of gold ; have there not been fluctuations in the price from

time to time, in the absence of the fact that there was no permanent price fixed for gold internationally or otherwise ?—There always has been a permanent price ; it fluctuates only between the gold points. If you require gold here, you have got to pay the cost of importing and that is going to cost you a bit more. When some one else owes you gold, they have got to pay the cost of exporting it to you, and therefore the cost is a little less to you. It cannot fluctuate outside those points. To-day it fluctuates all over the place, because we are off the gold standard.

From your reading, from what one can get to read in relation to the payment of our war debts to the United States, would you say definitely that the United States of America, understanding the difficulty of debtor countries, has deliberately devalued the gold content of the dollar to enable Britain to meet her obligations more easily, and that, as a matter of policy, it has been a measure of relief to which the people of the United States have not taken any great exception ?—As a matter of fact, I am quite convinced that President Roosevelt did that entirely with his eyes open and probably in co-operation with Britain. Suppose an American citizen holds 1,000 dollars in liberty bonds or bonds issued for the war, if you ask that American citizen to accept 500 dollars in exchange he would never have done it ; therefore President Roosevelt did the same thing in another way. He reduced the gold content of his dollar and actually reduced those bonds to half their value.

Do you think it is possible and desirable for Great Britain to get back on to the gold standard ?—It is impossible for Britain ever to get back on to the gold standard of 1914. It would mean national bankruptcy ; she could not do it ; every individual in the country would be bankrupt. She has burnt her bridges behind her. The mere fact of going off the gold standard has cut out the possibility of ever getting back to the old standard.

For Britain to get back on to the gold exchange standard, is it necessary that the international balances which are due from time to time shall be paid in gold ?—Not on the old gold standard figures ; on the new standard she could, of course.

Would you indicate how that would be possible ? I have heard it said that eventually Great Britain will get back to the gold exchange standard ; gold would be used only for the purpose of meeting international balances ?—You will hear bankers and statesmen in the Old World mentioning that the level at which it is proposed to stabilize will have to be decided upon before they adopt any exchange standard, which means, of course, that they will not have monetary gold in circulation, but use it for international balances. It is practically impossible for Britain to get back on to the old gold standard of £3 17s. 10½d.

It would have to be stabilized at some other figure ?—Some higher figure.

It would have to be internationally agreed upon ?—Not necessarily. As a matter of fact, we could adopt this scheme in New Zealand here without reference to the Empire or other nations at all.

What would be the position if you started to meet your obligations in gold ?—It simply means that we would have to take particular care that our imports do not exceed our exports. We would have to keep a careful watch on that, and adjust things so that our imports could not to a great extent exceed our exports, then we would keep our exchange level, and would not have to ship any gold to to settle those international balances, and therefore the gold holding would be kept intact.

Mr. Ashwin.] As I understand it, your proposal really amounts, as previous questions indicated, to New Zealand going on to the gold standard on the basis of a 50 per cent devaluation of the present sovereign ?—That is so.

And you think we should use the profits arising out of the revaluation of our existing gold reserves to inflate internally correspondingly ?—Yes, to bring it up to that level.

Why did you choose the ratio of 50 per cent.? Were you guided in that by the recent action in the United States ?—To some extent. As a matter of fact, it is to bring the price-level up to 1928 when these commitments were made, and that is also the intention of the United States. I am sure that their ultimate objective is a 50 per cent. reduction—that is, that the gold content of the dollar will only be 50 per cent. of its pre-war gold content.

Do you expect Great Britain to follow suit ?—Yes. She will have to follow suit, otherwise she will lose all her export trade. If she does not keep somewhere in line with the United States, the latter will get all the export trade.

Would that be the case if the dollar prices double ; would England then suffer any competitive disadvantage at all ?—She would not under those circumstances, provided they did double.

The point is, that if Great Britain stops where she is and the dollar is devalued 50 per cent., and American price-levels are double, the relative position of the dollar and the pound from a purchasing-point of view will be the same, will it not ?—No, the exchange value will be different.

The nominal exchange value, yes ; but then that does not mean that Britain has to follow suit ?—You can see the position : when Britain went off gold and depreciated her currency, and America stayed on gold the position was such that we could not send any orders through to the United States at all. Now that America follows suit (she was forced to do so), I can purchase goods from the United States and the exchange is a little bit in my favour just now. I get 5 dollars 17 cents. to the pound, whereas two years ago I got 3 dollars 14 cents—in fact lower than that—to the pound. The same thing applies if sterling is appreciated in relation to the dollar.

No ; I think you misunderstand the point. America only has a competitive advantage externally if her internal prices have not risen in proportion to the external devaluation of the dollar ?—In the ultimate that is quite so, if her internal prices rise. Look at the position in regard to Denmark at the present time ; her devaluation immediately reduced the f.o.b. price-level. It means that her workers are actually working for less although they get the same nominal sum. Ultimately what you say may be quite correct, if prices do rise, but nations have been taking advantage of the rise in exchange, similar to Japan. The devaluation should in the end raise the internal price-level of all goods produced in Japan or in any other country.

That being so, America could devalue her currency and Britain could leave hers where it is without suffering?—Not without suffering; there is a time factor. You can devalue your currency in one minute by simply passing legislation, but you cannot raise your price-level in one minute. In that time you have lost your market. Take motor-cars, for instance; where has the American motor-car trade gone to? Why has Britain got it? Principally by the devaluation of the pound. She is certainly turning out a better product owing to the stimulation given her, but undoubtedly it was the devaluation of the pound that gave her that market.

Great Britain actually did not devalue her pound; she has merely allowed it to find its true level?—It was, as I have said, a forced position. She had to devalue her pound.

Previously the position was forced in the endeavour to maintain the solvency of the country. If Britain at any rate does not follow the United States of America, do you still suggest that it should be done in New Zealand?—Yes, I do.

You think it could be done, but do you suggest that it should be done?—Yes, most desidedly. I think that it is very essential to obtain internal equilibrium that we should bring out internal price level up to 1928.

And if we did that, our 1928 position would be restored?—Most decidedly.

How are you going to get over the fact that your external debt is going to be charged, and the external debt charges doubled?—That will not affect us.

It will mean you have got to collect twice as much?—But you are assuming that Britain has gone back to the old gold standard.

No, that she is where she is?—There is only 22½ per cent. My scheme makes a difference of 22½ per cent. between sterling as it is to-day and the New Zealand level at which I propose to stabilize.

You do not propose to have this 50 per cent. off sterling, but only off gold?—Yes.

It is tantamount to maintaining the existing exchange, with 22½ per cent. instead of 25 per cent.?—But I make provision in my paper on the protection of the exchange position.

Yes, that is immaterial at the moment?—That is the position. I have stated that it is 2s. an ounce less so there would be a slight deflationary effect; we would slightly reduce the value of gold, to the extent of 2s. an ounce.

Broadly, your suggestion amounts to our permanently maintaining our 25 per cent. against sterling?—As I say, I have made provision for that. Ultimately, after five years, I desire to see us come down to parity with sterling, and all other countries in the Empire. That is the desirable object. At the present time we cannot come down to parity with sterling; it would be suicidal.

Mr. Clinkard.] There is no doubt that your solution is quite a possible one, and I would ask if you considered the position of France in connection with their return to the gold standard. Have they not reduced the gold content of their coinage very materially?—They may have done that.

They reduced from 10 to 2, I think?—Yes, I have not really studied France. I know, of course, what is taking place in connection with France, and also that if the British Empire and the United States stabilize their currencies, France will be practically forced to follow suit; she is bound to stabilize about the same level. Otherwise she will lose all her export trade owing to her staying at the particular level. She is on the gold standard and has lost her export trade because Britain went off the gold standard.

The point at issue seems to be whether the world should attempt to stabilize on a gold commodity basis as you suggest, or whether they should find some other, such as an index figure or something like that, to stabilize on?—You cannot stabilize on anything else.

Those are the two points that appear to be under discussion. It seems to be generally accepted that stabilization is advisable, but the thing is, on what are we to stabilize? You say that gold is the only thing?—Absolutely. There is nothing else that can take the place of gold.

Have you considered the possibility of a new standard such as gold and silver?—It is not necessary. You could have a dual standard, but it is not necessary.

If you used silver you would simply use it as a representative of gold?—Yes, as a token.

You believe in the single gold standard on a depreciated basis?—Yes, it is of course not really depreciated.

Anchored to coinage?—Yes, that is so.

Dr. Sutch.] You speak of an expansion of the currency; is this in England?—Yes.

Is it true that there was an inflation in England up till 1928?—Yes; the inflation in England took place in the early part of the war, the first inflation. Inflation is progressive, and always demands further inflation.

Your point is this: "This in turn raised the price of commodities which again in turn necessitated a further expansion of currency, and so it went on until 1928," but there were several years of deflation until 1925, which deflation continued some time after that?—As a matter of fact, the point was this: The inflation of currency arose in the early part of the war because the Government of the day found it expedient to expand the currency to stimulate activity in war equipment production. After the war it was due to the fact that returning from military life to civilian life, they wished to get the men back into industrial occupations and they inflated the currencies still further. It went on to a certain extent until 1928. Once a country departs from the gold standard, there is practically no holding it.

They were on the gold standard in 1925?—Only the gold exchange standard.

The gold bullion standard?—That only means that it is bullion, probably fine gold, instead of the sterling standard which is, of course, an alloy of gold, silver, and copper.

Further on you say, "At this period Russia came on the scene with her five-year plan, and flooded the English market with goods which were sold at prices with which the British manufacturer could not compete." What were these manufactured goods that Russia flooded

the market with ?—I will read you an extract from *The Dominion* of the 18th January, 1933, on that point; an article written by a visitor on his return from the Old Country. He says,—

It might be interesting to people here to know that in 1930 England took 30·8 per cent. of the agricultural and 24·3 per cent. of the industrial exports of Russia, and that in 1931 England took as much as 47·6 per cent. of Russia's agricultural products for export, and 22·2 per cent. of her industrial exports. These figures are not mine. They are taken from the November *Empire Review*. In 1929 Russia did not export any wheat, but of the quantity exported in 1930, Great Britain took 35 per cent. (887,000 tons at approximately 5s. per hundredweight); but in 1931 England accepted 70·8 per cent. of her wheat exports, a quantity which reached 1,770,000 tons at approximately 3s. The average price of Canadian wheat in Great Britwin was 8s. 6d. per hundredweight in 1930 and 5s. 6d. in 1931. That is good shopkeeping, I suppose. England is the economic friend to the Soviet. In 1931 Great Britain took 74 per cent. of Russia's exported barley, 90 per cent. of her raw cotton, 68·6 per cent. of her confectionery, 65·6 per cent. of her butter, 73·9 per cent. of her bacon, 86 per cent. of her export maize, 55·8 per cent. of her timber, and 76 per cent. of her tinned products, Good shopkeeping!

The point is that the Russian imports into England were very small; Russia did not flood the English markets; England certainly took a proportion, but they were not manufactured goods and it did not happen in 1928. That is the only objection I have ?—The point is that the process started from 1928.

The British manufacturer did not have to compete at all. Wheat, oil, and timber—these are the products that are still being exported. With competitive products in the British market, it might be that the price was higher than Swedish timber ?—As I have stated, it was Russian butter that caused the price of butter to fall.

Russian butter is a very small proportion of the amount on the market. It is the increased production of Australia and New Zealand that have been responsible ?—The lowest price always sets the figure for the whole lot.

Does that explain why Australian butter sells at 2s. less than New Zealand butter, and why Danish butter is miles ahead of New Zealand butter, and why New Zealand is ahead of Russian butter ?—They all have relation to one another; if one goes down the others go down correspondingly. I do not believe Danish butter is as good as New Zealand, but the people of England think it is, and that is why they buy it.

To blame this on Russia is beside the point. It was not the Russian influence at all in 1928 or at any other time that affected English prosperity. I would like to know how much gold was paid to Soviet Russia ?—I do not know the actual figures, but I know that at the time gold was being paid to Russian credit and that it was not paid to Russia direct, but actually going to the United States.

This suggests that gold was paid to Russia which led to a restriction of credit in London, but Russia does not want gold, she wants machinery ?—She must have gold to buy machinery.

You say she is buying it with exports ?—She sold her exports to England and obtained the gold from England with which to buy the machinery from America.

And America did not sell any goods at all to England ?—As a matter of fact, there is always a certain trading between the countries.

And England did not sell anything to America ? Your suggestion is that the Russian situation was the thing that upset it ?—I am quite convinced that the Russian situation was the first factor. That was the real originating cause. Russia has no cost of production as compared with the capitalist countries. If she sells her products for next to nothing, the country may as a whole go bankrupt, but no individual in the country will go bankrupt. That does not apply to other countries. Butter went down to 4d. a pound and that was the originating cause. Naturally quite a lot of different men must have different ideas as to what is the cause, but I have studied this question right from the start of the depression and during the war, and by deduction I can go right back and I lay the original source of our troubles to Russia. In 1929, the great crash in Wall Street, New York, was due, of course, to two causes. Russia was the primary cause of it, because she had got into production by that time, and although she could not affect the position in any other way, she affected the price-level. That immediately set the price for the others to follow, and then there would be a fight until they thinned out and could raise the prices. That is the position of the nations to-day.

WELLINGTON, THURSDAY, 8TH MARCH, 1934.

Statement submitted by Mr. P. E. TINGEY.

The following submissions *re* New Zealand's monetary situation have been made, principally, with due regard to the fact that money is not international, for each nation legislates its own particular legal-tender laws — as, for instance, New Zealand's currency, solely the creation of law, is not acceptable outside of New Zealand. Further, these submissions are given with the fullest confidence that a monetary system should be established for the convenience and assistance of trade and commerce, not for enriching a few shareholders of financial institutions.

Our money values are not the same as in London, Paris, or New York. Values can only be expressed by numbers not by substances. As one of Britain's leading respected economists wrote: "Values are estimated, not measured, hence each nation in the estimating of its own internal values can create its own internal money for the carrying-on, and to conform to its own industrial conditions, so that money should at all times be automatically expansible and contractible sufficient for [New Zealand's] production activity."

The recent legislation in the proposed Reserve Bank of New Zealand offers a unique opportunity of bringing into operation a monetary system that will release the high exchange without penalizing

the producer, also the removal of the unemployment-tax of approximately £4,000,000. These items alone saving the taxpayer £7,000,000.

Under present conditions sterling balances in London are a liability owing to the high exchange, the importers considering it an imposition and financial inconvenience. All losses by the banks dealing in exchange are indemnified by the Government.

Assuming that our sterling balances at the close of the export season will reach £12,000,000, therefore £3,000,000 will be added to the taxpayers' already overburdened payments. The farmers have been paid by the banks the extra exchange of 25 per cent., and it is only right and proper that the banks should be reimbursed. It is interesting to note that the payments by the banks have not been in gold or bank-notes, but simply ciphers, figures in their ledgers, transferred credit, at least 98 per cent. of which is represented by cheques which represent the real wealth that has been produced.

I would therefore humbly submit that to get over the difficulty of the importers having to pay high exchange, the Reserve Bank of New Zealand, acting as agent for the New Zealand Government, buy gold on the London market with the sterling balances, and lodge the gold for safe keeping with the Bank of England. Against the gold holding, issue 25 per cent. additional Dominion of New Zealand legal-tender notes. Assuming the gold value at £12,000,000, notes could be issued for £15,000,000. This method of planned money anchored to gold, equated with real wealth that has been produced, would be given to the banks for currency purposes. Another great advantage for this method of procedure would be that the Government could remove the note-tax against the banks, which, in turn, could revert back to the days when the banks made no charges for keeping customers' accounts. This would be a *quid pro quo*.

The issue of its own Dominion legal-tender notes, to be used by the Government for its financing in lieu of Treasury bills, naturally, would save the taxpayer costs of financing with Treasury bills, for the notes must be issued free of interest to the Government.

Mr. Irving Fisher quotes Mr. Montague Norman as saying that "Real stabilization will come about only when we realize that gold itself fluctuates . . . and when we have taken steps to make our monetary system really the servant instead of the master of society." This statement supports the suggestions that New Zealand should so monetize its wealth—real wealth—with its own legal-tender Dominion notes.

It further demonstrates that the unique opportunity has now arrived to issue these notes against wealth—commodities—and not against debt. Obviously, this free issue of its own exchange will eventually break the power of a system of the Government having to go into debt when it wants to use its own credit resources.

Safe banking-practice has always allowed the issue of three notes to one of gold holding. Under my scheme 25 per cent. additional is very safe, nevertheless, it would bring into circulation £15,000,000 that would enable the Government to stabilize the farmers' products on the 1929 price-levels.

The New Zealand farmers are only paid in New Zealand money, so that stabilization of the 1929 price-levels would bring back security to the producer, for his payments are in New Zealand currency. With 1929 price-levels established by law, the farmer with hundreds of thousands of pounds of building-repairs, new buildings, machinery, fencing, &c., waiting to be done, obviously these prices would immediately set in motion the employment of all trades, this in turn establishing confidence in the cities, so that unemployment would become a night-mare of the past.

The fallacy that our internal currency is governed by parity of world prices will be better appreciated when it is realized that our own legal-tender laws are of our own making. It is also realized that world's parity can only affect the amount of our imports, therefore, butter at 70s. sterling on the London market will not affect the Government if it has paid 112s. New Zealand money to the farmer, for under the proposed economic scheme, 70s. sterling will equal 112s. New Zealand money. The Government will collect sterling and meet New Zealand's commitments with sterling accordingly.

Under the proposals we can summarize the position as follows:—

Firstly,—It would remove the necessity of the high exchange.

Secondly,—The producers would have no cause of complaint, for they would still be paid in New Zealand currency as at present, but at 1929 price-levels 25 to 50 per cent. over sterling prices.

Thirdly,—The British manufacturer also would not complain, as it would put them on a better economic footing to compete for New Zealand markets.

Fourthly,—The New Zealand manufacturer would welcome the proposal to remove the exchange, as he would be able to import more raw material, as undoubtedly, the effect of more interest-free notes in circulation would create more demand for New Zealand manufactures.

Fifthly,—The trading banks would welcome the proposal, for it would remove note-tax, approximately £250,000 and also the cost of issue.

Sixthly,—The commercial community would welcome the change of their accounts being exempted from the annual charge of £1.

Seventhly,—The Government would not only save £3,000,000 (in all likelihood at the close of this export season, considerably more than the above figures) less £250,000 note-tax abolished, a net saving of £2,750,000, but could do away with the financing of Treasury bills, now costing millions.

A continuance of a year or two with favourable sterling balances in London (such sterling balances to purchase gold with the issue of legal-tender Dominion notes against gold) must bring about a reduction of taxation. Provision could be made for public works to be financed not by taxation, but with legal Dominion notes.

The retirement, when necessary, could be used by buying gold from the miners of New Zealand at market rates. The gold to be sent to Britain, the proceeds of the sale invested in gilt-edged securities, the returns earmarked for the liquidation of New Zealand's external debt.

If the Government, instead of relying on bank credit, would create its own money originating in goods and services, we would not only have the best money in the world, but would soon get rid of unemployment.

The Reserve Bank of New Zealand can be a power for good by the regulation of credit to equate goods and services. This credit must be represented in values as a monetary policy, with local currency that would stabilize New Zealand's internal price-level. If the Government and the Reserve Bank decided that the internal price-level should equal that of 1929, then it would be necessary to issue 40 per cent. against the gold holdings purchased with sterling balances. This policy would fulfil one of the main functions of central banking by preventing undue fluctuation in the internal price-level.

These suggestions to New Zealand's monetary situation have been made firstly and foremost with due regard to the fact that money is not international, for each nation legislates its own particular legal-tender laws; such money as currency (solely the creation of law) is not acceptable outside the country.

Witness: Mr. P. E. Tingey.

Mr. Tingey: With reference to the statement that I have already handed in, I would like to make a few further remarks. Referring to the paragraph:—

> I would therefore humbly submit that to get over the difficulty of the importers having to pay high exchange, the Reserve Bank of New Zealand, acting as agent for the New Zealand Government, buy gold on the London market with the sterling balances, and lodge the gold for safe keeping with the Bank of England. Against the gold holding, issue 25 per cent. additional Dominion of New Zealand legal-tender notes. Assuming the gold value at £12,000,000, notes could be issued for £15,000,000.

I would like to elucidate that statement. The Reserve Bank of New Zealand acting as agent for the New Zealand Government to acquire these sterling balances in London either voluntarily or by legislation will have to be prepared to offer a slight advance on the present rates. Assuming £3,000,000 extra exchange on £12,000,000 sterling balances it would be advisable to issue 36,000,000 legal-tender notes to reimburse the £15,000,000 to the holders of the present exchange. This suggests a 33⅓ per cent.—or three to one issue against the gold holding. The balance could be held in reserve by the Reserve Bank, ultimately 21,000,000 for future Government requirements. This procedure not costing the Government or the Reserve Bank interest, but only the costs of administration. Control of currency: Under present banking conditions in Great Britain Treasury bills have been mainly the machinery by which the Government through the Treasury Department controlled the quantity of money. For it is by this procedure that currency is deflated or inflated for the Treasury bill is a credit instrument and can be immediately converted into legal money. In Great Britain the banker looks upon a million in Treasury bills as good as a million of Treasury notes, for with the one as with the other he can extend his credit. Both are perfectly liquid assets and considered by the Bank of England as cash. The proposed notes given in exchange to the trading banks for the present sterling balances in London and their gold holdings in New Zealand can be used by them for lending to their clients. Money should be neither scarce nor plentiful; no private person or an institution should have the right of issue of money. All issue of money is the Royal prerogative, nevertheless under my suggestion, it is the people themselves who determine the quantity of their goods and services. The increase of notes and the lending of them by the Bank to their clients would necessitate a gradual doing-away of lending bank credit. The banks in turn with increasing business would and could borrow, if necessary, further notes from the Government surrendering such value for same in Government State guarantees; this method in time releasing the national debt with real national money. I am very apprehensive of the Reserve Bank tying our money to sterling, the more so in view of the fact that the South African Bank did so, and lost the whole of their reserves and half of their capital. Sir Otto Niemeyer was right when he stressed the advisability and the necessity of the New Zealand Reserve Bank being freed not only from the fact but also from the fear of political control or influence. Unfortunately, Sir Otto, in the opinion of many, used this half-truth to strengthen the "City of London"—in other words, the control of New Zealand credit is desired by the financial interests of London. When the opportunity arrives it is feared that the old obsolete money system will be reinstated and our credit controlled by the Bank of England's bank-rate. We need no bank-rate to create our New Zealand pounds—legal-tender notes. Such correction will be determined by the goods and services that New Zealand is able to produce. Sir Otto and his friends are particularly anxious that the Reserve Bank should be freed from party or political interests, but, nevertheless, in my opinion, private interests, the "City of London," will be able to operate our New Zealand monetary system if we are tied to sterling, at present a meaningless term. From history we learn that the central reserve banks have never worked in the interests of the people, but always in the interests of international finance. When it was announced that Britain intended to go back to the gold standard my own company cancelled the whole of their orders. My cousin was at Home in 1920 and when the Chancellor of the Exchequer at the time announced that Britain had decided to go back to the gold standard I immediately persuaded my uncle to cancel the whole of our orders. My cousin wondered what had gone wrong with New Zealand. When he got my letter he took it amongst the business houses there and they were surprised that we should have taken up that attitude, as, in their opinion, there was absolutely no need, because they could not cope with the orders that were pouring in from New Zealand and prices were at high levels then. The result was that we saved a considerable amount of money by cancelling our orders, for the simple reason that the gold standard meant deflation, which in turn meant lower prices. At the present juncture it is unfortunately necessary that we should have an understanding of this question. Let me perhaps remind you of the Macmillan Com-

mittee recommendations, composed of experts, that it was a remarkable thing that no provision or anticipation was made for England going off the gold standard; they did not seem to realize the seriousness of the financial position of Great Britain, and I think the seriousness of the position in New Zealand is nearly as bad, if not worse. I feel very apprehensive; and yet with the Reserve Bank, if it is what Mr. Coates tells us, a national institution, then it must be made to function in the people's interest, but it can only be done so by controlling the issue of credit for and on behalf of the people. Further, the notes must be issued free of interest to the Government—that is most imperative. It is absolutely essential that the notes issued to the Government should be free of interest, otherwise New Zealand will get into a further debt by paying interest on its own credit. I do not know whether I can add much to what I have already stated. I shall try and answer any questions regarding thé matter under discussion. I admit, Mr. Chairman, it is a very wide and a very difficult subject; nevertheless, as a business man I have large interests in New Zealand, and I feel very apprehensive for the future of New Zealand, unless something is done to help the Government to relieve the taxation. Under this system I feel that the release of taxation will take place almost immediately—for instance, take the exchange, assuming it is £12,000,000—the balance that has to be dealt with—it seems most extraordinary as intelligent business people that we should pay £3,000,000 for the transfer of a book entry from London to New Zealand. There is no money transferred—it is only a book entry—and for this we have to pay 25 per cent. which is transferred to the farmer. I feel confident that the farmer needed it, and it was right that he should get it; but I strongly object that one class of the community should be penalized to enable the farmer to have this benefit; there is no need to do that. In this arrangement the farmer is brought back to the 1929 price-level so there is no need to penalize the business community. I know in my own district there are hundreds of thousands of pounds wanting to be spent, but the farming community has not got it. If the 1929 price-level is guaranteed that would immediately set in motion what requirements they wanted. They would have money in New Zealand currency. The greatest banker, I suppose, that the world has ever experienced—I refer to Mr. Falconer Larkworthy—he was a banker of seventy-one years standing; he established the Ionian Bank in 1897; he brought Greece out of the serious difficulties that they were experiencing at that particular time, and he takes up exactly the same line of action: That the notes issued should be controlled by the Government and issued free of interest, equated by goods and services, so that there is absolutely no inflation or deflation. I feel confident, gentlemen, that unless there is something done in the way of stabilizing the credit of the community so far as the Government is concerned—unless there is something done on the lines suggested—then New Zealand is in for serious trouble. Take, for instance, Sir Edward Holden, the founder of the Midland Bank—the greatest bank in the British Empire: He also pointed out in various addresses of his that England's banking system was obsolete. My own company, guided by the history of the gold standard, cancelled the whole of their Home orders when it was announced that the Government of Great Britain had decided to adopt the recommendation of the "Cunliffe Committee" for Great Britain to go back to the gold standard. This meant, as you are aware, that the Bank of England deflated the credit of the nation, with disastrous results. It may sound strange to buttress my remarks from the Review of the Midland Bank of Great Britain, September-October, 1933, issue: "During the first five years of this period, however, the Bank of England was under statutory obligations to maintain the gold standard, and believed that it could fulfil its duty only by keeping money scarce and dear." This admission or evidence, I think you will agree with me, is a terrible and damnable indictment. Therefore, it is imperative that our monetary system should not be tied to sterling. He, Mr. McKenna, also opposed that England should go back on the gold standard as per the cables. This I cut out because I was so much struck by the truth of his statement. He said that if England adopted the gold standard there would be such a state of unemployment that it would shake Great Britain to its foundations, subsequent events have justified this statement. Surely, when such men make utterances of that nature we should listen to their proposals in dealing with finance.

Mr. Ashwin.] I am not quite clear as to exactly what your proposal involves, so I would just like to follow your example through with you. You say that, assuming the Government has got £12,000,000 of funds in London it has to hand it over to the central bank and the central bank is to issue notes. First of all, the central bank has to invest that in gold in London. Why gold?—I have already stated because the Central Reserve Bank of South Africa invested their funds in sterling with disastrous results.

No, I think you are wrong. My understanding of the South African position was this: That any loss that the Reserve Bank suffered was due to the fact that they adhered to the gold standard when Britain went off it and the loss was on the funds in London.

Dr. Sutch.] That is correct?—That was not the reason. The reason was that they invested their funds in sterling and when they went off gold the result was that their sterling assets depreciated.

Mr. Ashwin.] If they had gone off at the same time as Britain that loss would not have been incurred?—I do not see that, because the investments were in sterling. The sterling was affected by the gold standard. If they had invested in gold no possible loss would have occurred.

Then if South Africa had followed sterling there would have been no loss to the South African bank?—Perhaps you do not get what I mean. What I mean is that if South Africa had invested its funds in gold, kept all the funds as an asset, instead of sterling, they would have had no loss.

No, because they would have their investments on the basis of their currency; but if the basis of their currency had been sterling they would have suffered no loss through Britain going off the gold standard any more than the banks here suffered any loss when Britain went off the gold standard because we work on a sterling basis and we follow sterling and so the amount of depreciation that occurred in sterling automatically brought about an equivalent amount of depreciation in currency and there was no loss to the banks in New Zealand?—The loss so far as the South African bank was concerned was brought about by the investments in sterling.

No ?—I have authority for that and I think I can prove my statement.

However, that is immaterial. In the first instance I would point out that with £12,000,000 sterling you cannot buy £12,000,000 in gold to-day ?—It all depends what you mean by "cannot buy."

The market price of gold to-day is considerably above its mint parity ?—I do not think you understand my suggestion. It does not matter what the price of gold is so far as the market price is concerned, but whatever the market price is you issue the notes accordingly. Perhaps I might explain myself this way. The Bank of England buys gold at market rates.

Yes ?—And the astonishing part of the whole procedure; they buy gold at market rates, but in their balance-sheet it is taken at mint-parity value, so that they show a loss on gold.

No, the bank does not. I think all the gold that is bought is paid in again and the Government Equalization Fund carries losses and takes profits ?—Before the Equalization Fund was established the Bank of England always bought gold at the market price.

Mint parity only ?—The Bank of England buys at the market price, but they put it into the balance-sheet at the mint-parity price and the difference is reimbursed out of the Consolidated Fund.

Not normally ?—In other words, the taxpayer has to pay that loss in gold-buying.

That is not right. In any case our central bank can issue notes against sterling ?—How do they ? If we are off gold——

But we were never on gold here ?—I think we were before 1914.

Never ?—Well, we were attached to the Bank of England.

No ?—We were attached to the banking system of Great Britain by sterling, and sterling was on the gold standard.

We were linked to sterling ?—I have always understood that before 1914 you could demand payment in gold for our New Zealand notes, otherwise why were they—the notes—made inconvertible ?

Even so, we never operated on a gold system here ?—Not before 1914 ? You surprise me.

No, we were not on gold. The basis of our banking system was not gold ?—Has it ever been on gold ? Evidently we have been under an illusion.

No. However, we will leave that. To get back to your system here, having got this £12,000,000 you desire the central bank to issue £36,000,000 of notes in New Zealand against it ?—Yes.

Right, and with those notes the Government is to give the farmers the difference between the London price of butter and the 1929 price ?—Oh, no. My suggestion as far as the farmer is concerned is that he is to be paid on the 1929 level in New Zealand currency.

By whom ?—By the various banks and stock and station agents, and they would take the certificates and draw on the Reserve Bank or through the bank's agents for the payment of the notes.

So that actually you get back to this: That the difference in the price between what was paid for the butter in London and what was paid to the farmer here would be represented by these notes ?—I cannot understand that question, because sterling is not New Zealand currency.

I am talking about New Zealand currency ?—New Zealand currency is not sterling.

You do not think there is any connection whatever between the price paid for butter in London and the price here ?—No. In one case you are dealing with sterling and in the other with New Zealand currency.

There is no connection between the price of imports in London and what we can sell them for here ?—No, all that affects our imports is the sale of our exports in London and the cost of our imports here. We cannot spend any more than we can buy.

The point is this: Supposing you put it into the hand of one individual; supposing New Zealand is one individual and we will assume that butter represents the produce of the country as a whole, he sells that in London for a given amount of sterling and with that amount of sterling he buys imports ?—Yes.

That is the method whereby he is exchanging his butter for imports ?—That is so.

Now, then, the question I am going to ask is this: The relative price of butter and of imports does affect his position, does it not ?—It does not affect the farmer here; he is paid in New Zealand currency.

It does ?—How can it ?

Keep to my example here. This is the point, the price he gets for his butter—I am talking of sterling—has gone down 50 per cent. You will agree that means he has 50 per cent. less in sterling than formerly ?—He will get 50 per cent. less to buy imports with.

Now, then, the amount of sterling with which he can buy imports is 50 per cent. less, if the price of his imports has only dropped 20 per cent. is he not going to have less imports than before ?—Yes.

Well, then, how do you reconcile that with your statement that it does not matter what you pay in New Zealand currency ?—I can only reiterate what I have said before that the farmer is paid in New Zealand currency; it does not matter what the price is so far as sterling is concerned.

But the farmer is the man who is buying the imports indirectly ?—Indirectly he gets less imports. Perhaps you will allow me to give an illustration. We will assume that as a business man I get a demand to pay £100 draft from America—500 dollars—and we will assume that the depreciation is one-third of the conversion rate owing to England being off the gold standard, therefore the banker asks me to give him £133, does he not ?

Yes ?—Owing to the conversion rate of depreciation, the New York banker only gets £100 ?

Yes ?—Then where has the purchasing-power, £33, gone to.

Mr. Langstone.] It still remains in the country ?—I have paid the bank £133. The New York man only gets £100, where has the £33 gone, where has it gone to ?

Mr. Ashwin.] That has gone to the man who is putting the trade the other way. In the same way you might say where has the 25 per cent. that the Government gives to the farmer under the exchange

arrangement gone ?—Oh, no, that is not the question ; that is answered, because we know what has happened to that ; most of us are paying 25 per cent. exchange ; most of our overdrafts have gone up. So far as the New York merchant is concerned, he only gets £100 sterling, equal to 500 dollars. Has not that £33 been debited to a suspense exchange account and gone out of existence ?

No ?—Where has it gone to then ?

It has been credited to exchange ?—Yes. It has been brought out of existence by book entries.

No ?—Where has it gone to then ?

We will not pursue that further, we will come back to New Zealand. Am I to understand that your idea is that somehow or other the farmer has to be paid on the 1929 prices for butter in New Zealand ? —Yes.

You are paying it out in New Zealand notes ; you are going to pay out roughly—— ?—Keep to the figures I use, 70s. sterling and 112s. New Zealand money.

In other words, you are going to pay out 112s. in New Zealand even though the bank has only received 70s. sterling ?—In London, not in New Zealand.

In other words, you are going to ask the banks to add on, roughly, 80 per cent. exchange ?—No, the bank has already got the New Zealand notes. Of course the notes will be issued against the gold holding on the market price and 25 per cent. addition. I have allowed for £15,000,000, assuming there is £12,000,000 gold against that issue, 25 per cent. on that makes £15,000,000.

You say the bank will only receive 70s. sterling and is going to pay 112s. in New Zealand, so that, as far as the farmer is concerned, he is going to have somewhere about 70 or 80 per cent. exchange added ?—No, not exchange ; but New Zealand 1929 currency price-level legal-tender notes.

All right. On the other hand, when it comes to the importer is the importer going to be charged that rate ?—No, so far as the importer is concerned he only makes his payments in sterling, with the London funds.

Come back to New Zealand ; you are in New Zealand. You are going to buy goods, you have £100 in London, how much do you expect to pay in New Zealand ?—We will have to pay in New Zealand currency.

How much are you going to pay for the goods in New Zealand currency. The goods are going to cost £100 in London, how much are you going to pay for them in New Zealand currency ?—We will have to pay £100 sterling.

But that is sterling ?—Yes, that is a matter of arrangement ; but with the goods that are sold in London the funds will be taken over by the Reserve Bank acting for the Government and will meet the payments accordingly.

Never mind about the Reserve Bank. You are the importer. You send an order to London for £100 worth of goods which are going to cost you £100 in sterling. Now you have to pay your banker here to put the transaction through, how much do you expect to pay him ?—I expect to pay in the New Zealand currency.

How much ?—Whatever the arrangement, so far as the conversion rate is concerned, is.

In other words you are to pay him £170 rather than £75, whatever it might be ?—It all depends on what the conversion rates are fixed at.

To my mind you have fixed it. You said you wanted to pay out 112s. in New Zealand for 70s. in England. That has fixed the New Zealand rate of exchange ?—So far as the rate of exchange is concerned under our present system. That is because we are attached to the gold standard.

You said we were not ?—No, we have been off the gold standard since 1914. We still work according to the dictates of the gold standard. Why should we be charged 25 per cent. at the present time ?

Why do you want to put on 70 per cent. or 80 per cent ?—I want the price-level to be brought back to 1929 in New Zealand money and that New Zealand money should be paid over to the farmer, and there will be more New Zealand money, but it must balance so far as sterling balances in London are concerned.

You can only do that by raising the rate of exchange ?—You only raise the rate of exchange so far as our present money is concerned when you put it down from the depreciation standpoint.

Whatever the farmer gets as exporter the importer has to pay ?—Depreciation has been brought about by certain fundamentals that we have attached to the gold standard. There is nothing if we are off the gold standard to bring about a loss of exchange.

Of course that is all right if you can put up the sterling price, but you cannot do that ?—Let me give you an illustration : Egypt pays nothing for exchange. She has kept her rate of exchange practically for ten years without any variation. I understand that the Government through the banks pays the farmers in Egyptian currency or Egyptian pounds.

But that only means that their price-level has been pegged to that of sterling ?—Not necessarily. I do not follow you there.

If your statement is correct and their cotton is sold for £2 a bale in London and the Egyptian Government pay £2 a bale in Egyptian currency, then you are pegging the Egyptian price to the British price ?—They had to accept the sterling price, but it was paid in Egyptian currency and it did not cost the Egyptian Government anything in exchange.

Still, that does not achieve your object. Your object is that you want to restore the 1929 level of prices in New Zealand both, I gather, for exports and for imports. I was not clear in my mind about that ?—Not for exports ; that is beyond our powers, obviously.

You can nominally restore the New Zealand price there by raising the exchange-rate sufficiently. If butter is down to 6d. in London where it was formerly 1s. 6d., if you have a 300 per cent. exchange-rate then the New Zealand farmer gets his 1s. 6d. in New Zealand ?—No. You are basing your exchange on the difference between New Zealand currency and sterling from the gold standard.

No, I am not ?—If New Zealand decides to pay the farmer 112s. for butter, it does not matter what the price fetches in London, so long as our New Zealand sterling balances are in credit.

But where is the difference coming from ? If the price is 70s. in London and you are going to pay out 112s. in New Zealand you are going to have an exchange-rate of 70 per cent. or 80 per cent. ?—I do not want an exchange-rate at all. There is no need for it. Why should there be an exchange-rate when there is sufficient money in London to meet the demand for our commitments and imports.

But you see what is called an exchange-rate is the amount of one currency you have to get to acquire a given amount of another currency ?—I follow that according to the methods of the gold standard.

You are saying that you are going to pay out 112s. in New Zealand for 70s. you get in London ?—I mean New Zealand shillings, not English.

Exactly ?—London will meet all its commitments with the sterling accumulation there and if they have sterling balances why penalize the New Zealand merchant with an exchange-rate when there is no need to pay an exchange.

You are going to pay out 112s. in New Zealand. Supposing the London price dropped to 30s. Is there any relationship in these figures of yours ?—If there is sufficient sterling in London, even after only receiving 30s., to meet our commitments there is no need to lower the price in New Zealand. The New Zealand farmer has to meet his commitments in New Zealand money not English money.

That is all right, but, to go back to my point, you are in effect establishing an exchange-rate when you determine that you are going to pay out 112s. in New Zealand money as against 70s. received in sterling. What I am trying to get at is what are you going to do with the converse case ? You said you did not see any reason why an importer should be penalized. If you are going to pay out 112s. in New Zealand for 70s. received in sterling in regard to exports, surely you must reverse the process in regard to imports ?—What you mean to infer is this : That if, for arguments sake, there is not sufficient sterling to meet our commitments, then there must be a premium so far as the importer is concerned. That is the natural reverse of the position.

What do you mean by our commitments ?—Our commitments in London, interest so far as the Government is concerned, and our imports.

The amount of imports that we buy is that not governed by the amount of money we have to spend ? Yes ; but if you follow my suggestion you will see that I say, " the balance of sterling after New Zealand's commitments have been met."

The trouble is that there is no fixed quantum of imports, and what happens in practice is that having paid our debts, which are fixed charges abroad, we arrived at the sum in sterling that is available to buy imports and we buy as many as we can. We can do no more than that. We only buy what we can pay for ?—But New Zealand, being a producing country, generally has sterling balances ; that is actually the position.

It has had sterling balances, that is so, but that does not validate the argument. It would not have sterling balances if you are going to pay out 112s. to the exporter in New Zealand and not charge the importer anything at all. Our sterling balances will very quickly disappear ?—No, production must become greater, thereby building up our sterling balances.

I do not want to monopolize the whole of your time, so I will let it go at that.

Dr. Sutch.] I have looked through this scheme you have put in ; you say that sterling balances in London are a liability ; how do you make that out ?

Mr. Tingey.] Under our present system, we have to pay 25 per cent.

Why is it a liability ?—It is a liability or perhaps a financial imposition.

An imposition, not a liability ?—It is a liability under the Banks Indemnity Act. I understand that under that Act the Government has to indemnify the banks against any loss in dealing with the exchange.

But the banks have lost nothing yet ; the Government has indemnified the banks, but no losses have been incurred by the exchange ?—Under the Banks Indemnity Act the Government has given assurance to the banks against any loss that may occur.

But no losses have occurred ?—Is it not probable that owing to the increased balances in London there will be losses.

Not necessarily ?—Is it not possible ?

It is remotely probable. It is not feasible, and the Government have paid no money to the banks to keep the exchange-rate up ?—I do not infer to keep the exchange-rate up. What I say is that at the present time we merchants have got to pay 25 per cent. additional New Zealand money.

But that is not a liability ?—Well, if it is not, it is an imposition. When we import goods we are liable for 25 per cent.

And is that what you mean by saying that that was a burden on the taxpayer ? You say, " Assuming that our sterling balances at the close of the export season will reach £12,000,000, therefore £3,000,000 will be added to the taxpayers' already overburdened payments." You say this high exchange is a burden on the taxpayer. The farmers are taxpayers and have benefited considerably ; they have paid their debts. The people who owed money have benefited considerably. The economic structure of New Zealand has been maintained by this high exchange-rate ; will you say it is a burden on the taxpayer ?—Exactly ; I advocated that the Government had to give the high exchange. I realized that under our present system the farmer had to have 25 per cent. ; but I consider it is idiotic to penalize ourselves with our own New Zealand money to pay the 25 per cent. when there is no need to do so. If we issued 25 per cent. additional legal-tender notes against gold bought with sterling balances this money would save that amount. We merchants have had to pay without adding to our costs, when there is no need to do so.

If I wanted to go to England under your scheme, how many New Zealand pounds would I have to pay for £100 English ones ?—That is a matter of arrangement.

It might be more than £100 New Zealand pounds ?—It is a matter of arrangement.

It would not necessarily be £100 New Zealand for £100 sterling ?—It might, but it might not.

I quite admit that you cannot say now what it would be ; it might vary from £100 New Zealand equalling £100 sterling ?—Yes.

When England went off the gold standard, she did exactly the same thing in depreciating her currency as New Zealand did when our exchange-rate went up to £125. Would you say that that was an imposition on the British taxpayer ?—I do not follow you. I do not see where the parallel comes in.

England depreciated her currency when she went off the gold standard—that is, in comparison with France. New Zealand depreciated her currency also. In the one case you say it is an imposition on the New Zealand taxpayer ; is it also an imposition on the British taxpayer that the British pound was depreciated below the former parity with the franc ?—Yes.

In spite of the fact that British statesmen and economists have said that it was the only step England could have taken to benefit England ?—Sometimes we have to tax ourselves to comply to the system that we are working under.

There was no need for New Zealand to have put the 25 per cent. on ?—I went over that question with Mr. Ashwin.

I am sorry. Why would you like to anchor our currency to gold ?—I am glad you asked that question. If we take world-wide conditions I feel satisfied that it will be a long time before the world will discard gold. If we make gold as a commodity which at present Russia is trying to do, the price of gold will be controlled by the prices of commodities. The prices of commodities were controlled by gold under the old standard. The majority of economists in advising their Governments want to get back to gold.

Most of them do, but the reason I asked that question is this : New Zealand has not been on gold for many years ; why bring us back to gold ?—The reason is that, if gold increases from £3 7s. 10½d. to £8, New Zealand would be in a fortunate position in being anchored to gold.

We would be anchored to sterling still ; it does not matter to New Zealand whether England is anchored to gold or not in so far as we trade with England. I will admit it matters if we trade with some other countries which are on the gold standard. You will agree with that ?—It is a hard question to answer when exchanges or depreciating currencies are made so easy by law.

There may be some conditional things, but in the main New Zealand did not suffer from England going off the gold standard ?—No, I do not think so.

It may have suffered in that way in regard to America, but in so far as England and sterling were concerned, we did not suffer. Why do you want to bring us back into the position that we must suffer ?—So far as sterling is concerned, we do not know what sterling means now that England is off the gold standard. Dr. Cassell states in his book that he asked the Treasury and other leading officials at Home as to what the meaning of sterling was, and he could not get a satisfactory answer, therefore why attach our monetary position to something that no one can explain.

It does not matter to the New Zealand farmer whether sterling is anchored to gold ; what matters is how much he gets for his goods ?—That is another question. I want the Government to regulate and make legal tender their own money, not to be governed by the discrepancies and the inconsistencies of sterling.

But New Zealand has always had its own money ?—How ?

The New Zealand pound is of no use in England ?—Take the coins ; up to the present they have been English coins.

Yes, but we had a New Zealand currency. Recently I had occasion to come into contact with the General Manager of a big Australian bank, and I was talking about this very question, and he said to me that, when Australia and New Zealand had sovereigns, notwithstanding that there were British sovereigns, they still represented a different currency from sterling ?—I do not see how that affects the position.

The New Zealand pound is a separate currency, whether £100 are sterling or £125 are sterling ?—I admit that. Why allow our separate currency to get depreciated by sterling ?

We are not ?—When England went off the gold standard it affected us.

No, I say it did not affect New Zealand ?—When England went off the gold standard it depreciated our currency nearly 25 per cent.

Not at all ; it depreciated our currency when America went off the gold standard, but not when England did ?—How do you account for the fact that, when a dollar draft is presented to a merchant, he has to pay not only the conversion rates, but the depreciation so far as sterling is to gold. He has to pay those differences.

I have excluded that ?—Egypt has not had to pay that, because they have managed their currency better than New Zealand.

Egypt has to pay the premium for dollars just the same as a New Zealand merchant ?—So far as the exchange-rate of Egypt is concerned, for the last ten years it has hardly varied at all.

The exchange-rate of Egypt has been anchored to sterling and controlled by the Government ?—I do not quite agree with you there. What I want to infer is this : That, so far as I am aware, the Egyptian pound was not affected when England went off the gold standard.

Neither was the New Zealand pound ?—So far as the New Zealand pound is concerned, when England went off the gold standard, her relation with the dollar depreciated something like one-third per cent. and the New Zealand pound also went down one-third per cent.

I fully agree with you, and, in addition to that, I say that the Egyptian pound also depreciated with the dollar ?—If it depreciated with the dollar, I have seen no record of it.

That is quite all right ; you can take it for granted ?—I saw a very good article the other day which said that the Egyptian pound had not varied 1 per cent.

That is with sterling. If you have £12,000,000 sterling and you buy sovereigns, you get 8,000,000 sovereigns ?—I suggested gold.

So that you would have a gold content less than the sovereigns as for New Zealand ?—Yes.

You did not mention that in any way. You do not think it is necessary to have the gold fixed ?—Three notes to the value of a sovereign is a very sound margin according to sound banking practice.

Is it to be one sovereign or an ounce of gold ? What value are you going to attach to the New Zealand notes to the gold ?—My argument has been " anchored to gold " or on the market-price. If we pay £8 for gold then the issue of notes will be on the £8 ratio.

If we pay £8 per ounce for gold, how many notes will you issue ? Would you issue £24 notes against that £8 of gold you bought ?—On to-day's mint-par value basis, three to one. Therefore, taking gold on this basis, we could issue three to one ; if the gold cost up to £6 we could issue one and a half.

So that what New Zealand will be doing each year will be spending millions in gold ?—Not exactly ; the first year we control the note-issue, would be on, as already stated, the mint-par value. If we have a successful second year, New Zealand will buy gilt-edged securities and, later, redeem the external debt with the interest accrued.

So we are going to redeem our external debt as well ? Assuming your scheme to be put into operation, could you explain to me how the importer will pay his bills in London ?—I have already answered that.

You mention the note-tax here, but when the Reserve Bank takes charge how can the banks possibly pay a note-tax ? They will have no notes ?—I distinctly stated no note-tax.

I am sorry. The trading banks are not going to have a note-tax ?—That is so. It is omitted under proposed legislation. I was dealing with the present position.

But the legislation is not proposed. It is an Act. After July or August this year there will be no note-tax ?—I might say I had these ideas before the Reserve Bank came out.

Why issue notes for Treasury bills ? Would not cheques do ? You want to issue Treasury notes instead of Treasury bills ; why not use cheques ?—If you use cheques—let me give you an illustration. I receive a cheque from the Government for £100. I deposit that at the bank ; that is debited and credited accordingly. Why should the Government pay 5 per cent. on book entries ?

I am leaving out the question of interest. I am agreeing with you that no interest will be paid on Treasury bills ; why not use cheques instead of these notes ?—It is a matter of arrangement. If it is a large amount, pay by cheque. The reason I suggest notes is because the banks would be only too pleased to let them out, and the tendency would be for the banks to reduce interest. It will not pay the banks to keep them.

But in England they have Treasury bills which have been lent to the Government at 4s. 8d. per cent. ; they do not bother about notes. It is a waste of time printing them. Would these Treasury notes be collected again in taxation and be cancelled ?—Yes.

They would have to be brought back to the issuing authority and be cancelled just the same as any others ?—Yes, if necessary.

You say you are going to issue your notes against commodities, yet earlier you said you would issue your notes against gold ?—Well, of course, the gold is bought with the commodities. It is as broad as it is long.

So that, issuing notes against commodities is the same as against gold ?—I have assumed that gold is a commodity. It is traded as a commodity.

How will the issuing authority collect the money when it is issued ?—I do not quite see the force of that question.

You told me that these Treasury bills would finance public works, that they would be collected again to pay off the debt that had been created ; how will it collect this amount ?—They will be in circulation to meet the demands of trade and commerce.

But how will they get back to the issuing authority ?—There is no need to get back to the issuing authority so long as they are kept in the trading community.

They need not necessarily be returned ?—No.

So that the Government this year could spend £3,000,000 on public works and not include that in the Budget ?—That would be a matter of legislation.

Assuming that all necessary legislation is in force, would you budget for public works, or just print the notes ?—You would have to keep a record of the goods or services ; you would keep an account and the account would be debited accordingly.

Which account would be debited ?—If it is a large public-works job, the notes would have to be handed out in connection with that particular job.

The notes will be handed out ; will they ever come back ?—Not necessarily.

You will remember that in 1921, 1922, and 1923 the German Government had to pay reparation and war debts, and had also to find wealth to build up its economic structure, and decided to do it by the method of issuing notes to pay the public works. What is the difference between your scheme and what happened in Germany ?—There is a big difference between the two ; because these notes are only taken against the sterling balance. I have also stressed the point in regard to the incident you have just referred to that it is a recognized fact among the economists that Germany wilfully issued their notes with the idea of cancelling her internal debt, and she accomplished it. There is no comparison with the suggestion I made. These New Zealand notes are issued to the Government against gold bought with the sterling balances in London and they are represented by goods and services.

But the sterling balances have already been used to pay our debts and pay for our imports ?—I said the notes would be issued against gold bought with sterling balance, and would be held by the Reserve Bank.

There will be a balance over ?—I consider at present-day values where will be £36,000,000; £15,000,000 to the holders at the present day and £21,000,000 left which will be held by the Government and used the same as Treasury bills.

So that we will raise our price-level; what do you think will happen to the price-level of imported goods ?—So far as the price of imported goods is concerned, the price-level will be down. There is not the slightest doubt about that.

It will come down ?—The merchants will be able to sell these imported goods cheaper to the farmer, because there will be no 25 per cent. added to costs.

There will be plenty of money to play with ?—The money will be equated by goods and services, and why should not money be plentiful if we are able to turn out the goods and services.

Why worry about gold and sterling; why not just issue notes against the goods and services that are at present here ?—There is the psychological effect to consider. Do you not consider that if that is so and the people have been told the notes are anchored to gold, it would have a better psychological effect than if the notes are issued against book entries ?

The New Zealand people believe that our currency was anchored to gold for twenty years, and it has not been anchored to gold. So long as the public do not know, it has the same effect ?—The Bank Act distinctly made the banks hold that gold. The New Zealand public knew that the notes were anchored to gold; that was according to the Bank Act.

Our credit is not anchored to gold ?—According to the Bank Act our currency is anchored to gold. I have always understood that that was the Bank Act.

The Reserve Bank Act provides that we can have notes with no gold backing whatever ?—That is so. The City of London wants all the gold we can produce.

And do you think the New Zealand people are influenced by some people in the City of London ?—The City of London is influenced by a certain section, and they in turn influence the Government of New Zealand.

Do you think this legislation was influenced by any people in London ?—I do not think that is a fair question, but, if you ask it, yes, I do think so.

Here you say Sir Otto Niemeyer and his friends are particularly anxious that the Reserve Bank shall be free. I will suggest to you that that is a statement that has no foundation whatever in fact ?—So far as fact is concerned, if you read the history of the City of London you will find that London has been penalized over and over again to the extent of hundreds of millions by reason of the bank rate to get £2,000,000 or £3,000,000 of gold back to London. It is the City of London through the Bank of England that operates and manages and has held all the control so far as the rate is concerned. They borrowed money through the Bank of England from France and America at 3 per cent. and lent it to Austria when it was on the verge of revolution at 7 per cent. to 10 per cent.

Do you think the City of London has had any prejudicial effect in New Zealand on New Zealand legislation ?—I honestly think that they influenced New Zealand to have a Reserve Bank; that they think all Reserve Banks are to their interests, and also to New Zealand's interests.

There have been too many people in New Zealand who have suggested that our banking legislation has been influenced by financial interests who do not wish New Zealand's well-being. Our banking legislation has been passed by the Government of New Zealand with their own advisers in New Zealand, who have solely the interests of this country at heart, and have so arranged that banking legislation that New Zealanders will be in control of the banking system ?—I will accept that statement when certain things in the future eventuate.

Yes, we can only be guided by the future.

Hon. Mr. Downie Stewart.] I understand your scheme is to stabilize prices in New Zealand ?—Absolutely.

And the illustration you give is that if butter brings 70s. in London the farmer will get 112s. in New Zealand. Assuming butter drops to 30s., he would still get 112s. Assuming the price as 140s. in London, will he still get 112s. in New Zealand ?—That would be a matter of arrangement.

You will adjust that ?—I have made this provision that if butter falls to 30s., but with that 30s. New Zealand is still getting sterling balances, there is no need to alter the New Zealand price of butter internally.

I understand that at 70s. in England you get 112s. in New Zealand. At 30s. in England you get 112s. in New Zealand; at 140s. in England you get 112s. in New Zealand. If Britain puts an embargo on, and will not buy your butter at all, do you still get 112s. in New Zealand ?—You are putting up an assumption; I do not think it is a fair question.

Well, then, you are stabilizing prices ?—You have to be guided by future events in matters of this kind. It is a matter of arrangement from year to year.

We will assume that butter is rising and wool is falling, and that flax is rising; on these prices will the farmer who knows that his commodity is rising rapidly in value have no grievance when he thinks that he is no better off than the man whose price is falling in London. The butter man's product is falling in England and the wool man's product is rising in England; will the wool-producer not complain if he does not get the benefit of his market ?—If he has had stabilized prices at 1929 price-levels when prices were low there will be no need to complain.

You are not going to give him the benefit of that rise ?—Not for that year. If the stabilized prices have been fixed for that year, he will have to abide by the legislation.

Who is going to fix the prices ?—A special Board consisting of, say, the head of the Treasury, the Statistician, the Governor of the Reserve Bank, two gentlemen nominated by the producers. The prices will be controlled by the Board so set up.

Mr. Langstone.] Regarding Mr. Stewart's question relative to the 112s. that you pay on the basis of butter here, if England by putting a quota on the market would not take your goods at all, there would

be no trading addition to balance the difference at all. The thing would balance itself. The problem that Mr. Stewart submits does not exist ?—No.

Supposing that it went up to 140s. or 150s., and you are only giving the 112s., that would mean that when those goods came into New Zealand you would get that 150s. worth for 112s. in New Zealand ?—Yes.

The reason you want the internal price-level is to keep all values permanent ?—That is so.

The New Zealand producer is the victim of anything they like to do overseas. You want to free him from them. You want to stabilize all values ?—Yes.

And have the necessary amount of income to sustain our local value and increase our standard of living as you would increase our productions ?—Yes.

As regards gold, I do not agree with you ?—In what respect ?

You point out that it was a bug-bear in so far as the influx and efflux of gold can interfere with the bank rate. But if you are going to have gold attached to currency at all it will interfere with your currency. You cannot avoid it. Currency that has a commodity value has two values—one as a commodity and the other as a currency. When there is variation in them the tendency is for it to come out of currency into commodity or out of commodity into currency, whichever is the higher, and it interferes with your whole base ?—All money is legal tender. Therefore, with a Board set up, that difficulty which you see would easily be overcome. The Board could be set up to meet every month or three months and fix the currency value accordingly.

But you are going to have three units of money to every one of gold. The more gold you have the more units of money. The less gold the less units of money ?—It all depends on the value of gold as a commodity, and legislation as to the issue of legal-tender money as value.

Supposing we took out the £5,000,000 of gold which we have in New Zealand to-day and sold it at the gold point, which is at an appreciation of 60 per cent., that means another £3,000,000. That would be £8,000,000, and if we take our other balances in London and use them to pay off part of our national debt that would decrease our liability, and at the same time increase our assets. And we could issue in New Zealand against that for the spending of the money in New Zealand ?—Yes.

Mr. Schramm.] What have you got to say about the control of the present banking system by private individuals ?—I think so far as the private banks are concerned they should not have the privilege of the issue of Government credit or legal-tender money.

Would you go so far as to take the whole control of the banking system away from private individuals and put it in charge of the State ?—I do not think so. I do not think there is any need, because the Reserve Bank will control and the other banks will be subsidiary.

So that, whatever you say, you still agree to the present system going on and functioning ?—I do not think the present sytem is functioning. Otherwise we would not be in the position we are in.

Why not take a definite stand on that ?—I believe in doing things gradually.

Captain Rushworth.] I think at one period you were at cross purposes with your questioner. You were asked about the rate of exchange under your system. What you really meant was, I think, that rate of exchange would be a matter of Government policy ?—Absolutely.

The rate of exchange for travellers wanting money would be set by the Government for the time being purely as a matter of policy ; they could make it what they liked. It has been done as a matter of fact between Egypt and London.

The other question was the idea that your proposals meant that our money here was based on gold. I do not think you meant that. What you meant was that our money here should be based on our primary products ?—Yes.

And that our sterling balance should be temporarily invested in gold ?—Yes.

That is in distinction to the Egyptian system where they temporarily invested their sterling balance in Treasury bills or short-term Government loans ?—That is so.

You prefer to invest temporarily in gold as that would enable you to trade with other countries. If in sterling you would be only able to deal with London ?—That is so.

AUCKLAND, TUESDAY, 20TH MARCH, 1934.

Witness : Mr. P. B. FITZHERBERT.

Mr. Fitzherbert : It has appeared to me, from listening carefully since the Committee commenced its session here, that it is a most remarkable thing that, although evidence delivered has been towards a solution of our economic difficulties, no one who has started to make proposals or to carry forward any suggestions has given a definition of the terms that fundamentally lie behind the whole economic question. My brother, Mr. Sidney Fitzherbert who, foolishly I think, has made up a plan, did a very much greater thing for the world than preparing his plan. That is to say, that he dug and delved into the whole economic field, and, after a great many years of study, discovered something that has never been discovered before in the economic field ; and I say that it is positively true, and such men as Professor Von Zedlitz, of Wellington, and other professors, agree that he has done in the economic field something just as important, in fact more important, than Professor Einstein has done in the other field. I want that to be appreciated, and if this Committee will seriously go into the question of definitions—that is to say, the definitions of value, money, and price, and find out not the hypothetical, but the true relationship between them, I say there will be at once a great deal less of this, almost, nonsense put forward by people here, which should never have been tendered before this Committee at all. Why, surely, if there is to be any amelioration of the conditions which exist in the world to-day, at least we can never hope to

achieve anything until we know exactly what functions or realities we have to implement. Now, it has been obvious to me, as obvious as it possibly can be, that many of the people who have been giving evidence before this Committee cannot distinguish between value, money, and price, and it appears to me that some of the people here are unable to appreciate the difference in order to give anything like an accurate definition of "value." Now, I am going to say this: That there has not been given by any economists yet any definition that approaches the truth with regard to "value." That is my brother's discovery, and unless you understand what value is, there is no hope of understanding what has been done; and if you follow that equation you will find, when you really know what money is, that there will be a very simple solution to all our difficulties. In the first place, I want to disabuse members' minds of the fact that the existing economists of the world know what they are doing. I admit that there have been, throughout the world, men with intelligent brains applying themselves to this great question. There is no question about their sincerity. I should be the last, indeed, to attack the sincerity of any person who inquires into these things. I give them all credit possible, because one realizes that this economic question has been practically the battle of the ages; but I will say this, that it is vitally important for every one concerned to make their inquiry, their commencement in history, much earlier than has been the case. Now, what is the position? I have one economist here whose influence upon the politics of the world has been dynamic. I am not going to mention his name, but I am going to say that his definitions of value, his idea of money, and his idea of price are hopelessly wrong, which I can prove and intend to prove. I also say that Mr. Keynes, a very honest and almost indefatigable worker in the field of economics, for some mysterious reason unknown to me, has completely missed the real truth of the economic equation, and has gone to the pains of writing a book on the financial system, gone into all the details and all the ramifications of finance; and, if he had studied history seriously and had gone right to the beginning of the thing, he would have found that he really has been classifying an illusion; because money capitalism is an illusion. Here is what Mr. Keynes says in his book which, after years of work, was published in 1930, and, according to his words, must have been considered for some considerable time previously: and this book, mark you, is put out into the world to assist people to solve their economic difficulties; and what is the position? He has the splendid honesty to come forward and say,—

> "As I read through the page proofs of this book I am acutely conscious of its defects. It has occupied me for several years, not free from other occupations, during which my ideas have been developing and changing, with the result that its parts are not all entirely harmonious with one another. The ideas with which I have finished up are widely different from those with which I began. The result is, I am afraid, that there is a good deal in this book which represents the process of getting rid of the ideas which I used to have and of finding my way to those which I now have. There are many skins which I have sloughed still littering these pages. It follows that I could do it better and much shorter if I were to start over again. I feel like some one who has been forcing his way through a confused jungle. Now that I have emerged from it, I see that I might have taken a more direct route and that many problems and perplexities which beset me during the journey had not precisely the significance which I supposed at the time. Nevertheless, I expect that I shall do well to offer my book to the world for what it is worth at the stage it has now reached, even if it represents a collection of material rather than a finished work."

There, gentlemen, is England's leading economist, and I am sorry, indeed, for those younger economists who have taken his work as a solid basis for their observations. How can any one who has read his preface say that his work is a solid basis for a young economist to work upon? Mr. Montague Norman, the Governor of the Bank of England, and almost King of England, so far as finance is concerned, a man to whom the whole economic field is open, who has on his one hand Sir Otto Niemeyer and on the other Sir G. Gregory, who has at his command all these men, who has had trips to America to consult with the heads over there, made a very astonishing statement a little while ago. We were astonished to note that he had "blown the gaff" because he said, in spite of all this information, that he was approaching the subject in ignorance and humility; and I submit that if all our New Zealand economists, and if all the other economists, had been pouring their knowledge into Mr. Montague Norman's head he would not be any the wiser than he is to-day, because there is a fundamental flaw in the whole thing. Now, I am not going to go into analyses at the moment, but I am gong to establish and prove to you some major proposals; we will call them primary proposals. We have gone wrong because (1) we practice usury, a falsifier of all mathematics, in all departments of life; (2) we have no standard of economic measurement; (3) money which is a Royal function, the most vital of all Royal functions, has passed into the private hands of men with minds unbalanced by usury; (4) we do not understand the principles involved in the administration of monetary affairs; (5) we have been labouring under the illusion that bank credit is money, while in truth its existence betrays the absence of real money; it operates in the opposite direction of real money; (6) no economist up to the present, with two notable exceptions, has yet published a book disclosing all these factors; and (7) all mental efforts appear to be directed towards the survival of finance and industry at the expense of humanity as a whole. Mr. Clinkard is apt to pay a great deal of attention to the Macmillan report, and the Macmillan report does state that there are causes or contributing causes which are not monetary; he is quite accurate in that respect. Any man would be a fool, indeed, if he said that by monetary reform alone we would achieve anything. All that monetary reform does is to put into the hands of the Government a clean sword, or a clean discipline, a clean law. I am going to show you that the present monetary system is not clean; it is not honourable; it is the opposite; it is dishonourable. Now, money is a function of Government; it is part of the law and the most vital part of the law; it is part of the King's equity; it is the paymaster of the King's forces; it is the method of bringing the whole nation into balance. That is what it is, and it is not a tangible thing; it is not something you can pick up in your hand; it is an arithmetical function, that is what money is and I propose to prove it to you. Now, I want to ask Dr. Sutch what he imagines or what he can say "value" is.

Dr. Sutch.] You have raised a very difficult point, Mr. Fitzherbert. The economists are not agreed on that. I discussed this with a professor here on Sunday night, and we both agreed that value could

not be defined and it was the haziest point in economics; but for the purposes of monetary discussions we would have to take value as expressed in price—that is, exchange value.

Mr. Fitzherbert: That is to say value and price are the same thing?

Dr. Sutch: No; but for the purposes of discussion we would have to use exchange value as the standard.

Mr. Fitzherbert: Let us examine that for a moment, and let me put to you a case to show how utterly different value and price are. Let us assume we have a circulation of money of £1,000; that is the volume of circulation. If we introduce £2,000 into the economic circuit without altering any of the other factors what will happen? Your price-level will go up twice; but you will also admit that the exchange value of the individual goods will not have altered in the slightest degree. Therefore, price is not the same as value; value is something completely different from price?

Dr. Sutch: Most economists will agree with what you are saying.

Mr. Fitzherbert: No doubt they will, but they have not observed the consequences of it. That is the trouble, and it is a most extraordinary thing that they have not. Why? Because the whole banking system is rotten; it is based upon a falsehood. They do not know that. It is a thing that has grown up with us, but I am going to prove to you that the banking system is the worst system that we have ever produced, that the world has ever produced. It is a wicked thing and you have to face it. It is no good talking; it is no good side-stepping the point; the banking system is false. It is not King's money at all; it is a fictitious imitation of it, and it is a circuit within the real circuit that should be operating in the name of the King. What we want is action, and it appears to me that the longer we have men of the type of Ramsay MacDonald in power the worse it will be for us. Ramsay Macdonald, when he goes abroad, seems to cast a hypnotic spell upon people and when he goes they say, "Ramsay MacDonald has been here but what did he say?" He said nothing. He is a politician of the most inaudible type that history has ever seen. In regard to economic value, there was a wonderful Frenchman who lived some centuries back, he was the first man to approach the nearest to the true principle. In fact, he arrived at the truth, and it is very easy to see that he was quite right. He arrived at the truth, but did not lay it bare. A very simple thing, but it is the conclusion which goes to the very heart of our troubles. The French economist Condillac wrote in 1876 in an essay on "Commerce and Government": "It is false that in the exchange of commodities equal value is given and obtained. The contrary is true. Each of the two contracting parties invariably gives a smaller value for a greater one. If, as a matter of fact, equal values were always exchanged, neither of the contracting parties would earn a profit, but both profits, or at any rate both should do, for the value of the thing desired rests solely in their relation to our wants. What is more, one man would lose to the other and *vice versa*. We wish to give away a thing which is useless for ourselves in order to obtain something necessary. In other words, we wish to give less in order to obtain more." Now, that is really the truth or rather the germ of the truth. One can prove it mathematically. Supposing I possess a cow and my desire to retain that cow is represented by, we will say, a half of a volt of desire, whilst the Hon. Mr. Downie Stewart is owning a horse for which he has half a volt of desire to hold back, but we each have for the other's property four volts of desire. We make the exchange and each has got what he wants, and each has made 3½ volts of profit. Now, you will find that the whole question of exchange value of any commodity depends entirely and absolutely not upon the labour-content of any particular thing, but upon the desire of the people for it. That is one of the most important things to have that point fairly established.

Dr. Sutch: You mean consumer's surplus, in economic terminology?

Mr. Fitzherbert: No. I do not mean that. I mean something quite different. But still, let me just take it for the time, and I will develop my idea. Now, having that admitted, one will say at once that it is perfectly true that so far as the value is concerned it is purely and simply a question of the person's desire. That, of course, is a primary factor, but there is also the next thing. It is the capacity of the individual to express his desire—that is to say, it is no good my having desire if, under the existing conditions, I have not got the money to express it. If I have not got the money to express it, I am foiled in my desire; and, under those economic conditions that are always keeping the people's desire unsatisfied, people become, of necessity, enemies to the remainder of society; that really is the commencement of crime. Consequently, if the economic circuit is properly conducted in accordance with the principles which I propose to develop, a very great deal of the criminal element would be taken away from our midst. But once we realize that money is not what it is thought to be, but really is an arithmetical resistance against which that desire is measured, you will find that it does fulfil the truth—that is to say, that a measurement of desire is more after the analogy of electricity or steam than it is a measurement in the shape of a foot rule or a pint measure. All the present phenomena that we find in relation to our monetary conditions uphold that idea, that that is the case, and that once you undermine the power to express desire your values fall and the price falls also. Now, why is that? It is a question in dynamics really. Value is the thing which is measured. Money is the measuring medium. No matter how unwieldy it is, it is the measuring medium, and price is the indicator—that is to say, that money measures value, and the indicator is price much the same as you get in a steam-boiler with a proper governor and dial-indicator. You will not have your level going up and down. Now that is the importance of that discovery of my brother's, and I submit to you it is the first time it has been put to you succinctly.

Dr. Sutch: In that form, yes, but so far what you have developed is very familiar to me. Most economists of the marginal utility school approach value from the end you are approaching it.

Mr. Fitzherbert: Yes. It is a pity they have not come to the conclusions which follow. However, that may be, I do not propose at this particular moment to develop that, because I will have to come right back to it later on. Now, I just want to touch, momentarily, on one other phase before I go further, and that is the question of any Government's borrowing money. I want you to realize because it is

vitally important that you should, that the fact of any Government borrowing money from its subjects will, in the future, be regarded as an economic treason, because it has this effect. If a Government borrows from its subjects at all surely this must be the case. If it is ever to repay that money surely it must tax, and it can only tax the people from whom it has not borrowed, because if the Government is going to honour the borrowing to the full tenor of the borrowing — that is to say, to pay back to the people they have borrowed from the full amount—then the Government has to excuse them to that extent and to put the repayment, and the interest thereon, upon the backs of the others. You cannot escape it. It is absolutely inevitable. It must be so. So you see it leads us into rather strange places, because, if you continue this thing for any great length of time, you are bringing the whole of your State into complete disequilibrium, and that is what is happening in the world to-day. Now, at the present moment, I have to lead you, in order to get to principles of things, to see whether there is not some basic principle upon which the whole universe is governed. I must confess that I searched and read, and searched and read. I was after that principle idea, quite apart from my brother, but I must say this, that I would never have got anywhere if it had not been for him. What is the great principle in the whole thing ? There is a law which controls all forces. Whatever it is we do not know, yet it is the force that compels balance. You take the solar system. It is a beautiful example, one of the most wonderful examples, of the reconciliation of opposing forces, where you have terrific motion but at the same time a basis of stability. You have the planets circulating round the sun and each planet is so beautifully timed, the whole movement is so gloriously rythmic and perfect that every movement of every planet can be timed to the finest nicety, and this great system has given us a basis of measurement of time, and other measurements as well. There is another great factor, too. The universe, a wonderful universe, completely, through the whole thing, through the whole of the solar system and everything upon the solar system and everything out of the solar system, there is a oneness of everything. I want you to understand this—that is to say, that although there are so many men here in this room there is only one of each of us.

Dr. Sutch : Is that General Smut's Philosophy of Holism ?

Mr. Fitzherbert : No. It is really the development of the idea of arithmetic—that is to say, in order to make estimates and to have a background upon which you can measure, you have to imagine the perfect similarity of everything. You are in a world where you have nothing exactly alike, because no two grains of sand are alike. They are similar but never exactly alike. There are never two things in the whole cosmos that are exactly the same. So in order to measure at all, you have got to have oneness, you have got to have a series of ones that are imagined to be mathematically exactly alike in all respects. Now, the principle of balance enters into every activity, every inanimate and animate thing. Wherever you go, whatever particular thing you regard, every single thing is an emblem of this wonderful law of balance. Take a tree—balance. And follow the equation right through it, the roots spreading out, the branches spreading out overhead, and if the storms and stress and winds and all the rest of it are too strong for it, the roots will go farther underneath, and, certain other movements take place, and the tree will be able to withstand the winds. The tides, the winds, everything completely through the whole system is governed by the law of balance. Every living thing that we know is balanced right through, and so it goes on, and you will find that balance is in everything, although many sophists will endeavour to check you by saying that balance always brings a position of statics. That is not true, because we have got the universe. It is a balance, but it is dynamic. Now, if we apply this law to the activities of man, you will find any number of illustrations. I will give you one of them only, for the time being. Take the case of a great musician who has composed a fine piece of music, and he calls his musician friends to him, and he plays the music to them. They then retire to their homes, having heard this, and all try to memorize it. They memorize it, each one on his own instrument, and having done so, some other time the great musician calls them to him and they come each one with his instrument and he says, " Now you each give at the same time a record of my performance." Now, what would happen ? If each man did that, there would be just a fearful chaos and noise. So you will find at once that in order to bring those instruments into harmony (and this is an important lesson) so that they can play this piece of music to perfection, the musician himself has to take control and he has to bring the musicians to balance.

Hon. Mr. Downie Stewart : When do we get to the monetary system ?

Mr. Fitzherbert : I am leading up to it, because it is vitally important to know the position of government. I am endeavouring to show you that the government, in order to function properly, must be an absolute government. There must be no nonsense. You have got to wrench this country back on to its feet, and I propose to show you how it can be done ; the only way that it can be done. But until people understand the absolute necessity for discipline, the absolute necessity for government control, you will not get there. It is most vital. You have got to exert, at the present moment, the utmost disciplinary forces upon people who will resent it very deeply. There are others who have already been too strongly disciplined. They have felt the oppression of discipline too much. Now I want to follow up the early history of England, just to give you an example of how this principle of balance applies. William the Conqueror was probably one of the world's greatest men. He was a very intellectual man and comprised an almost impossible duality in his person, because he was a great statesman and yet at the same time a great soldier. One very seldom hears of a soldier ever being a great stateman, but he was one. Now, when he established the Feudal System in England he was a man well versed in the law of balance and the necessity for discipline. He dealt out the lands of Great Britain to the barons and fixed upon them, each one individually, definite services which they had to supply to him annually, or as the case may be. The Church was also subsidized in the same way. But from the barons downwards through the knights and down through the freemen and finally down to the serfs, every person had a definite duty to perform and goods to render to the sovereign for the national purposes. If the exigency was war so that he had to go abroad, and if the supplies of the country were

not sufficient to meet his demands, all that he had to do was to add to the service by taxing the additional things from the people. Then going abroad, fighting, and the coming back. Whether he won or lost, the war would have been fought and lost in terms of reality, and there would not be one farthing of debt owing to anybody. That is an important point, because I am going to suggest to you that the ignoble war debt that was piled up in England during the big war will be regarded by the people of the next century as being perhaps the most costly imbecility the world has ever seen. I know these things are unpleasant, but we all have to face them. Do not think for one second that there is a spark of disloyalty in my blood, because there is not. I believe that I wish to see re-established again, sovereignty with full power to the King to bring this country and England and the whole Empire to some form of balanced control. The time has gone when we could afford to have the people and the workers of the world crucified by the horrible financial system that requires the most rigorous law to put it into balance again. Now, with regard to William, it is important to note this: that William I had a sound system and he really set the basis for the great nation of England—the whole of the Courts, and the procedure and all the rest of it, all the main skeleton of British justice. All the different services were dictated by the powerful brains of William I; and I ask you to mark that until the time of Edward III usury was punishable by death. Any person who was guilty of usury—that is, charging interest for a loan, had his head chopped off. I am not going to suggest that we should go back to that, because I would wish to say this, that although I am going to attack usury there is no suggestion in my mind that any person to-day who holds the profits of usury is going to be asked to yield them. Not at all. There is no need for it. If the thing was necessary, yes. But there is no need, because the Prince of Wales has said, and it is perfectly true (we cannot possibly escape this truth) that if all employable labour in the world were occupied for a reasonable number of hours a week the whole world, the entire population, would have at its disposal a volume of commodities and services sufficient to lift the standard of life far beyond the rosiest dreams of the most ardent social reformer. It is true. All that we need is a co-ordination of our ideas, reconciliation of the different interests, and implemented by an honourable monetary system. Now let me point out this. I do not propose to go very far. I am just touching on the point because we cannot possibly elaborate it here. Now let us take Tonga. The Tongans' philosophy of government is this: The Tongan considers that the force of authority emanates from the soil; it passes upwards throught the feet of the individual, holds him upright to the sun, and carrying his desires to his head. In his head, his reason is supplied; and the return circuit becomes executive. He does the things that his head reasons he should do. The next step is in the family: The father becomes the head in authority in the family, which is wider that a New Zealand "family." It includes cousins and so on. They pick out the best brain—he may not necessarily be the eldest son—to be the decider for that family. Each family does the same and the deciders for the families meet in the village councils. They elect a chief and that chief, after he has heard the deliberations of the others, becomes the final arbitrator, for the whole village. The whole force of desires pass up and pass through his head and go back with executive power, and so it is carried out stage by stage until you reach the National Council which is presided over by the King, who they can —if they will—throw off. One will know that this is not a savage idea; it really is a wonderful idea of sound government. The difference between the thesis of medieval Europe and the thesis of the Polynesians, in regard to Government, is that the authority comes upward from the people in the case of Polynesia, whereas the medieval one was, that the authority came downwards from the King. You will note that there is a conflict between those two ideas; the conflict has already taken place in Samoa, but history teaches us that, beyond question, if the head of a nation will not conform to the wishes of the people, ultimately the head will go. History is full of it. Charles I of England lost his head; Louis of France—you know what happened to him; The Czar of Russia, William of Germany, Alphonso of Spain, the King of Portugal. The Polynesians knew what they were about; they were a very ancient race: and history is brimming over with the fact that men of the world will not be slaves. So we come to this clear point: That the Polynesian idea of having their desires carried up in the way indicated, expressing their desires as they went upwards, that when the authority came down upon them, in the executive effort, because it was of themselves, they willingly submitted because they had government of the proper sort. I do not want to elaborate that because any person who cares to study the historical point will find it is basically sound and true. Before we touch money we have to understand basically what money implements. What really does it implement? We have got to take the question of distribution. If a man takes a wife surely it was a father's duty, if he had a large family, to see that his different children did not oppose his will. He had to keep his family balanced. If there was a greedy son, taking too much he would make him give back and the father then gave it over to one who was suffering loss. That is the application of the law of balance, and it indicates taxation. Carry the thing further, and you will find that the further you go the more reason you will find that basic distribution in any community is absolutely essential. Take the human body as an example of balance and an example of the question of distribution. The whole of your body is a ramification of veins and alimentary canals, of veins and capillaries, and there is not one single portion of your body that is not so supplied, and if by some disaster or some accident or some obstruction the blood does not flow to some portion of it, that portion will wither away and die. Surely when you come to the larger associations of man you have to carry out the same principle, and if you do not carry out that principle you are going to have trouble in the system. Because in any state of society, the people are meeting together, each with a definite purpose. It implies that they have got to reconcile their own desires so as to bring them into common point of agreement. They get greater advantages, but, in order to make up for them, they have to suffer some inconveniences, and the more these things are balanced the greater agreement you will get in that association. This question of distribution is one, which you will see at once, can depend and must depend and will depend upon some scale of merit. Whatever that scale of merit may be it is a question for the determination, I think, of the people themselves and the

Government. It need not obviously, as my brother's system seems to suggest, involve complete equity. So far as my brother is concerned, I will say that if his plan were applied in Heaven, it would be a wonderful system; but New Zealand is not ready for it. Nor do I think it advisable for any Government to interfere with the farmer, for instance, who had his own land. I know I quarrel very deeply here with the Henry George people who want to nationalize the land. The farmer to-day has made a very beautiful country of this country. You must be struck by the wonderful things done by New Zealand farmers. The farmer becomes attached to the land which is his; he has made it. Is he keeping the produce of that land away from the people? He is not. He is endeavouring to give it out to the people, provided he gets a decent return for it.

Mr. Langstone: He is worried about the mortgages.

Mr. Fitzherbert: They have all to come off. It has to be reconstituted lock, stock, and barrel. You cannot have an economic measure if you have usury in your system. Let me give you an example, and in raising this point, I want to be of assistance; I want to help to get this country to become what it should be; it has a wonderful future before it.

Dr. Sutch: You got on to that point of talking about land; you said you would not analyse it.

Mr. Fitzherbert: No, because if you have a proper monetary system which is administered by Government as the King's money is issued from a State Department, you have all the control you need over all things, land included. But you must have an honourable Parliament (and I believe our Parliaments are honourable) yet they are held in a vicious system. They cannot get out of the party system which is a complete fallacy, the outside pressure is too great; and if this Government could resolve itself into a National Government, completely, and the best of the brains be connected up and be directed in attention to bringing this country back to balance, I honestly think they could do it. I do not consider myself a more honourable man than any one else; but I do not think I should hesitate; why should others? Surely there cannot be that amount of intrigue in Parliament as to prevent men from doing their duty to the people. I am afraid I am perhaps a bit optimistic, but I know how the system of usury is biasing men's minds. I cannot conceive that the men I know in Parliament could possibly be so dishonourable; I will not believe it. Having come to this point which is so vitally important, and this question of the volume of money in circulation and so on, we have to consider this—what that money is made of does not matter. Paper is quite all right. There is no need in New Zealand to have gold; the measuring-capacity of money depends entirely upon its being kept in concomitant variation. It must preserve the relation between production and population. I am confident that is so. Historically money is exactly what I have told you. It is not an occasional rider who comes dashing along on the wings of gold. That is an unsystematic system; there is no sense in it. If gold comes into a country for a while, we have a period of trade; if it departs we are left lamenting. The greatest money historian in the world is Alexander Delmar. Incidentally, although he was not a degreed economist he had a wonderful knowledge of money. He wrote "The Science of Money" and "The History of Monetary Systems." I think the following is the most important page or two I have ever read in any book on money or modern political economy. He says—

> After many experiments—we are now alluding to the era of Lycurgus—it began to be suspected that the monetary problem was not a mechanical one at all; that, unlike length, weight, capacity, &c., value was not an intrinsic or inalienable attribute of matter, and therefore that it could not be equitably measured by means of any commodity, as a commodity. What, then, was value? From that time to the present—that is to say, for nearly thirty centuries—the vaults of the earth have echoed this question, but vouchsafed no reply. The priests of Egypt, if they knew the answer, preserved it among their numerous mysteries of statecraft, to be sold to tyrants, or employed in the service of the gods. The seers of Chaldea and Greece, who disclosed to the Western world the majestic movements of the heavenly bodies, failed to recognize the nature of value; or else kept it an unwritten secret, that it might not be employed in the subversion of civil liberty. "The function of money is the measure value," declared the school of Lycurgus; but neither the Spartan sages nor the great Stagyrite, who in a later age voiced their philosophical maxims, ever registered a definition of value. However, not to register a definition of value is not necessarily to be ignorant of its function. Though it has no record in the books of antiquity, it is evident that the nature of value was not unknown; for it is clearly implied in the use of nummulary systems. This monetary device and term was employed during some portions of the interval between the tenth and fifth centuries B.C., in the States of Ionia, Byzantium, Sparta, and Athens. The device consisted of a limited and publicly known number of counters, belonging to and issued by the State (commonly disks of purposely rotten sheet-iron or of bronze), having no value as pieces of metal, but possessing great and definite value as a public measure. Value or purchasing-power was conferred at the outset upon these counters by the law of the State, which gave them the names of coins previously in use; it endowed them with the function of legal tender for the payment of all debts, claims, purchases, and taxes; and it rendered these ordinances effective and permanent by limiting the issue of the counters and protecting them from being counterfeited. In a word, money became a public instrument owned and controlled by the State. From the employment of this device it is evident that the Lycurgan conception of value was that of an arithmetical relation. Each commodity or service was valued in the market at so-many counters, with the knowledge and certainty of what the latter would exchange for at a future time. This assurance was the result of limitation, and was derived from observed fact. Whatever the relation between the commodity or service sold and the other one purchased, it was arithmetical, and, being so, it was susceptible of exact expression by means of counters issued by the State, the total number of which was permanently limited and definitely known: these last being absolutely fundamental and essential conditions of the mechanism. The success of this device is attested by its longevity: it lasted for centuries. Not that it constituted a perfect measure of value, but the best that had yet been devised.

You see there we have a clear conception of what the money really is. It is very clearly expressed there. I have developed the mathematical concept to show you that in order to measure anything in the universe or on the earth, we have to have some system.

Mr. Murdoch: Seeing that value is subjective, how are you going to measure it?

Mr. Fitzherbert: I am going to show you that until spending-power is restored into the hands of the workers on an ascending scale you will not get any possible return of prosperity; you cannot do it. Money is really an arithmetical resistance; it becomes an effective resistance because it is a symbolized

barrier. If I go out into the street with £5 in my pocket, I would compute in my mind how much I was prepared to pay for an article and I would make a selection. I would make my selection or election of value against the money I held. If it were an individual thing, one might give an extravagant price for one thing, and a low price for another. You will find that what I do and what other people do with their symbols will average out in a mathematical ratio showing the exchange value of all goods. If you have a very inequitable system whereby one man has £100,000,000, he might give £1,000,000 for a diamond while other people could not buy anything. Then the equity of distribution would be entirely warped. It would throw the whole thing out of balance. When you realize the effects of usury, and that the present banking system is nothing more or less than a system of usury, the effect is appalling. Every bit of money is a representative in a symbolized system. If you allow these symbols to accumulate by usury in the hands of a number of people, if they hold these accumulations rigid in their hands, inasmuch as this rigidity in the system actually has the effect of immobilizing goods to the same extent, then, because the velocity of circulation is stopped, you get a distortion whereby reality and symbolism completely fail to coincide.

Dr. Sutch: Cut out saving?

Mr. Fitzherbert: Absolutely; cut out saving; it is not the purpose of money. Where you use symbols for the purpose of distributing, why give people symbols to put by.

Dr. Sutch: That is only if he hoards it?

Mr. Fitzherbert: If he lends it, you immediately start a little slave system.

Dr. Sutch: But the money is spent against some goods?

Mr. Fitzherbert: Yes, but a little slave system starts. The Bible has told us. It has completely condemned usury; it is a case of death according to the Jews in the Bible and it was a case of death in England. It was not until Henry VIII that the first statute was enacted that permitted, legalized usury.

Mr. Lye: Should not there be something for the use of the money, and against a payment for risk of lending?

Mr. Fitzherbert: One might think that, but if you believe in that, you will destroy any monetary system. I know that the whole of the world to-day is actually shot through with this pernicious idea of usury.

Mr. Lye: I take it that you do attach a great deal of value to the velocity of circulation, inasmuch as you do not agree with saving, but you want to see the expenditure of money which represents value. You are opposed to saving and want to keep up that necessary velocity of circulation?

Mr. Fitzherbert: The velocity of circulation is an intricate subject in its application but it is well understood. You have only got to think of it—the flow of money—the money circles in and out and round about to different places and at different speeds. Imagine twenty shops in a row and let us imagine for the sake of argument that there are all twenty people running these shops each with a different trade. All their commodities are done up in bundles of £1 each. A has £1; he buys from B, B from C, C from D, and so on. The whole circle is complete. Then A buys from C and so on. If you follow that idea round you will see that it is possible for one single note to accomplish the whole series of exchanges between those people in a single day, so that your one note circulation achieves the whole business by velocity. Velocity of circulation is really a question of habit, and like all habits they can be measured not singly, but in the same way as desire is measured—by general average over the whole business, and you will find that the variations in your velocities of circulation will have to be governed by the Board which governs your monetary system. If you have a system working you will find as a result of experience and observation that you will achieve a very much greater fairness than you can at the present time. What does capital amount to? Money saved and put away. It stands to reason that every time a man saves £1, he prevents a number of trading transactions from taking place.

Mr. Lye: What happens if he lends it to some one?

Mr. Fitzherbert: That unfortunate state commences which gives money commodity value and allows us to buy and sell money and usury starts. It is nonsensical. It will destroy any monetary system. As an example (in mentioning insurance companies I do not want to destroy insurance, I want it co-ordinated, brought into line), let us assume for the sake of argument insurance companies A to Z are working in New Zealand—life-insurance companies. Let us imagine that of the one million population in New Zealand, each one is spending £3 a year on life-insurance premiums. That means insurance companies are receiving a premium income of £3,000,000. It is habitual for insurance companies to lend money to the Government. They buy bonds. When the Government has got the £3,000,000, where are they to get the interest to pay the insurance companies? They can only get it from one place; they have to tax the people to pay the interest on their own money. It is ridiculous!

Mr. Langstone: They have been doing that for years.

Mr. Fitzherbert: Of course. I do not blame them, because the Governments of those days were not indulging in any social enterprise. It leads us into strange ground. If it is argued by some one who is prepared not to accept the point and he raises the point that he is really performing a valuable function for society, the answer is this: If that is so, the Government becomes the taxing-agents to supply the interest. The insurance companies, then, are really Government Departments; and it seems to me and, perhaps, to the public, that it is gross extravagance to have thirty-five insurance offices, with all the enormous staff, operating a Government Department; and, if the public knew it, what would they say? We know that in an age of plenty there is no reason to alarm people about it. And if we have to alter our banking and insurance system, there is no need to interfere with the livelihood of any person. We can pension off all the old men and let them enjoy their lives—that is what they are here for in this world, to live, not to die; but why allow them to stand and defile the monetary system? It reminds me that it is like pigs jumping into the milk and fouling the milk for their own babies.

Mr. Langstone: Do you mean that the people who invest money to get interest are doing that?

Mr. Fitzherbert: Yes, I do. My proposals, if I am ever allowed to make proposals, are that we should demobilize this frozen credit. And instead of that capital being allowed to enter the stream of circulation we would grant a definite annuity, give people the option to convert their capital holdings into annuities. If the sum is too small for that—take the case of a widow who has not enough to live on—we will have to make up a reasonable income for her. If you get back to the real truth and if the farmers appreciate exactly what it means, and if the workers appreciate it, it brings the whole of the farming costs and prices, and so on, into a proper balance, because all the usury charges will have disappeared—that is to say, that the manufacturers and the farmers are bearing the burdens of public services and non-producers, and are contributing in reality all the things that are necessary for society to live upon and to absorb the whole production as it appears annually. The difficulties are imaginary, because everything is being supplied by total production. It means simply that capital is direction; it is mainly direction, and let us take the case of the King going through the country. He says, "It is my job to keep these people employed, the more I can keep them employed—whether in making capital goods or making further production or only beautifying the country—the more I can do that, the more I am keeping my people employed, the greater is the upward movement of the whole country, and the greater is the internal and moral and physical wealth of my country." Surely that must be so, and from the moment that a man becomes unemployed he becomes a rebel if he cannot get food and clothing. I do not say he becomes a rebel immediately, but he becomes a potential rebel; and it is a bad thing, because you find that the most dangerous man in New Zealand to-day is the man who has lost something and finds himself in the streets. Men are talking of revolution in the streets to-day. Of course it is only talk, but you have to realize that the man has it in his heart; that is his feeling; he may not mean it, but it is in his mind. Of course, revolution would be the most unsound thing that could take place. The point is this: That there is no difficulty so far as a sound monetary system is concerned when we realize that the functions of money are so very simple. There are, of course, numerous regulations that have to be made; there might be hundreds of them, but let me quote Alexander Delmar once more, because if it had not been for him I would not have got such a clear conception of what is necessary. On page 38 of the introduction he says, "It will thus be seen that money, whatever it consisted of originally, grew in time to be a complex instrument of societary life—in short, an institution of law, designed to measure and determine value; and that its efficiency, precision, stability, and equitable operation depended largely, if not entirely, upon the strength, wisdom, and virtue of the government by whose laws it was created and regulated. Instead of the simple and easy subject which some modern economists have airily supposed it to be, its proper understanding involves, as has been shown elsewhere, the mastery of more than seventy separate legal institutes. These constitute what may be termed the grammar of money." There we have it. He says clearly that the greatest mark of sovereignty in the older world was the fact that the money carried the head of the Sovereign. You could identify sovereignty from the circulaton. Now, with reference to the banks, I want to prove to you how the banks are a false element, are really what you would call traitors; they are not, perhaps, traitors to-day; but they would be regarded as traitors in a sensible State. Here is the position: You will see at once that they were distributing symbols to implement the right to distribution—that is to say, that each individual person receives in his hand certain counters which he takes in an apportionment conceived by the equitable laws in control of the things produced by the country. It is perfectly clear that whoever has that in his hand at the moment is a creditor, and that distribution is debtor. He uses this, passing it on from hand to hand; and there should be, in an honest and sensible monetary system, only one creditor-debtor situation, and that is the individual with the credit in his hand and distribution as the debtor. We all know the history of how the banks started. They started off in England with the goldsmiths, who used to have gold for the business of their trade. What happened? They got into the habit of lending it to kings and princes and gamblers—and I do not identify the two—and merchants, and so on, and each goldsmith had a little credit circulation, a gold circulation, which he lent to these people. In order to protect their gold-supplies they had strong-rooms built. In course of time it became habitual for the people who had gold to deposit it with the goldsmiths and if a man who deposited gold and got a receipt for it went elsewhere or made a purchase of any kind it became customary for him to write an order on the goldsmith to deliver so many ounces of gold to the holder of the order. That was the birth of the idea of cheques.

The Chairman: That was when interest started?

Mr. Fitzherbert: Yes. It started in the reign of Henry VIII and it was amended in Queen Anne's reign; she brought it down from 10 per cent. to 5 per cent. In this period the goldsmiths got into the habit of receiving people's money on deposit and began to start to make book entries. Now, unfortunately for them or us, there started the germ of a pretty rotten business, because the goldsmiths, not satisfied with lending their own gold, found that the demand for actual gold was so small that it was safe to lend gold belonging to some of their clients, and it proved a very profitable business. Then they found that owing to the growing sense of security possessed by those people they were prepared to leave the whole thing to the goldsmiths and they grew into the habit of lending not only their own gold, but all their customers' gold as well, and credit for ten times as much as all that. We all know the history of the bank crashes in the early days and what happened. We must also realize this: That each individual bank was really appropiating within the kingdom rights which it had no right to hold. It was assuming sovereign rights. All these credit circuits gradually became companies and the companies gradually became associated into a monopoly. William Patterson was the first real banker in England, and he was appointed by William III, who granted him a charter; but that charter was due to the influence of the Cromwellian rebellion that broke up the power of royalty and vested the powers hitherto held by the sovereign in the banks; and the Church also was disrupted. The result is that to-day the whole control of money in England is in the hands of the bankers and the people who are to be found as associates of bankers. Just see what happened in the country. This is what happened, and this is the cause of the slump: Whatever any one else might have to say to the contrary, this is the real

cause: that during the war, instead of Parliament demanding that the whole cost of the war should be produced by the resources of the country, it called upon the banks for credit. Instead of calling upon the factories, this factory and that factory, and this landowner and that landowner, and all the people to come forward and give contributions to the service so that they could feed, clothe, and shelter the men and do the necessary things that had to be done—instead of doing that which it was their bounden duty in any patriotic State—what happened? The Government of the day saw fit to borrow credit from the banks, borrowed its own sovereignty to pay it out, with the result that it went into the hands of the ammunition makers and others. They issued bond upon bond, borrowing what should have been taken by taxation, with the result that during the war there was wound up a debt bill amounting to some £300,000,000 or £250,000,000.

Dr. Sutch: That was the note-issue; there was a much bigger debt than that?

Mr. Fitzherbert: Only £200,000,000 was in Treasury notes.

Dr. Sutch: I think it was much more than that?

Mr. Fitzherbert: Maybe, but I like to be conservative. What was the result? The men fought in the war and they came back, and to-day in England they are being taxed to pay bonuses to profiteers. They have to pay bonuses to the profiteers. The old-age pensioners have to give way to those people; the whole Empire has to give way to those who accumulated these enormous sums during the war. The British Government can never repay it, because, if they do it, they would have to tax Peter to pay Peter. They cannot get blood out of a stone. If they tax the amount from them and pay them back again the Crown and the people would be free and the profiteer would have the money, which shows the absurdity of the whole position, because all State borrowing comes to the same thing. It is not carrying out the necessary taxation at the proper time. It is merely deferring the evil day and allowing one person to escape taxation and putting it upon the backs of others. They were not satisfied with that, they went off the gold standard. This enormous debt was created, and, as a result of the fact that good wages were being circulated in England and the desire of individual people was being expressed, what happened? Up went the price of our butter and other produce in that day. But can you say that people in England are, to-day, getting a fair quota of butter, are able to wear woollen clothes? There must be millions of them who cannot wear woollen clothes and cannot eat New Zealand butter. It is our job to bring this forcibly home to the British Government when there is another Conference, and it should be made clear that the British Empire should face this honourably and straightly. Tell them that this thing did occur and they have to bring these men to their bearings. What is needed to-day is discipline in the high places; bring them into line. That is what I say, and we do not need any currency cranks at all. What we do need is King's money, properly administered. As far as Douglas Credit is concerned, I am a member of the Douglas Credit Association and I think it did and is doing wonderfully good work, because it is getting the people to think; but it is not sound; it cannot work because it is inflation. The Labour party had a very much better scheme; their scheme is sound, it is a good idea. It is practically the same as I have told you, there is very little variation, and, after all, why cannot we all get together instead of going apart. Surely all we need is to get together and let people understand it. We have to get together—I do not care who brings it in; in fact, the Labour party, strictly speaking, are entitled to get into power because they have fought a strong fight and they are a very well educated party. There is no doubt about that, but I would far sooner see the whole of the present Government get together in one body and say, "We will discipline this mob who have been asking us to discipline in the wrong direction. We will bring the power to bear on them." And I can tell you exactly where to start off.

Dr. Sutch: I believe that at a meeting in Wellington you were talking about that and people did not like it?

Mr. Fitzherbert: I cannot help that. I do not want to hurt any one's feelings but one must face the issue. I do not want to hurt anybody's feelings. After all, nobody can blame anybody, because we are all doing the same thing. I do not know whether I made myself quite clear upon the fact that the monetary system is a discipline. It acts in the same way as the steam against a boiler head, and this enables us by a price indicator to indicate the various relationships in arithmetical numbers. Once you have got the sequence of numbers running, if you allow your pressure to go down, your prices will drop, and you will drop down to a lower numerical series. If you start off at a certain pressure and maintain that numerical series, to bring your prices to a level which would restore equity, you must carry on the whole thing exactly and rightly to secure the proper and continuous relationship between the prices. You have the physical quantities of the amount of money needed in circulation. For instance, the circulation of money is very like the circulation of our trains and taxis and everything else taken together. It is perfectly clear that if you have a number of trucks and taxis running between two cities in order to carry all the produce you must have a certain number more of taxis and lorries if you double or quadruple the amount of the people and goods to be carried. The same thing applies to money because it, also, is a medium of exchange. It is also an instrument of equity. It is also a measuring system. Once it is in use, the money can be taxed in from the farmers and manufacturers, allowing the farmer and the manufacturer in the meantime the right to his incentive, while at the same time giving to the worker real payment for his services, and enabling the country to absorb the goods we produce. If you do not do this, you will find that you have surplus goods. If some person is left out of the economy it is simple enough for the Government to make that up to him. Supposing a man produces boots, and he makes boots which nobody wants; well, you are not going to let that man suffer for that. He is doing his job, and if they do not want the boots why should he be left out in the cold? It is quite simple, if people will only look at this thing, if they will get their minds on reality, and not on this false idea of money. If the people will get their minds clear of that, all our difficulties will be over. We should have a numerical system, and be absolutely independent of outside people at all. There will, of course, be exchange fluctuations. Reginald McKenna said — you all know what he said. He made it perfectly

clear, and I accept it. He said that if people could reconcile themselves to fluctuating exchanges there is no reason why you should not have a managed paper currency, which could be stabilized internally under a proper monetary system. If Great Britain does the same thing; if Canada and Australia and America do the same. What happens once you have got your imports into a proper political and economic position? Your exchange-rate will become stabilized also. You will have stability and a trustworthy nation to deal with, but so long as the country is divided into factions and so on you are hampered. Cannot you see this? They have the twist of usury in their minds, and therefore are confused. It will clarify the position to make them understand what exactly has happened. No doubt somebody will express himself better than I can. The whole thing will alter altogether. These wars will be over because it is clear that if each nation is starving its people, producing cheap goods and starving the people to sell those goods, who are they going to sell them to? That is starving the way to prosperity. You cannot do it. If you bring down the standard of individual nations, then how on earth are you going to sell more goods to them? How is the world as a whole going to sell more goods? Once the Governments of the world recognize this and see that they have got to absorb production among their own people, why, you will find that an international recovery will not be very far off, but will very easily come about. We in New Zealand have the first opportunity, and why cannot we do it? Let us do it straight away. Let us make up our minds to be the first in the world to recover and to lead the way. It can be done, and it can be done in this way. It is simple enough for the Government to issue a few million notes. It will bring up prices, unless you demobilize bank credits and other frozen credit for the time being. My reading of the thing is that in the monetary system of to-day there is no hope. In America Roosevelt has spent an additional 5,000,000,000 dollars of borrowed money. Supposing only 1 per cent. interest upon that 5,000,000,000 dollars had to be imposed in taxation on the people—there is no solution to that problem. It is only leading the whole country down to the dogs. Whether he is doing it to make a *reductio ad absurdum* I do not know. He had also gone off the gold standard. Now, he is on again. He has reduced the gold content of the dollar by 40 per cent. Roosevelt, as a splendid gesture, maybe, has reduced war debts by 40 per cent. by returning to the gold standard. That is what it means, because England has the gold and she can buy American dollars at 40 per cent. less.

Mr. Langstone: But the rate of exchange between America and Great Britain is almost par?

Mr. Fitzherbert: Well, let me say this, that, strictly speaking, no country in the world has ever been on a gold basis, and that the gold standard is one of the most ridiculous things that the mind of man has ever conceived. If 40 tons of gold were capable of buying the whole world, then 1 ton of gold would buy one-fortieth, and so on. That is obvious. It is perfectly clear that the purchasing-power of gold depends entirely not upon the gold that is in circulation, but on all money. It may be pointed out that the purchasing-power of any unit of currency at any particular moment is one fraction of totality. Well, I could go on for ever. I think I have put to you as clearly as a man may the views of my brother. I claim nothing at all. I have just followed him along, and have applied his views as far as I could. I think Dr. Sutch has followed me clearly. I think if you explain to the people that they are face to face with a change, and that they are not going to lose anything, that you will find a change in our system practicable. Let me say this, that if there is not a change I do know what is going to happen. I say there will be revolutions all over the world. Look at the revolutions that are taking place. Every country is in a terrible state. Although Great Britain has recovered for the moment, it is only a partial recovery, and you can see how and why at once. She has built 650 new factories. This has resulted in the expenditure of a very large sum of money, and the momentary circulation that has taken place will, of course, increase the purchasing-power of the people temporarily; but as soon as it goes back to the hands of the plutocrat, things will be as bad again. We start a spending scheme, and the plutocrat will get it back again. Then we will be taxed out of existence and prices will fall, until the very worst happens and England is wrecked, the Empire is wrecked, the Japanese are in, and we are kicked out.

Mr. Fitzherbert: I have an economist here, I have not yet disclosed his name, in connection with Condillac, and it is rather interesting to follow this out exactly. You see, it is contended by certain economists that the value of the thing is due to labour content.

Dr. Sutch.] Your brother says that sometimes, does he not?—No. He places it in its right position. That is part of his discovery. "Now that we have seen that the value of commodities is constituted solely by the human-labour content of them, let us return to how it is possible for the manufacturer to obtain his commodities." Now that is perfectly clear, that the ideology behind that man's mind is that the human-labour content in the commodity is that which determines the value, in other words, that we have a commodity, an objective valuation. Now, it is contended by the school of thought that I represent that it is a subjective valuation, rather, that value is satisfaction of desire, in connection of course, in that special connection with the trading of goods.

That is what the ordinary economist would call utility, is it not?—No, it is not. But the point is that the labour element does enter into the matter. It is not the labour element of the goods produced, but the labour element of the person who has got the money. That is the true equation, that desire is equated with the effort of the buyer and not the effort of the seller, because when a man has, we will say, £4 in his hands, that represents a certain purchasing-power. That is the correct meaning of the word, purchasing-power, by the way, not that as generally used for spending-power. Purchasing-power is expressed in these tokens or symbols. Now, when a man is estimating what he wants, he does so in terms of his capacity to express the purchasing-power of his own labour. That is the determining point of value, not the other way. You see what I mean?

Yes, I see?—And there is another most important fact.

A subjective one ?—That is fundamental. Now, this economist states definitely to the very opposite. Then in criticizing Condillac, what he says is this, and it is interesting to note that Condillac first of all says, " Each of the two contracting parties invariably gives a smaller value for a greater one. If, as a matter of fact, equal values are always exchanged, neither of the contracting parties will earn a profit." Now Condillac was there discussing the direct exchange of two goods, and I have shown you by this equation where I use the estimated value in connection with desire, that each one does make a profit, and that is a true equation.

You have the true equation, but the value to the individual is greater, surely, than the pound he gives for it ?—I am coming to that. I just want you to follow this man's argument. He says, " We wish to give away a thing which is useless for us in order to obtain something necessary—in other words, we wish to give less in order to obtain more." Now, that is where he stops. That is a quotation from Condillac. Now, Marx says this : " It is truly a singular example of mathematical reasoning." That is to say, he discards the arithmetic of Condillac, which is true, and goes on as follows : " When two persons exchange something, does each give the other more than he receives ? That would imply that if I buy a coat from the tailor for a pound, the coat in question is worth less than the pound as long as it remains in the hands of the tailor, but its value rises to a pound when I take possession of it." That is his argument. In the first place, I do not consider it an honest argument at all, because it completely misses the truth. But, obviously, what he should have visualized is that the pound was only a medium of exchange at that particular moment, and that when he received the pound, he was weighing in his mind's eye, " What can I buy with this pound when I have got it." And he will get the thing he desires with the pound-note, so that the true equation emerges. If I should make a machine, let us say, to illustrate the effect that takes place with the exchange it would be a sort of double shuffling. One kind of goods goes one way and another type of goods goes another way in accordance with the desire. It would be a simple piece of mechanism. A double shuffle and each man gets his goods. For instance, you take how we can absolutely destroy the idea that the labour content determines the value.

That can be destroyed quite easily ?—Well, let me give you one example : It is absolutely destructible. It is completely fallacious. The labour content is not the person who is expressing the desire. It is his effort that he is measuring, nobody else's. Let us take the straight-out human equation. If I want to get an apple in a state of nature what do I do ? I go out and pick that apple. That is, my labour obtains the thing I want. It is very unpleasant to have our economic ideas knocked silly.

The point is that where this applies in the state of nature you have the apple uncultivated. Mr. Langstone's point is this : That you would have to have cultivation to bring that apple to the state where you desire it ?—The thing is determined by overcoming my desire, and if I do not want the thing, well you cannot sell it, and therefore the value does not exist.

You mean if a man digs a hole that nobody wants it is worth nothing ?—Nothing. The example I was going to give you is this : You take a postage-stamp.

Mr. J. N. Massey.] What about those boots you spoke of this afternoon ?—Let me follow the point as I want it myself, and then I am quite ready to stand all the bombardment you can make. The point is this : You take a postage-stamp. There is a postage-stamp of Mauritius that is worth £5,000. What is the labour content of that postage-stamp ? Nothing. It is a cancelled stamp. That is one example. The determining factor is the desire of the collector to have it, surely. Again, take motor cars. You get a motor-car and a man pays for it. It is the desire of the man to have that motor-car that determines the value, and if the motor-car becomes second-hand, what immediately happens ? Deterioration, of course, because the prospective vendor would not buy, as a rule, a second-hand motor-car, when he wants a new one. It deteriorates immediately in value as the desire content alters. So that desire is the determining factor. You can go on talking till the cows come home, but you will never alter that fact. It is the most important thing in the economic equation. That is really the farmers' idea, that the labour content determines the value. That is the farmers' idea and it is also Labour's idea. That is the conflict that is being caused by Marx. It seems to me that he has deliberately held up that kink for the purpose of keeping the conflict going between capital and labour.

Dr. Sutch.] I think it was genuine on his part ?—Do you think so ? Well, I do not know about that. I have the gravest doubts about it. I may say that on reading through Marx, a man supposed to be of profound knowledge, it is a most extraordinary thing that he should accept the gold standard, that he should accept gold as a measure, as a reliable measure, when the whole of the phenomena, which was observable by any intelligent person, went to show that whatever money you had in circulation, the purchasing-power of the unit was determined absolutely and finally by the amount of money that was in circulation. You cannot get away from that. So that we see that so far as monetary circulation is concerned, the system loses entirely its value of measurement unless it is kept as nearly as may be running along the same series of price-levels. The very moment you let it flag you must descend to a lower sequence. It might not matter so much if there were not any debts or that a change took place overnight so that nobody was affected by it, but the trouble is, of course, that debts intervene.

And other fixed charges ?—Yes ; other fixed charges—fixed charges and so on. I just wanted to make that clear, because it seems to me such a vitally important factor, and it accounts for where we are to-day with our minds completely twisted and this economic distortion which has occurred. Once you get over that and realize the importance of the absoluteness of government that has to be. It has to control everybody within the jurisdiction, then we will emerge into a condition of society when evolution will be allowed to take place. At the present time it is completely short-circuited and if we were to follow Marx's idea what would happen ? He sees an irreconcilable conflict. That is absolute folly, because the natural law is that no two forces are irreconcilable. There is no such thing. All forces are compelled into reconciliation, although it may be a long time in some cases and a short time in others. So that if we were to follow out

Marx's idea, tip out the present gods, put in the others, what would you get? The same process going on, and instead of making any way at all you would spin round like a top getting nowhere at all. If you had the Marxian principle—that is, the proletariat coming to the top—what would happen? It is as certain as the day is long that exactly the same thing would occur. You would get the same development, and the people who are rejected from their social form would gradually come to the bottom and you would have the whole thing spinning over like that, only it would be a dreadfully slow process. How much better, therefore, is it to recognize the position, recognize that labour has got to be recognized as an honourable partner instead of a slave.

I am just wondering how you are going to bring this about. You have your supreme authority which says how distribution of goods is to be effected?—It determines, first of all, the irreducible wage. For instance, if I was Prime Minister, which I hope I never am, I have no political ambitions whatever.

My point is this: You have your supreme authority. You are going to have distribution. You get to the stage of saying you would have a minimum wage-level?—You would have a minimum wage-level and it would be a good level probably. Every worker in New Zealand would be started off with £7 a week—that is to say, an able-bodied labourer would get £7 a week. Now, everybody else's income, as a result of the restoration of desire in New Zealand, and the capacity for development taking place, would go ahead. You would find that the farmers would go ahead like wildfire, the manufacturers would go ahead like wildfire, because as long as the present condition exists in regard to overseas trade and we take the right attitude of blocking British goods from coming in, so as not to create a condition where we have to borrow more money. I am not going to say to block them altogether; not at all. We have to pay our debts, and as soon as they recognize that this £10,000,000 usury interest payment is an absolute barrier to our own industry, so much the better it will be for them, but until that condition is altered we are face to face with economic nationalism here, and we should have undertaken it right from the very commencement. You will find a great stimulation of internal trade, and owing to the conditions that are being set up—that is to say, complete old-age pensions on a very much more liberal scale than we have at the present time—and the provision of national pensions and so on—you would attract to New Zealand enormous streams; in fact, the difficulty would be to keep the people out, particularly if you said that after a man had been in New Zealand for a year he would be entitled to all benefits. They would come streaming in. Every person who came into New Zealand, instead of bringing money or anything of that sort, would be asked to buy in London one of our overseas bonds. He would bring it over. It would be cancelled immediately, and he would be provided with the equivalent currency, and you would thus get a gradual cancellation of our British debt. The same thing would apply to any tourist coming in. Any tourist coming in would be compelled to bring a bond or two bonds or ten bonds and they would be converted into New Zealand money, and in that way we would gradually get rid of our overseas debt, and it is a practicable scheme.

Farmers' costs would not bear interest any more?—No interest at all.

How would you wipe out the mortgage?—Wiping out the mortgage can be done in this way, that you purge your Land Transfer title of mortgages by discharging them; all the mortgages would have to be filed in the Supreme Court.

What about the mortgagee?—The mortgagee would be paid by the State. He would get a pension or an annuity.

But he would not get the capital value?—Not unless the developments permitted it, you would have to demobilize it in some way, because if you were to pay him in cash you would have an enormous inflation.

Yes, £200,000,000 worth?—£200,000,000 worth of money in circulation, and a rise in prices, and he would not get the benefit of what he has saved.

So he would be really better off, would he not?—Of course. He would be secure. This proposal is to bring security to every single person in New Zealand. A security that they have never had in their lives. The fear of want, the spectre of poverty, we want to get rid of them.

But the farmers' costs would still be labour costs. There would be £7 a week there?—There would be £7 a week, but he could pay it. Just consider and think. He could pay it because his greatest fear to-day, his interest, would be gone. He would only have to pay £1 5s. to £1 10s. a week to the boy who was learning. He would not have to employ a fully fledged worker. It necessitates a considerable amount of planning. New productive consumption would only be necessary when you wanted to increase your food-supplies or increase the standard of life for the rest of the community. We must indulge more in unproductive consumption.

By unproductive consumption, you mean public works?—Yes, and more. In order to get the thing going you could immediately start all your public works going as fast as you can.

Captain Rushworth.] Would not the old-age pension be a better example of unproductive consumption?—Yes. It is a very good example.

I just wanted a definition of it?—You see, the Prince of Wales' statement completely bears out what America has discovered and what every intelligent man knows. There is no question about that. We can go on producing more and more, and after the things have been produced, surely the people who produced them ought to be able to enjoy them.

I am just wondering to what extent you are going to have economic planning. We have a conflict here between the ideas of Bentham, who said that the greatest good for the greatest number would probably emerge from the system of the ninteenth century of competition. You would plan everything?—Of course, as far as planning is concerned, I believe a great deal more can be done by private ventures, but you have got to consider this, that under the present capitalistic system there is an enormous restraint. The State should exercise a restraint, but it would not be anything like as great as the

restraint in regard to capitalism. The State is not concerned about the profit it is going to make, because the State realizes that immediately any improvement is made the profit is there.

Do you think the abolition of interest would be the factor that would keep out foreign competition in our manufactures ?—As far as we are concerned, I take it that we would not be bothered very much with manufacturing overseas.

But I mean overseas manufactures flooding our markets ?—They would not be allowed. We would have a trade which would balance our overseas trade. Let me put this as a little idea which might be useful : It is one I have used in explaining this to others and they seem to enjoy it. Imagine that New Zealand was a ship instead of an island, and was travelling round the world, and let us assume that she was able to produce butter and bread. It goes to San Francisco, anchors there. The purser goes ashore and makes an estimate of what is required for the ship and finds what he can get for his butter. Say, butter at 5s. a pound. He sells it to the Americans, spends the American money in American goods, and brings that on board the ship. Very well. It goes to China, the purser goes ashore and makes the same estimate and finds that in order to get the same quantity for the same value of goods as in America, he can sell his butter for 6d. a pound. He does so. There is no difficulty about that. Of course, the people of New Zealand get exactly the same amount in each instance.

You would have a board that would control external trade ?—Exactly. You will have to have it, I think. It is certain that we will have to have it.

You do not think it would simplify conditions as we have them ?—I visualize a totally different condition.

But if you have got a board which says, " This must be done and this must not," the tendency is to take the sitution you have got and say, " This is going on all right," but say somebody decides, as one of our schemers did the other day, that we wanted a plan put in practice in Southland ?—Of course, I cannot possibly attack the state of mind of any man. It would tend to become bureaucratic no doubt, but we have always got a remedy for those things—that is to say, by turning over your staff a little bit more so they do not get into ruts. For instance, you take a policeman who has been in a district too long. He becomes too complacent. What do you do with him ? You shift him.

And I suppose you would have liked the Douglas Credit people to do vocational training ?—I believe in that.

And you would have to have it in connection with your national planning ?—Absolutely. First of all, what I think is one of the most vitally important things is to have all our children educated with some co-ordinated ideas about what the future is going to be for them. At present the education in this country is not carrying out common-sense ideas. It is disjointed. It always has been. That is one thing, we could have our schools, our education system tremendously developed.

Dr. Sutch.] They would all be there ?—Yes. And look at the difference, if you had people coming to maturity to be governors of this country in time having co-ordinated ideas—a comprehensive view—why the very whole vision would be different. It is the early training that counts. For instance, if a man is born a Roman Catholic he usually remains one.

That is, if he remains in the Church ?—Yes, if he remains in the Church. But take the case of infant children being suckled in India by a wolf. There are instances of that. Some of them have never learned to walk upright. They come absolutely down to the environment.

That brings me to this question which always arises. I want to be an architect and you want me to be a lawyer. Who is going to do the choosing ?—There, again, you have to exercise a certain amount of stimulation upon the individual child.

They are managing it in Russia fairly well ?—I have just finished reading Maurice Hindus's " Humanity uprooted," but I think the Russian experiment is likely to succeed up to a point. As to how far it is going to succeed after they are producing more than they want, is a matter for the future.

Do you think they are finding their economy on the labour theory of value ?—I have tried very hard to find out, and I have not yet been able to find out the truth. Major Pharazyn is a personal friend of mine, and I have had discussions with him, and he is very reluctant to say anything about the monetary system, and he has not been able to tell me their ideas.

As you know, I was in Moscow recently and they were charging piece-rates for wages. A man would be paid according to the number of bricks that he laid or even the number of nails he knocked in. Much more piece-rates than we have in New Zealand, and the monetary system was the issue of credit against production estimated costs. Some of those were very similar to ours to-day ?—Yes. But, of course, you get the personal incentive, and, after all, incentive is the thing you have got to maintain.

So these people were being paid wages according to the amount they worked. If they worked harder they got higher wages. You take it then, that this was a labour theory ?—That agrees entirely with the human equation. Take another equation. Supposing ten men start out to climb a mountain for the purpose of observing the view or an early sunrise. Two or three go to the top, the others would stop half-way down. They all want to do the same thing, but they have not got the energy. They are satisfied with the lower altitude.

Captain Rushworth.] Would that fit in with your idea ?—Yes. I think that provided there is protection given against people becoming social pariahs—for instance, like they are in America, born outside the pale of any possibility of ever being able to earn a living, cast into the streets to scratch where they can. They must turn against society, they must be wolves outside the gates, and what happens then ? Just exactly what has happened in America.

Dr. Sutch.] So your system will pay wages which are not necessarily based on human effort, but on something which is equitable to your mind, and by this means you would get the best application of human desires for the goods which you consume. The Russian system varied somewhat : they pay the wages, but their consumable goods are forcibly lowered in price so that costs are not necessarily covered ?—One has to bear in mind all the time the measure—the economic measure—the money

Personally I am of opinion that if carpenters, we will say, are not wanted at the moment, they have to be paid full time off duty, but the moment they are needed they will have to work, and they will do that. Why not? Every person will be paid full wages—you must do that.

You mentioned that your brother's plan could be tried in heaven; what was your meaning?—My brother's plan is based upon a much greater idea of equity than I can ever conceive being practicable at present.

You would have to change human nature somewhat?—As far as the system I am suggesting, it can never be a perfect measure in mechanism. My brother has conceived a perfect measure. Mine can never be perfect, but it allows people to get a certain distance. It is like being in control of a team of restive horses. As far as the farmer is concerned he has only really to get rid of usury. The idea is just the same in regard to a business man; if he has built up a good business he has got to realize he has to give his employees a very much bigger share than in the past. In so doing he will actually do better for himself.

Your mention of usury brings me back to Soviet Russia; they have planning, but they have usury?—That is what I cannot understand.

They found it was necessary; they had a certain amount of credit issued and not many consumable goods, men with roubles in their pockets and no goods to buy. The Government could have issued more credit, but there was credit floating about already. Instead of doing that, they tried to get in as much of their spare cash and offered the workers rates of interest?—That does not matter so much as far as the Government is concerned. They have the supreme power and can always tax back anything superfluous.

I recognize the system is different, but there they had to charge interest?—The State to charge interest seems to be rather a disguised method of taking taxation.

They were paying interest to the lenders?—For the time being; but, if that is so, they were really giving them an increase in wages.

You object to that?—Yes; in that particular way.

But if they did not pay that interest, they could not get the money in?—They were not exercising their power. They have the power to take everything they need—that is government. There should be no one in any State at all in the position of saying, "What I hold is beyond the power of Government."

Not *imperium in imperio?*—No.

I am just wondering whether you mean that your balance always coincides with what some people would call "the higher ethical good"?—The balance means two things: material balance and wha you would call spiritual balance, for lack of a better word. One can conceive of a time when the material requirements of man may sag tremendously, when you will not want so many things.

There are questions that some people seem to be interested in and value very highly: individual freedom and the power of choice and initiative. These things are what some people call the higher good; they would be cramped considerably under your scheme?—No; they would have very much more freedom, but people have got to be educated to realize that the association of human beings in society implies obligations as well as freedoms. The two have got to be balanced, and if you bring your children up well and properly taught, you will get a very much more intelligent community.

You are planning to give greater freedom?—Greater freedom in the duty of every man to his neighbour. It gives them a much freer run than they have at present.

The present economic system does cramp?—What incentive have the farmers got; the unemployed? What incentive have I got?

Mr. J. N. Massey.] I was very interested in your explanation about the postage-stamp and the value and desire, and what creates the value and desire. I put in an interjection about potatoes. During the discussion this afternoon you mentioned certain values that are not wanted by the community. I just want you to explain to me how you would value those potatoes?—I suggest the State should buy whatever is left over and if there is no other use for them, dump them in the sea or use them as manure. Surely you will do what you do with everything else, as you do in your own garden. Give them away or if there is anything left, throw them to the pigs. But if a person is economically left out because he has not got a market for his stuff, he ought to still retain his dignity and honour as a worker; he is not a serf.

You also raised the question of mortgages on land; you intend to wipe out all the mortgages?—We want to make New Zealand as clean and free as England was before the crooks got in. In William the Conqueror's time and for a long time afterwards, what a terrific fight there was to get a mortgage recognized at all, and from the moment that the introduction of mortgages was allowed in England, the deterioration set in. From the time of Queen Elizabeth when Sir Francis Drake and Sir Walter Raleigh were licensed pirates, called privateers, when Queen Elizabeth participated in the profits of their desperate ventures, she set England on a cross. Not the whole of England—there are two Englands; one the real England and the other a portion of London. In London exists a huge plutocracy who are just as merciless—well I know them! And those are the people who are the rebels and have got to be brought in; they are the ones who create war. They are just the same here, but on a smaller scale. I call them crooks—nothing else. Who and what are they, any way?

Would there be any taxation on land?—Why, of course. The principal source of taxation. We are implementing the law of distribution. Suppose there were no monetary system at all. The farming community has a great number of people producing within the farms. The farmer is the father of the people. He feeds the people. The people make things. Things have got to be exchanged; it is really quite simple if you cut money out of your mind and realize that what you make money do is to carry out the purpose for which it was intended—to distribute the things which people make.

The single tax?—The taxation must always fall on the farmer and manufacturer. All these manipulations are disguises whereby one class is taxed more than another, but the producers pay, because they get no adequate return.

What form of tenure would you have for the occupier of land?—A freehold, provided it is recognized that all freehold is subject to the will of the sovereign authority, but the sovereign authority in New Zealand would be one that was the spiritual (I am not talking religiously) representative of Great Britain, and if he is the representative of the whole of the people he has the right to do as he likes for the benefit of the people. If it is necessary to take a piece of land, he takes it.

And would you put all land under the same tenure?—Yes, absolutely. There would be no rents, but annual taxation.

How would you tax them?—I would tax them just as you do to-day. You first of all estimate the return of potential goods, an estimate of what goods are likely to be produced. You would then tax in from the farmers and manufacturers sufficient money to meet the whole of the obligations for the following year. What would happen? As soon as every one is paid and everything is bought, manufacturers and farmers, instead of having goods, would have all the money. They must have; all the money would be there. A proper proportion of it is taxed back again. All surplus stuff goes overseas to do the very best we can. It is all right. So long as we have a debt, it is a matter of vital importance. But if there is not, what does it matter provided every man in New Zealand has got his energies employed in doing something, producing enough; perhaps too much; because we are exporting. What happens to it? Dumped in the sea, in some places.

Would you arrange for seasonal credit for the farming community?—If a farmer wanted a fence, he would simply come into the State bank and get it; provided you are trustworthy, you get a fence as a matter of course or anything else that improved the national wealth.

Would the State bank be able to provide better facilities than the ordinary commercial bank?—The ordinary commercial bank is a debtor system and is a hopeless thing. I go into a debtor bank—it has nothing it can ever give; it has no credit; it cannot possibly honour any obligations it undertakes. For this reason: I go into a banker and say, "I have a valuable security; I will give it to you because I want something." The banker says he will lend you some money, say, £1,000; it is assumed that the banks have £1,000 available to be lent. Let us think for the moment that the only amount it can lend is £1,000. They lend that sum. The borrower spends that £1,000 immediately. It goes back into the same bank and lines up alongside creditor A, there you get creditor B. The bank has £2,000 and a debtor. The shareholders draw a dividend for something that does not exist. The next man comes into the bank, borrows £1,000, spends it immediately. It lines up at the bank as creditor C. Another nice lot for the shareholders of the bank who have done nothing. The process goes on and on, the money is circulated in that way. In the true money system there is only one creditor and one debtor. The banks try to usurp the whole functions of Government and they do it in that way. What happens; what do they have to do when circumstances occur when they are likely to be called to book? They go to the Government and get the Government to pass an Act making their notes legal tender. Their notes are really dishonoured. They resume the true equation, they allow the pound-note to circulate round, and the people who expected to get something from the banks cannot get it, and they have to take their share of distribution instead. Every £1 note in circulation in New Zealand is a forgery, a dishonoured contract in every sense of the word. Great Britain talks of being "pushed off the gold standard." She had to save her face! America got off the gold standard. It is etiquette to get pushed off, but not to get off.

Would you make an interest charge for seasonal credit?—No, certainly not. Why give countenance to usury in any shape or form.

How would you collect money for revenue?—By taxation. Keeping in mind the produce of the country flowing into the hands of the people and the people being directed by a wise Government to do this and that, keeping them busy, carrying the whole people on an upward movement instead of this present system we have, up for a while and then down, and all the time the rich are getting richer and the poor are getting poorer. I want you to realize that this is absolutely the truth.

Then you would carry on your present system of income-tax?—No; not unless it were necessary. The whole of the taxation will fall upon the manufacturers and farmers because you have to implement a principle. Money is a transfer of goods from one class of the community to the other. That is all you have to do, and you have to tax it from the farmer and manufacturers sufficient to feed the people and give them a reasonable standard of living.

Have you formed any idea of the amount of money you would have to collect from land in the course of one year?—If you could visualize exactly what would happen; if you did away entirely with usury, you would realize at once that your ideas of prices and values would undergo a revolution. It would be impossible for me to give you any figures in estimate. The whole world is at present in a shocking state of distorted values.

One witness who appeared in front of the Committee put forward a scheme whereby he would collect £30,000,000 per annum from the land?—It does not matter whether it is £30,000,000 or not. There is a great difficulty to start with in detaching oneself from one's preconceived idea of money. It is a vehicle of exchange; all that is taken from you is to feed and provide a standard of life for a great number of men to make things or do things for you. Your objective will be to get fewer Civil servants doing nothing and more people making things, to build up secondary industries as far as you can. It is quite simple if you think it out.

This witness put forward the idea that you take over the whole of the assets of New Zealand on the 1928 valuation?—As far as valuations are concerned, I must say it is impossible for me to put myself back again in the old system. I have got into a new way of thinking of the original term of money. I cannot conceive of the position you suggest. The property belongs to a man for life. Are you visualizing shops or farms or what are you thinking of?

He put forward the idea that he would take over the whole of the New Zealand assets on the 1928 valuation?—Who will?

The State will ?—It is very difficult for me to follow what you mean. There would be recasting of values altogether. It would not injure any one ; it would do them all the good in the world.

Captain Rushworth.] I gather that you think that the manufacture and issue of money is a sovereign attribute and should be exercised by the State ?—Money is inseparable from sovereignty. It is the most fundamental function of the country.

You have made it quite clear that you regard it as wrong for a private corporation to have that function ?—Yes, of course. You would not dream of letting a private person run the army.

That is the case to-day here ?—Yes, of course it is. Under my proposals the State would manufacture and issue the money as it is needed.

How ?—Issue it in any way, by circulation at any particular point of the economic circuit that it liked.

Supposing the Government were carrying out public works ; would they use that money to pay the amount ?—Yes, certainly. To pay Civil servants and restore all cuts.

The Government would not obtain that money by loan ; they would manufacture and use it as they required ?—They would be exercising the sovereign function of providing the necessary exchange.

That money, except for taxation, would be in permanent circulation ?—Absolutely ; kept circulating by reason of taxation.

If we eliminate the question of taxation for the moment, that money is in permanent circulation ?—Yes.

What is the limit of the amount of money that the State would issue ?—There would be no limit once you get into the condition of not having any debts at all. It would not matter 2d. whether you issued £20,000,000 to start with or whether you issued just enough. But once you start it would be better to keep a steady variation with your production and your population.

You would equate consumption and production ?—Exactly. You would equate it all the time.

The limit of the amount of money would be the productive capacity plus desire or multiplied by desire ?—No. If you just visualize the fact that exchange value is not altered by any rise or fall in currency at all.

Quite so, but the question of the limit is important. I thought you rather suggested that our monetary system should be based purely on desire, but surely there is another factor ?—I did not say that.

That was the impression which you gave. That was why I asked the question, because I knew you did not mean that ?—The idea of money being convertible into something definite has always seemed to come from people who do not understand what money is.

I take it that your idea really is that there must be a certain amount of production and that production must be desired, needed ?—Well, that is not quite the way to put it. You have not realized that we must not presuppose a condition that will never exist. If there are two million people in New Zealand and there was only a limited amount of production to distribute you would have, we will say, £4,000,000 in circulation ; we will call them pounds for the sake of argument, but the word "pounds" has no meaning whatever.

The only question is the two factors of production and need or desire. You indicated that. Surely all value depends on desire ?—Yes.

But it must also depend on production as well ?—Yes, of course it does.

That is what I mean, there are two factors ?—Two factors, desire and production. Desire makes the production.

That forms the limit of your monetary supply ?—That forms the equation that you have to implement with money.

That is really your answer to the accusation that your proposals are inflationary and unsound ?—Nothing whatever to do with inflation. It is the very opposite. When we suggest implementing a system that depends solely upon rigid regulation, the term inflation is ridiculous.

Mr. Langstone.] I just want to revert to the remark passed by Dr. Sutch about men in Russia whom he met having roubles in their pockets, but there was nothing to buy. The point was that the money was issued and paid in wages to get people to buy goods, so that these men were misers, and would not spend their money. Our country would not stand for that ?—No, of course.

If they issue money and there are no goods to buy with it, it is no good issuing it. If they have the right of issue and then issue money that is not necessary and then borrow it back and pay 7 per cent. and 10 per cent. interest on it, it does not seem a sound system of finance ?—No. Personally, I have felt all along that there was some weakness in the Russian philosophy in regard to money and their conception of money. They may get over that, but it seems to me that the main purpose of money is to implement distribution. It is the Marxian influence probably.

Eradicating scarcity, such as picking up ambergris or something of that sort, and getting on to the ordinary common relationship between man and man, in regard to the question of the boots mentioned by Mr. Massey, if they produced the boots and they were not wanted would you still pay for them ?—Only this way, that the State insures that man against his economic loss.

Your desire would not come into it there ?—Yes, because the man who gets paid has a desire that he wants satisfied.

He is the seller, he is not the buyer ?—Yes.

You said the value of a thing was expressed in desire. If a man wants to buy he has a desire for boots, but if there is no desire for boots, then there would be no value according to the theory ?—It is not a question of theory. I am not even discussing a theory. That is an economic truth that value does arise from the expression of human desire and nothing else, except that there are occasions where the responsibilities of the vendor to sell create a tension which has to be overcome.

What makes the difference ? Values are expressed in price, I presume, between the various values or prices of different things. Take the table you are sitting at and the glass on the table, what makes

the difference in the value of those ? Desire ?—Certainly. What is the good of building tables unless you can sell them.

We admit that. We are taking that as an accepted fact, that things will not be produced unless there is an ordinary demand for them. What makes the difference in the value between the glass and the table ?—I am looking at the thing from what you call bidding trade. In an absolute auction all the time, you would really get it down to bedrock of values, would you not, because the people would have their money and they would bid to get the things they want and in time you would establish a price-level.

But before it goes on to the market there is a certain determining factor. There has been more human energy socially necessary crystallized in the manufacture of the table than in the manufacture of the glass ?—Supposing you have made something you can hold, and hold away from me. An umbrella, for instance. You are a manufacturer, you hold that out to me and I get hold of it. When it comes to the point that you are satisfied to let go of that umbrella, I get it. My desire is a stronger desire than yours and your desire is influenced by the amount of labour you have spent on it. That value is the measure of my desire. Supposing I do not buy your umbrella, then you go along to another man and the same thing goes on and you still hold on to it and the other man lets it go. You might go on for ever like that.

But there is a law compelling a man to receive a certain price ?—There is no such law. The human desire of the purchaser is the factor which determines the value of the thing against the seller's resistance.

The method of buying and selling to-day is buying cheap and selling dear ?—I think it is buying as cheap as you can and selling at the highest possible price.

The desire is to buy cheap and sell dear ?—Yes.

Then if some one is buying cheap and selling dear, some one else is buying dear and selling cheap ?—I suppose so.

Then you come to a deadlock ?—I do not see that.

If a man buys cheap and sells dear, then there comes a period when the man who is buying dear and selling cheap cannot buy at all ?—That is so.

On the question of the money, I think I can get what you mean. It is issued from the State and it is circulated amongst the citizens. It transfers value in the main from one to the other of that amount of goods and services ?—Yes.

The State is the adjuster in the thing. They desire to get back from the community the quota to carry on State business and enterprise and every one of those units of money that they receive back is so much of real definite value contributed by the people of the State to the Government as a Government to carry out things for the people, so that in the form of taxation they get it back again ?—That is do.

It does not ever retire from circulation ; it is recirculated in other things ?—That is so. You make this distinction—and I am putting this proposal tentatively—that in cases of new capital goods it will be necessary for the Government to issue new money, because you are getting something new into the market and people have to be provided with the means of purchasing them, whereas if you are doing work which is really a public improvement you would have to tax them to supply the money to do it.

It serves a two-fold purpose ?—Yes.

It tells the State exactly how much money it has in circulation and it also adjusts between the citizens of the State the amount of tokens of money they are entitled to have from time to time ?—Yes.

I suppose you agree with Kitson when he says values are ideal and can only be expressed in price ?—There is no other possible way to express them.

Even in the expression of them, whatever it may be, numbers in a book, it has its physical counterpart amongst the people ?—Yes.

So that, although the value, for account-keeping purposes, is kept in numbers, that is only one phase ?—Quite.

Boots are physical, butter is physical, services are in a sense physical other than that we cannot get hold of them ; we know that they are there. It has its physical counterpart outside ?—Yes.

The expression of them is in numbers but the real actuality, the real vitality of them, is in physical things outside ?—Yes.

Mr. Munro.] I suppose you have in your mind, in the absence of any detailed plan, all the machinery by which you are going to bring your ideas into operation ?—What we want is a bank, call it whatever you like, but it belongs absolutely in every possible sense to the State. It would be controlled by experienced men—the Government Statistician might be one, for instance—whose sole purpose would be to keep the circulation regulated and preserve continual sequence of our numbers, and you can only achieve that by being most careful. The moment you inflate it you destroy its value.

I suppose you are quite familiar with the legislation that is being brought in for our central bank ?—Yes.

Do you think that bank could carry out that function ?—I have the greatest possible suspicion of this bank. Why on earth is it necessary to bring out a Governor who is a very close friend of Mr. Montague Norman, who is no doubt suffering from the same amount of ignorance and humility that Mr. Norman is suffering from, and is likely to do the same things in New Zealand as Montague Norman has done in England ? Why bring him out if there is not to be some of the existing English banking ideas forced upon the people of New Zealand ? I think we have brains in New Zealand just as capable as they have in England.

Supposing you have your State bank, you understand the position of the farmer to-day ?—Yes.

To save the farmers under the present monetary position you would take over the mortgages ?—You could not buy out the mortgages. To do that you would need somewhere about £300,000,000.

If you were to buy out those mortgages, if they spent the money, well, unless you prohibited that, you might have a terrific activity as my brother suggests, but I think that it would be better to demobilize them for the time being.

What do you mean by that?—To prevent any creditors coming into our monetary system with their money and trying to upset what we are planning to do. We want nothing to come into the system until we have it in the condition we want, and then we will allow them to realize a certain amount of what they have caught out of the stream. Supposing we want certain works done, new production goods are coming in, we might release then, but, unfortunately for us, we are face to face with the fact that there is an enormous amount of what you call frozen capital; it is credit which is stale; which is false; but amongst it are the honourable savings of people who have saved under a misapprehension.

In other words, you would practically start on a gradual system?—Exactly.

It would be necessary to carry your ideas out in a very slow and gradual way?—Absolutely feel your way.

I am holding on to this fact that your objective is to eliminate usury in the nature of interest?—Yes.

But that would take some time?—Yes. To get rid of the present product of usury. We would have to knock on the head any more lending of that type.

We have a hundred thousand registered and unregistered unemployed, how would you deal with them immediately?—To start with, I would immediately give them a bonus of £5 each.

You would make money and give it to them?—Yes, just produce it like the banks do. Issue them King's money, a printed note with the King's head on it, and say that it is New Zealand legal tender for so much. They must be told that it is money that is to be spent, not saved. Just start books and start paying out in new money. Do not go wild, just go forward slowly and you will find that £2,000,000 put into circulation, spread over New Zealand, will make things begin to move forward again.

I suppose you have calculated what amount of new money would be required?—I have a pretty good idea of what would be required.

A good many millions, perhaps £20,000,000 a year?—I am prepared to make it £21,000,000, because the old idea was that we would have one-third covered by gold and two-thirds by Government bonds.

Your idea is not to cover the money with Government bonds or anything?—No.

Simply an issue of money?—Yes.

Would that not have an inflationary effect, because those unemployed alone, while putting that money into circulation, would not be producing anything if you give them a bonus straight away?—You have to get the money into circulation and those men who have not been getting a square deal should be the means whereby you get it into circulation. You would make them a payment to start with of £5 each. That is not a very great sum, and by doing that you would start the wheels moving. Then you would start your public works, you would restore all the Civil Service cuts, and having placed the whole of the notes in circulation you would pay all your Civil servants with the new money—as a matter of fact you might even give them an increase in their salaries all round. You will find, then, that the tendency will be for renewed circulation to take place. One thing you would have to prevent would be the spending of this money on British goods, and I think a wise thing would be to print on your issue, "This note is for use to purchase New Zealand goods only." Then you would keep things straight by taxation.

That is quite all right, but this is an immediate step. That is a first step any one would recommend, in getting purchasing-power into the hands of the unemployed?—Yes.

Would not this happen that before you could get those men to work you would have such a volume of spending-power, of purchasing-power, going into circulation, that you would upset the economic equilibrium?—No, it would not.

Spending-power, or purchasing-power, or however you like to put it, going into circulation and moving about and to a certain extent upsetting economic equilibrium?—No, not at all. I do not agree with you. You will find them being sucked back. The unemployed will be sucked back into business very quickly. They will be quickly employed, and before you know where you are, all the unemployed will be employed.

Let us follow this to the issue. You would pay to the unemployed so much a week?—So much a week. You would pay the State employees so much a week. You would pay them all with these State notes. The State note is to completely implement the new monetary system, and it would be very wise indeed for a time if it was absolutely insisted upon by the Government that nothing else should be used at all, that every payment should be made by note, everything paid by note. Then, of course, the existing banks would have to be taken over. They could not possibly go on under those circumstances. They would have to be taken over as State institutions.

That is just the point. You are pumping into the monetary system of the present day a sudden issue of paper money, which has got to be a very large issue. Would not that possibly delay the Government in dealing with the farmers' position because of the failure of the banks to carry on?—Not at all. It would not matter if you actually issued as much as £10,000,000. It would not matter, because so long as the Government is absolutely awake to the fact that it is capable of exercising its power of taxation, if they flood the market, they have only got to tax them. The sooner you can get the people working the better it will be.

Just one other question: You, I believe, are a member of the Douglas Social Credit movement?—I am a member.

But yet you do not believe in the proposals put forward by Colonel Closey to-day? Wherein lies the difference between your ideas and those of the Douglas Social Credit organization?—All the difference in the world. What I am talking about is not inflation, it is restoration of circulation. There is very little circulation at the present time. Why, the Douglas idea is to my mind impracticable. It is a disguised form of inflation, because it must be perfectly clear that such a thing as this just price does not exist. We have discussed this question long enough to see that it is something that depends upon the money in circulation. If you pump in, as you suggest, new circulation, your price-level will jump away from you. You cannot do it. You have to tax back after you pump in.

You heard Colonel Closey giving his evidence to-day? Is he not advocating identically the same thing as your scheme, the immediate pumping into the monetary system of the unemployed wages?—Pardon me, nothing whatever of the kind. We are introducing new money, but it is a totally different thing to Colonel Closey's. It has the same appearance, but it is different, because it is really restoration of circulation. Of course, what really circulates to-day is credit. The notes that are in the banks may be taken out for petty cash, but really it is the cheque system that spins round and round. To-day we wish to know where has it gone? We have to say, no more cheque business at all.

That is a point I want you to clarify. You consider that under your system of a State bank under a properly controlled conducting of the medium of monetary circulation you would eliminate the cheque system?—Except from Government banks. What I have visualized is this: Every one of the banks in New Zealand will have to be taken over as State Departments, and the best arrangements made in connection with the shareholders that can be made. It will have to receive very careful inquiry by intelligent men who know exactly what is the best thing to do. You will then find that business will continue exactly the same as it does to-day, except that, instead of those private institutions making a profit of £3,000,000 a year that should go into the coffers of the State instead of the hands of private people—the State will receive that. That stops all the usury business in regard to interest. A person puts his money into the bank, and he can draw it out again. You simply watch your price-levels, and as soon as you see that price-levels are moving up, you tax in.

You would take over the present banks—all the machinery of the present banks?—Absolutely; and the personnel, because they are all skilled mechanicians.

Would you buy them? Would you purchase them?—Purchase what, the banks? Yes, but no payment would be made in cash. I think the main thing to do is to prevent any system becoming inflationary at the present time.

I quite recognize that. I want you to clarify this point: Would you purchase those banks as they are in operation to-day?—That would require very careful attention. It would be necessary, first of all, to call a meeting of the shareholders of all the banks, and have a talk with them—make them understand that they are face to face with a very difficult position, and come to some agreement as to what should be done. Of course, the Government itself should be quite authoritative about it, and explain that there are difficulties which have arisen, and this was the only way out to restore prosperity to the country. Then you could come to a definite arrangement, which would then be put before your Currency Board, who would consider it, and determine whether or not that arrangement could be carried out. If so, everything would be sealed; if not, you would have to reconsider. It would take a little time, but not a great deal.

You would purchase the banks?—Yes.

Have you visualized what capitalization of the interest would mean?—Yes, but it does not matter.

What I mean is this: The shareholders, or these bankers on behalf of the shareholders of all the banks, would want to capitalize possibly on a ten years' programme basis for the next ten or twenty years for the money they would earn in that time?—You can leave it at that. They would not get anything of that kind. They would be jolly lucky to get anything like their valuations.

You think they would like to get a book-entry value?—They would not get that.

I can see such a storm—— ?—Well, of course, I see a storm.

Such a storm in the newspapers about the confiscation robbery of your Government who would put into operation your ideas?—And I say that the best thing to do is to have a national government. A national government has got to be absolute. There must be no traitors in it to say, "You cannot do this," and for any one to talk about Government confiscation is a challenge to the sovereignty of the State.

Do you think that is possible?—Of course it is possible, if they know it is in the interests of the whole community. Of course, a certain man will kick like blazes, but he has got to be brought to heel. You appear to be frightened of that man.

I am not afraid. I just want to try and get you to visualize and explain to the Committee what is going to happen. I am just trying to put as many obstacles before you as possible?—We know that.

Parliament is really a reflection of interest of the financial and economic field, purely and simply. That is what the different authorities say—that the House of any Parliament under a British constitution is simply a reflection of interest?—That is so.

Well, it will want very strong propaganda to meet the propaganda of the whole of the press of New Zealand against this robbery and confiscation?—Well, if you are worrying about newspaper propaganda, I do not think you need worry so much. The people in New Zealand do not believe the newspapers. People say the newspapers talk a lot of nonsense.

A number of the people would believe them?—A great number of people do not read the newspapers, and, if they believe them, they are foolish.

WELLINGTON, FRIDAY, 9TH MARCH, 1934.

Statement submitted by Mr. E. W. NICOLAUS, Representative Speaker and Organizer of the Commonwealth Land Party of New Zealand.

To the Members of the Monetary Commission—

May it please this Commission—lawfully appointed by the Government of New Zealand to inquire into the subjects set out in the order of reference—to consider the survey, deductions, and proposals regarding money, banking, credit and finance, trade and industry, and outside economic relationships as set out herein by the Commonwealth Land Party of New Zealand, Incorporated.

Definitions.—We definitely consider that, as money is irrevocably linked with wealth, it is incumbent upon any one who would discuss the subjects to be surveyed by this Commission to first of all set down a logical and true definition of the subject noun "Wealth," and, further, that the definitions of each of the subject nouns used in discussing this question must be given a watertight meaning, each apart from the other; otherwise a confusion arises out of which no good can come.

(1) Wealth: The word "wealth" is used in connection with the product of labour applied to land, as well as in other ways. Everything which was here before man, and will, as far as we know, exist after man has gone, including man himself with all his powers, cannot be looked upon as "wealth" in the profound meaning of the word—namely, the product of labour when applied to land (natural resources). This product is material substance which is useful and valuable in some respect or other to the community, therefore, all wealth has value, if not, it ceases to be wealth.

The definition which we apply to the word is as follows: "Wealth is the natural products that have been moved, combined, or secured, so as to fit them for the use and consumption of man."

We do not intend to set out argument showing how the word "wealth" is used falsely by the ordinary man, as we believe that the definition given above will be comprehended and agreed to by the members of the Commission.

(2) Capital is that part of wealth used in the production of more wealth.

(3) Land: Equally with the word "wealth" we contend that the word "land" is at once the most misunderstood and the most important word amongst the terms used in this discussion, because, come good or ill, the banking system, financial system, money, and credit, are all bound up tightly in "land."

Like other terms used, "land" must be given a watertight definition which will separate it from all others. The following is our definition: "All natural resources and powers apart from man himself."

The natural resources contain all the potential wealth, but this is only made available to man upon the exertion of labour. Land has, of course, no cost of production.

(4) Wages: "Wages" are the natural return and incentive to labour. When the word "wages" is confined to material production, the natural return consists of the products produced by the effort expended.

(5) Money: This word is also used to an aggravated degree by the general public; yet, when asked to say what money is, any one would pull out a coin or bank-note. If a person demanded to be paid in *money*, no one would have any difficulty in grasping his meaning, and, therefore, would not offer him other than "legal tender."

The definition we give to the word "money" is as follows: "Anything which is at all times generally acceptable within the nation as a final and complete settlement of an obligation and for which wealth will be exchanged."

To-day, this generally acceptable thing in New Zealand is represented by paper notes bearing the stamp and guarantee of the Government, and coins, silver and bronze, of certain constituency and combination of metals stamped by the Government. These things constitute the sole recognized "legal tender" or cash of the people.

(6) Credit: Lately this word has been bandied about from mouth to mouth in a welter of meaningless phrases, therefore we feel that a definite meaning shall attach to it, which will define credit as something different to "money," "wealth," or "land." We speak of "having credit" or "giving credit." A person is spoken of as having credit when he is known to possess wealth in some form and degree. Or when a person is known to be a "good payer," and, while nothing further may be known about this person, credit to relatively small amounts will be readily given. In the first place, credit may be given in the shape of a loan or "overdraft," as, it is sometimes called, which may be expended in ways not inquired into by the lender. In the second case, the credit usually represents goods of some description or other. A lender of credit must have wealth or a claim on wealth, which can be readily exchanged for other wealth, otherwise the credit would be worthless to the borrower. The lender, moreover, requires some form of security which will safeguard the loan. Usually, also, a definite sum as interest is payable to the lender, partly as an insurance against risk, and partly because of the fact that the lender is debarred from using the amount of such loaned credit himself during the term of the contract. We, therefore, give the following definition: "The permission to use another's wealth or claim to wealth."

While outside the banking system, a person could lend his credit or "backing" to another, and at the same time use the wealth which the credit represents with consequent enhanced risk to the ultimate exchanger of goods who accepts the "backing" where the credit is given in the shape of a cheque on the lender's bank account, that amount is transferred from his account, which is depleted to that extent, the borrower then drawing notes and satisfying in full his obligation to the exchanger of goods who then runs no risk. The banking system in this instance is of great assistance to the general community.

(7) Bank Loans: It is contended and thought by some people that bank loans "create" deposits. While this is a half-truth, the facts, if put in their true light, show that the loans do not make deposits in the meaning that they "create" new wealth or a claim on new wealth, but merely change the *situ* of wealth by exchanging goods for money. If B receives a loan from a bank and pays it to A for goods received from him, when A deposits the cheque or money in the bank to his account he merely transfers the value of those goods from, say, his place of storage to the credit side of his ledger account in the bank, and on the debit side of his own ledger at the office. These entries are merely figures showing the correct record of the exchange of goods for money, which will, in turn, be exchanged for more goods. The entry in the bank-book is done at his own request, not at the bank's request. The loan granted to B must, of course, be liquidated at the time stipulated or a renewal given. If B does not repay the loan he has received wealth without giving anything in exchange for it. No person is entitled by natural right to a loan, or, *the use of another person's goods*. A loan is asked from, not forced upon, people, and usually the borrower is *willing* to pay for the accommodation.

(8) Value in exchange: "Value in exchange" is measured by labour. Labour-power exerted produces value. Therefore, value in things is measured by the amount of exertion which labour is willing to expend in exchange for them, or, in other words, value of things is the power, given by their ownership to save one's own exertion by commanding the exertion of others. This power emanates from two sources:—

1. The expending of labour in production.
2. The possession of power which can command the exertion of men without offering any equivalent exertion in return.
    1. Value from production.
    2. Value from obligation.

(9) Purchasing-power: It is stated by many that money is the only purchasing-power, or is purchasing-power. This, again, is only half truth. It has been voiced from the platform and written in books, yet is never contradicted publicly by a clear exposition of the whole truth. We have stated with confidence that money only *reflects* the value and exchange and purchasing-power of wealth. This is a truth, which given a moment's thought must be apparent. For instance, were there no wealth, the mere possession of money would not satisfy the most urgent needs of its possessor. On the other hand, were there no money, the possession of wealth could satisfy all his immediate needs either by consuming it or parting with a portion for some other form of wealth which may be more necessary to him than that of which he was possessor. The power of *exchanging* is real purchasing-power, and to exchange one must have an equivalent, so that wealth produced is the real purchasing-power, and money only the *reflector* and *substitute* and measure of value. The lack of the possession of purchasing-power means the lack of the possession of goods, which in most cases means the lack of the opportunity to produce goods at a profit.

Purchasing-power as reflected in the form of a credit at a bank may be used to purchase or exchange for goods in the most remote corners of the world, without having to run the risk of a loss of goods in transit or the loss of actual money, by the use of a "letter of credit." This exchange of goods for money is equivalent to the exchange of labour value for labour value. Money once exchanged for a value of obligation cannot be distinguished from money representing labour value, and so it shares with labour—the producer of goods—the consuming of the goods.

(10) How money passes from hand to hand: In order to combat the notion that banks "create" and "destroy" money and credit by withdrawing money from circulation, it is necessary to show how money passes from hand to hand. We can trace the handling of money from the actual producers of wealth through all stages back to the bank, which, by authority, issued it against the wealth produced. As we have stated, money must represent goods, otherwise, it ceases to be money; therefore, no one is entitled to money who has not produced goods. As goods flow from him who extracted them from the natural resources, the first in the line of production, so also must money flow from extraction through transportation, combination, or separation, exchange, storage, and retail to consumption. The cause of the flow through all the subsequent stages must be the primary mover, the extractor of wealth. Wealth cannot be consumed and retained at one and the same time, the consumption of wealth being the end of wealth. So it must be with money if money is to mean anything but pieces of paper and bits of metal. Once money has accomplished its mission, the exchange for wealth, the money is no longer available to the consumer of that wealth. To get more money he must produce more goods, or services. Money paid into a bank becomes "dead" money, even although its value has been placed to the credit of a personal account by "figures in the ledger." But that same money is immediately available for withdrawal by any one who can show a true title to it, not otherwise. This restriction is, of course, a correct one; without that restriction money would not retain its use as an exchanger of wealth and its value would disappear. It is the constant "ebb and flow" of money to and from banks and the use of the cheque system which allows a comparatively small number of notes and coins to do a large amount of work.

(11) Deposits: Money deposits, or savings, represent wealth which the owner has refrained from consuming. In banks they may be in two forms—namely, "current account," in which form they are immediately available to the owner, or "fixed deposit," in which form they are not available to the depositor until the end of the term agreed upon, having been loaned to the bank for a stated period, for which loan the depositor receives interest. Some banks pay interest upon a "current account," which account may be drawn on for bank loans up to an amount which the banker's experience has shown him to be a safe one.

(12) Frozen assets: This term is usually understood to apply to assets which are impossible to turn into or exchange for money. That this definition is false and that there is no such thing as

"frozen assets" or "frozen capital" can be clearly demonstrated. If a thing is an asset it must have *value*, if it has value it must be *exchangeable for money*, which is a reflector and measure of value. If a thing has no value it cannot be an asset. The reason why people speak of capital and assets being "frozen" is because they cannot exchange them or liquidate them for the value at which they stand in their books, or at the value on which they borrowed loans.

(13) Trade: We give the following definition of this term: "A mutually profitable exchange of goods for goods."

(14) Revenue is the fund from which all social services and other Governmental outgoings are supposed to be paid.

(15) Taxation is the taking by Governments of the products of industry. This source is looked upon as the main source from which revenue can be derived.

The Present Banking System.—After studying and deliberating deeply over the banking system as at present evolved in New Zealand, we find that, while it may in detail be improved, the fundamental principles upon which it has been built are absolutely sound, and render great service to trade and industry and the individuals, inasmuch as it provides a safe depository for tracing accounts and savings, it keeps an accurate record of all money transactions of the individual depositors, it offers to the owner of savings a means of investing in the safest concerns with no personal responsibility or worry to him, for, while the interest paid is usually less than that on the outside market, the interest and principal is as safely guaranteed as savings can be. The proof that this is so may be gauged by the fact that there are now few people who would refuse to entrust their money or securities to any New Zealand bank. This trust has grown over a long period of years through honest dealing and sound principles. While many point their fingers at the banks, blaming them for not releasing more credit and for calling up loans, we cannot join in this almost general condemnation, as we realize that banks, like Governments, can only reflect an already accomplished change in the financial and productive (wages, rent, and interest) fields in the country. The change comes first, then comes the tightening-up of credit and the calling-in of overdue or questionable loans.

We hold that no one has an inherent right to demand the use of another's capital (loan), whether goods or savings; no one is bound to borrow from a bank, but they do so because it is more convenient than seeking it from private individuals. Also, it is not the fault of banks when the borrower cannot sell his goods or is undersold by a competitor in the market. We know that a bank cannot, with impunity, issue unlimited credit, its powers in this direction being strictly limited by the amount of its own capital and reserves and the funds on deposit which belong to the individual depositors. The known results of overlending to any extent by a bank, or the misuse of its funds by directors, inevitably result in a crash in which the shareholders' capital, bank reserves, and the depositors' funds are sequestered in order to meet both the legitimate and excess liabilities incurred. Any wrong action taken by a bank towards a customer, and no doubt cases can be cited in New Zealand, is not the fault of the system, but of the directors or manager. Such inimical action can be and is taken by any creditor in any line of business. We are of the opinion that the present banking system shall be allowed to evolve better methods than are at present in practice wherever those may show defects, or by legislation should any part of the system prove to be detrimental to the public. Sound methods, of course, to be adhered to. Anything which allows the banking system to become a monopoly should be abolished. It is essential that freedom to engage in the business of banking should be allowed; provided always that the banking laws and practice are adhered to.

Money and its Substitutes.—We recommend that money and its substitutes shall reflect only the value of production: any other reflection can only be one of the power to appropriate production. Also, that they shall have a constant base and measure of value. As commodities can only be valued by commodities, the most preferable base, because of the comparative difficulty of production, its imperishability, its small bulk, and general international acceptance, is gold. We therefore recommend, and are convinced that a return to the gold standard for our currency and finance and a free and unmonopolized exchange is necessary to restore confidence to traders and give a stable purchasing-value to wages. Debasement of a currency or the overissue of paper notes is a deliberate robbery of the poorest in society and is to be condemned in no uncertain terms. We hold that the function of money is to measure the value and not the amount of goods.

Financial System.—This system includes the following wide spheres of money and money substitutes in the life of the individuals of the nation and the nation itself: (1) Corporate-body finance; (2) local-body finance; (3) national finance; (4) investment of capital; (5) trade and industry.

We recommend the following changes in corporate-body finance for the purpose of enabling a statement of actual facts being put before the shareholders in any company, and to ensure them getting the full benefits which accrue to their capital investment, and obviate the possibility of losing their capital, because of the fact that they cannot find more on a demand being made.

Share Issue.—To be in fully paid-up shares of a number and value sufficient only to cover the estimate of immediate expenditure at the time of flotation, or subsequently cover the market value of its physical and saleable assets.

Reserves: These shall not exceed the replacement value of the physical assets.

Bonus Shares: These shall not be a legal issue.

Dividends: These shall be declared and paid in full, subject to the above reservation regarding reserves.

New Capital: When the extension of a company's activities shall require more capital, then more shares shall be issued to the amount required and new capital subscribed.

Local-body Finance.—Local-body loans shall only be issued on the understanding that the amount necessary for the repayment of such loan over a maximum period of twenty-five years shall be ear-marked in the annual revenue each year. All loans shall be borrowed from the Central Government.

National-Government Finance.—No borrowing shall be permitted the Central Government unless such borrowing shall be repaid from revenue over a maximum period of twenty-five years: such borrowing shall only be permissible until such time as the revenue shall have shown a true buoyancy. Thereafter, all capital works shall be built and maintained from revenue. No lending shall be permitted the Central Government other than to a local body for any purpose whatever.

Investment of Capital.—In order to ensure that all capital shall be of a reproductive nature, we recommend, "That investments shall be restricted to production enterprises." This recommendation will ensure that land mortgages, which constitute the greatest burden upon the people to-day throughout the world, will be removed and made impossible of being replaced. Land must not be looked upon as something which is a lucrative and safe investment for the holders of surplus funds, but as a source from which labour draws its sustenance, and for which access no price or mortgage should be paid or incurred. The idea that any one should use the land as a "bank" is financially and ethically wrong, and leads inevitably to the mortgage trouble which has so affected the primary producers and all others to a ruinous extent.

Taxation.—This item enters largely into the financial system, as it depends upon from where revenue is drawn whether the action is detrimental or beneficial to the individual, and, therefore, to the nation. The confiscation from labour and capital by taxation of the fruits of their industry is financially and ethically wrong. At the very period when industry most needs every penny of its earnings is the time when taxation presses most heavily upon it.

Income-tax is a tax which is supposed to confiscate wealth from the wealthiest in society and produces about one-eighth of the revenue.

Tariffs or Customs Taxation bears proportionately more heavily on the poor than on the rich. It covers the widest field of commodities of the most necessary everyday use, otherwise it would yield but little, whereas it yields about half of the revenue. The poor cannot pass it on, nor yet can they appropriate wealth from others to help pay it. Customs taxation undoubtedly reduces the purchasing-power of the wage-earner to an alarming extent by raising the prices of what he has to buy against him. It also induces labour and capital to engage in what would otherwise be unprofitable enterprises, causing a loss to the community. We therefore recommend, "That Government revenue for all purposes shall be derived from the wealth as reflected in the community-created rental value of the land." The getting of revenue from this source would not bear upon labour or capital, whose earnings would increase.

Economic Relationships.—New Zealand's economic relationship with Great Britain, other Empire countries, and any country outside the Empire must rest on mutually profitable trade. In order that trade shall function freely and to the greatest advantage to the parties concerned, there must exist a condition of freedom to trade and freedom from panicky and unjust legislation by Governments. Trade is essentially an individual thing and is extremely sensitive to outside interference, which, if carried out to a certain extent, brings trade to a halt.

A nation's money prices, either for wages or goods, cannot effect the equitable exchange of goods for goods internationally, as all goods have a labour value, which value is given a definite exchange for purchasing-power by the "higgling of the market." Low real wages do not detract from the value of the goods produced, but are only an arbitrary division of that value in the country in which they are produced. It is not necessary that the country which buys goods should sell goods of an equivalent value to the country from which it buys. It is only essential that it should produce and exchange an equivalent value in goods with some country. The balancing of exchange value is done by the great clearing-houses throughout the world. Every country which imports must also export an exchange equivalent value, and *vice versa*. If the people of New Zealand export their goods to Britain, the British people must produce and export an equivalent value of goods in payment, but not necessarily to New Zealand. Tariffs have no bearing on the necessity for the above exchange: such exchange must take place in spite of tariffs.

Markets: Were our ports open to world trade no restriction of markets would disclose itself. Allowing the people to buy goods they desire to buy should not be counted as a favour: it is a natural right. The greater the restriction placed on goods coming into the country the greater the tendency to poverty and unemployment. To-day Governments are treating their people like a rider treats a willing horse, when he both spurs it and holds it back by a curb bit. We put down the legislation enacted and enforced by Governments with regard to trade treaties, quotas, &c., to a lack of knowledge of the simple truth of what trade is and how it functions and to looking upon the interests of certain people as of greater importance than the interests of the people as a whole. Markets can always be found by free ports and fair exchange. It is not necessary that all countries should practise free trade in order that New Zealand should have it: again, this is only a matter of internal concern as is the debasement of currency, arbitrary exchange, subsidies, and monopolies.

Practicability: Is such a change as herein proposed and set out possible of achievement? This question can best be answered by asking other questions. Is it practical for Government to ruin their people? Is it practical to plunge the nations of the world into a hellish inferno of legalized murder? If these things are practical then are the proposals we put forward practical: it is a matter of wiping out bad and unjust laws and enacting good and beneficial ones. That must be within the realms of practicability. If it is practical to confiscate the wages of labour and the interest of capital, then it must be practical to restore them and to confiscate the land rent from the holder of land in fee-simple. The sole difference would be that the former confiscation is unjust while the latter is just and in accordance with the natural order. If it is practical to prevent people from exchanging the results of their labour, when, where, and with whom they please, it must be practical to allow and encourage them to do so. If it is practical to grant monopolies and special privileges, then it must be practical to take them away again.

"The probability of the adoption of these proposals promoting the development of industry and the welfare of the people of New Zealand."

With the opening-up of the land of New Zealand without price and mortgage to labour and capital; with taxation abolished; with the burden of mortgages lifted, can there be any doubt that wages and interest would rise? With the rise of wages and interest would come increased population and capital, each new immigrant bringing with him not only the power to consume, but also the power to produce. With increased population, secondary industry and primary industry would increase naturally and economically. After enacting the proposed changes in the laws as set out herein, there would remain two matters to adjust, matters arising out of the unjust social laws under which we at present live—namely: (1) Those who are unable, either through mental or physical disability, to maintain themselves—some of whom have been relying upon the return from false capital for their maintenance—and have become a charge upon the people; (2) the national debt. With regard to the first, we maintain that every being who is unable to maintain himself or herself is entitled both morally and economically to the general standard of living enjoyed by labour in general, not as a charity, but as a right. With regard to the second, we propose and recommend that the Government of New Zealand, consequent upon bringing in a state of justice and freedom, shall pass payment of interest upon the entire national debt for such a period as will enable the people of this country to return to profitable employment. Thereafter, such interest and repayment of principal shall be resumed upon terms agreeable to both parties. We put this period down at two years.

Witness: Mr. E. W. Nicolaus.

Mr. Nicolaus: I wish to thank you first of all for the opportunity you have given to my executive to place before you certain proposals which come under the order of reference under which you are acting. You may no doubt have noticed that all the points which are made throughout the statement converge on the one thing, and that is the ownership of land or the natural resources of the country. The salient points I wish to particularly refer to are those points upon which are based the present monetary system or financial system—that is to say, that money is a representative of wealth or is considered as wealth. Now, into that very wide opening I wish to take wealth, land-ownership, wages, value, trade, revenue, taxation, and the investment of surplus funds or credit. Those are the salient points which upon elucidation and enlargement should give a certain bearing to show how the monetary system functions, how wages come into being, and how unemployment springs out of what is virtually a paradise. My executive are not satisfied with any of the current excuses or theories put forward for the cause of the unwilling starvation of the peoples of the world. That is the reason why we have come forward with such an amplified, and, one might say, exclusive up to the present, proposal. We are not content to rest where the ordinary orthodox economist rests, although we might agree with him almost as far as he goes. We are not content to rest with those who bring forward proposals which are based on assumptions. We deal emphatically with facts, with actual happenings, those things which do and have happened in actual life, and, therefore, I hope that during the discussion certain causes will be shown, that certain remedies will be elucidated, and a guide given to a logical human means of not only obviating, but altogether eliminating, the possibility that men willing to work cannot find the means whereby they can employ their labour and keep themselves and their dependants. I thank you.

Dr. Sutch.] I am afraid that my difficulty is that some of your definitions are not too clear. Do you mind if I ask you about those just to clear them up in my mind?—No, not at all.

In your definition of "wealth" you say that if a thing is not a material substance it is not "wealth." What of services? Are they not classed as wealth?—They are not wealth.

So that you get this situation: that the man who makes the violin makes wealth, whereas the man who plays it does not?—Quite so.

So that when the violin is made the music that the player produces does not come into the question?—The music that you hear is not wealth or the action of the player is not wealth.

It is not wealth under your definition?—No.

In the long-run are not the services we get from any persons or things the only real utility?—In the ultimate it comes down to service or services, but there is a service in the production of wealth. It is the actual labour applied to the land for the extraction of raw material. Raw material can alone constitute wealth, all other things must constitute labour.

Your services are being classed as labour?—Yes, certainly.

I just wondered where you were classing services. Does wealth have to have an exchange value?—Yes, it must have exchange value.

So that the water we get from our taps would not be wealth?—No.

But it has been worked upon, moved, to some extent, has it not?—Yes.

By doing that it comes into your definition?—That is the extraction of the raw material, fitting it for the use or better use or more convenient use of the people. The pipes and water itself once it is extracted from a river, in which condition it is under the term "land." Once it is used in that connection then it is wealth.

It is wealth?—Yes.

Does labour have to be expended upon a thing before it can become wealth?—Yes.

By walking along a beach and picking up some ambergris, would that be wealth?—Yes.

Though no labour has been expended on it?—The labour expended on it would be in picking it up and in walking there to pick it up. It would be of no use if you left it on the beach.

So the labour expended was in picking it up?—Yes, and transferring it to the exchange market, so the measure of its value is in the labour expended on it.

The measure of its value in the case of ambergris would not be the value of labour expended on it ?—Certainly.

The amount of labour I expended on picking it up would be negligible so far as the value is concerned ?—Quite so, but where does it come from ; it is not all picked up on the beach by a haphazard walker along the beach ; it takes labour.

Generally ?—And you must take into account the average labour which ambergris costs to produce as a commodity for the use of the people.

Then you get to this position : if I have a collection of postage-stamps, how do they get their value ?—They have their value through the same value as an old picture, an old book, old china, and old furniture.

There is no labour expended on them to bring out that value ?—The labour expended originally was the labour of the painter who painted the picture.

But that did not give it that value, surely ?—Yes ; if you put that same labour into whitewashing a wall, for instance, it would produce very little, but the fact that that particular man could, by his own efforts, produce such a wonderful colour and likeness which was desirable for people to look at that alone made his labour of extreme value.

So that you value labour upon what it can produce ?—Upon what it can produce.

So that you get this fact : that labour then has different values and different services ?—Yes, quite so ; you can labour to no advantage at all.

And these old pictures we are talking about—I prefer to keep to postage-stamps because I know of a penny stamp that is worth £40, and I had an idea that its value was not due to the labour expended on it ?—But that £40 represents a special effort over a great number of years in the care and looking after that stamp to keep it in its exact worth of acceptability, because if it was damaged acceptability would go.

It is the labour that has been applied to that stamp that makes it worth £40 ?—Yes.

You say wages are the natural return and incentive to labour. What do you mean by natural ?—It is hard to explain nature, but the product of labour, shall we say, the products which are produced by labour applying itself to land, are those things which you cannot obtain by any other method. You can only get those things by applying the human powers to the actual resources.

Wages are extended to services as well ?—Yes, because service is labour.

I am paid a certain amount each week and I do not think necessarily that is my natural return, because I cannot be sure what that is, if there is such a thing, nor is it my incentive to labour ?—Your remuneration is based upon what you can earn in another direction. All wages equate according to the exertion put forward by your energy and strength. They equate not only in one country, but throughout the world.

That is the economic theory ?—The balance, yes.

Assuming I have a reap-hook and I can do much more with it than without it, and, if that is so, then I will get paid much more than I would get if I did not have it, how would you adjust my natural return ?—By taking the reap-hook away from you.

And the difference would be my natural return ?—Yes.

That is quite clear ; and in material production the natural return consists of the products produced by the effort expended ?—Yes.

Is labour-power the only producer of value ?—It is the only producer of wealth.

In your scheme you mention "Value in exchange," and say, "Labour-power exerted produces value." My question is : Is labour-power the only producer of value ?—Yes, that is so.

So that a thing cannot be valuable until labour has been expended on it ?—That is quite correct.

And you value things by the amount of labour you are willing to expend in exchange for them ?—Yes.

I am rather at a difficulty there in deciding whether your theory is the cost-of-production theory or the utility theory ?—The cost-of-production theory.

If an article costs 6d. in terms of human labour to produce and there were so many that I was only willing to give 3d. of my labour for it and it is sold at 3d., you have the position that I am willing to expend 3d. of my labour and there was 6d. expended on it ?—That sometimes happens, but where an article has been produced at a certain cost and the price of it has suddenly dropped the loss is only what you might term a fictitious loss, because the next one will cost less to produce.

So in the long-run, over a period of time, with certain qualifications, cost of production determines value or price ?—Yes.

You see my difficulty, because it leaves out the question of demand and supply, does it not ?—That is what governs the whole lot.

So that demand and supply fix the price of a thing ?—Yes.

And the price of that thing determines the value of labour that is expended on it. Then there is another point. The Reserve Bank of New Zealand has been set up with the profit-making motive eliminated. Do you think that this principle is a good one when applied to the banking system as a whole ?—No. A human being will not work unless he works for a profit.

But the Reserve Bank officials are paid salaries ?—They are being paid from taxation.

So that if the banking system were run to cover costs and not profit and the salaries were fixed by some authority we could have a quite sound banking system ?—No.

With the profit-making principle eliminated ?—No, it is impossible.

Why ?—If you take profits away from the industries you get down to the Maori or the Pitcairn-Islander.

There are many countries in the world that have banking systems that are State-controlled. You have Sweden ?—You mean to say they eliminate profits ?

The central bank system will eliminate profits ?—Well, profits are a certain part of the return to capital.

I am not excluding that. The return to capital is included certainly, reserves are included of course ?—I see, that includes profits ; your reserves are your profits.

In the case of the banks they would be part of the return that would have to be kept for contingencies ?—They are a surplus over your production ; they are a surplus set aside.

Put it this way then : you will not be paying dividends to shareholders. Can you have a banking system like that ?—The shareholder would be the State, I presume ; under that system of which you are talking it would be the people as a whole. All business, to be what is termed, to come under the definition of business, must be run at a profit, therefore that profit or any part declared as profit must go to the assistance of the revenue.

Not necessarily, they might aim at covering costs only. From year to year they might make a little profit or a little loss. Do you think that is quite feasible ?—You include as costs the resources wherewith to provide the capital that is used in the business ?

Yes ?—And that would then give the increase to capital which would give labour its return and provide also for the rent of the land.

Correct ; but there would not be that residual profit that goes to what is academically called the entrepeneur in the competitive system ?—I do not consider that residual profit at all. If it is merely distribution of the production that is not a residual profit.

It would take too long to go into that at the moment ; perhaps we can come back to it later. I notice you say that anything which allows the banking system to become a monopoly should be abolished. Why ?—That monopoly is naturally detrimental to the people.

Not necessarily naturally, surely. We have a monopoly in New Zealand of telegraph services. Would you consider that that was detrimental to the interests of New Zealand ?—No, because that monopoly is governed by the people.

But so is the Commonwealth Bank of Australia, notwithstanding its Chairman's attitude to Mr. Lang.

Mr. Langstone : The Commonwealth Bank had nothing to do with resisting Mr. Lang. What you are referring to is that the Post Office Savings-bank in New South Wales is purely under the control of the New South Wales Government. The Commonwealth Bank is under the control of the Federal Government. When there was a run on the funds of the Savings-bank, they had to ask the Commonwealth Bank to come and take control so as to guarantee the funds in the Post Office, but at no time has the Commonwealth Bank or any one else had anything to do in connection with Mr. Lang.

Dr. Sutch.] I was pointing out the Commonwealth Bank as an institution which was run quite well with Government appointees. I notice your distinction between political appointment and Government appointees. I would like to stress that point myself. You speak of a return to the gold standard in New Zealand : it is generally considered that New Zealand has not been on the gold standard for many years ; why do you think it essential that we should go on the gold standard ?—For one thing, the gold standard is a stabilizer of price-levels, a stabilizer of exchange, which is absolutely necessary in order that trade may function freely and truly. It is also a means whereby the purchasing-power of wages is held steady ; that the wage-earner who gets his wages on Friday will know it will purchase the same the next week.

You cannot get any abnormal rises in price-level with a gold standard in operation ?—Not for any length of time.

That all fits in with your equilibrium philosophy ? Would you nationalize the land to carry out your proposals ?—No.

But would you eliminate mortgages of land ?—Yes.

Would you allow stock and chattel mortgages, and mortgages for improvements ?—Yes.

What procedure would you adopt to tax the land ?—I would not tax the land at all. That is a different matter. I would simply take the same procedure as the City of Wellington takes to collect its rates.

You value the unimproved value and tax on that ?—I would take the whole annual rental value ; it does not come down to a tax.

You would take it every year ?—Every year. The rental value would be paid into the State.

That would apply to urban land ?—To all land.

By eliminating the Customs duties, you would eliminate your protective duties ; you would not agree to protecting any industry whatsoever ?—None whatsoever.

Even if it were our duty to discourage the use of some article, would you eliminate that ?—It is the duty of the Government to supervise and eliminate all things which are detrimental to the public interests.

So that there is a possibility of your putting a high tax on whisky if it were proved to be against the public interests ?—No ; if the Government thought whisky was going to be the downfall of the nation, they would prohibit it.

You would do as they did with opium ?—Yes ; if it is detrimental to the human race, abolish it altogether.

You would then lose the tariff as a political bargaining weapon ?—There is no such thing. I look upon political bargaining with tariffs rather as a man who is not up in boxing and tries to punch a ball ; he hits it once and it hits him twice.

I am inclined to agree with you ; but from the point of view of the Government it is regarded as a political weapon ?—The Government are there to look after the welfare of their people, not to bargain.

You consider, then, that the British Government would be wrong in its procedure lately ?—Absolutely and thoroughly wrong.

Your valuation, of course, would not apply to improvements? When you are taking the valuations of urban and country, you would not take any improvements into consideration?—No improvements whatever.

Drainage, for instance. In some cases it would be difficult to administer. You might have land which would have no value in the first place; drainage would give it a value. Under a rating scheme it would be rated at an unimproved value. How would you fix a case like that?—You first of all envisage land with no value; you put drains in there which assist in the increase of production. That is no assistance at all from the community; it is purely a matter between labour and capital and land.

The community had to exist to buy the product?—Any one improving land on the margin does not come within the rental basis at all; land having no value has no rental value.

I agree with you; but all land that is worked is rated?—Well, it should not be.

In the administration of it, it would be extremely difficult to say how much is due to unearned increment and how much due to the improvements put in?—That should be easily ascertainable.

It has been found a very difficult matter. In some States in the United States where they have tried to put that into operation it has been difficult to distinguish between unearned increment and improvements?—I will take any man off the street, not necessarily a valuer, to any property and he will distinctly tell me the difference between the land and improvements.

You can distinguish between the land and the drainage?—But the value of the improvements is a matter between the individuals and the land. For instance, in your land return to-day you have to state the value of improvements on the land and the unimproved value; that is all on our books in New Zealand to-day.

I know, but quite often it includes things like drainage?—There are certain things which may at any time become indistinguishable from the unimproved value. If you grass down a paddock and leave it and never grass it down again, it will return to nature unless continually improved by man. After a period the improvement of grassing will merge into the unimproved. The same with drains.

Again, you say, "Low real wages do not detract from the value of the goods produced." Would you say that labour is not an element in cost?—Of course it is.

So that, if we had Australia and New Zealand with otherwise similar costs with lower rates of wages in New Zealand, the value in the foreign market would be the same, but they would have some margin of advantage in competition?—No, there is no such thing as competing in foreign markets; the buyers compete, the sellers do not compete.

So that our butter does not really compete with the Danish?—The New Zealand farmer does not really go over to London, and like the London butchers cry his wares in the streets. The goods are placed in front of the people and sold by auction.

In the long-run it depends on whether they can cover costs as to whether they can keep on producing?—If my cost is only a labour-cost. We will be able to undersell any one in the market if you only include labour-costs.

Let me quote again from your statement: "It is not necessary that the country which buys goods should sell goods of an equivalent value to the country from which it buys. It is only essential that it should produce and exchange an equivalent value in goods with *some country*." That is the first time that has been stated before this Committee; could you tell me why more people do not realize that statement? I agree with that statement, but could you tell me why it is that people think we should exchange exactly the same with England as she takes from us, and the same with Australia? Why should they think that?—I suppose that springs from two causes—ignorance and special interests.

It is outside your reference, of course, but it interested me that you had mentioned it. You are suggesting that we discontinue payment of interest on the national debt for two years; you would not regard that as interference by the Government with private enterprise; that the people have a right to the return on investment?—If you can bring out the man who bought a certain share of the national debt of New Zealand and the man who actually advanced against it in England, and ask them to divide up or square their accounts, it might be, but this means adjusting.

So you would have an adjustment with the Government bringing together the two parties?—Oh, yes.

I gather that did not fit in with your essential philosophy of man's freedom?—It gets us out of an impasse.

In the past there have been advocates of single tax on expenditure, on houses, on incomes, on capital, even a single stamp-tax. These have not been accepted by Governments; wherein lies the essential difference between those taxes I mentioned and your single tax on land-value?—That comes in on the value of production or value in exchange. It is a difference between what is true wealth and what is not true wealth. Wealth once produced starts from the moment of its production to go back to where it came from—Mother Earth. On the other hand, a title to the ownership of land or the title to ownership of part of the national debt, through time, instead of decreasing and in time disappearing altogether, increases in value from generation to generation, and the one tax on wealth will merely operate so long as the wealth is in being, whereas the single tax on the value of obligation will reduce that value of obligation.

But you have mentioned the national debt; why not have a tax on that too? That does not disappear and go back to Mother Earth?—That is one of the values of obligation I am talking about.

You would tax that too?—No, I wipe it out altogether.

By the use of the tax on land-values?—By taking all land rent, I wipe out the national debt and wipe it out with wealth.

You recommend this tax on land-value because it cannot be shifted on to any one else?—I do not recommend a tax on land-values. I recommend taking all land rental, economic rent.

It cannot be shifted ?—It cannot be passed on.

You will have one tax from economic rentals and no other ?—Yes, one source of revenue only.

Do you think that human labour constitutes the only clear title to property ?—The only title.

But has not our private-property system evolved along the principle that by this means the ends of society would be best served ?—That is not necessarily the principle of labour ; the ends of society are served by the principle of private ownership of land ; not necessarily now, but evolved on those lines. From what I have gleaned from past history, it evolved out of a knowledge that the ownership of land was the ownership of men.

So that you would not accept the basic principles of private property ownership, that it is the best means of using what the community has ?—History tells otherwise.

But the value of land is the work of the community, is it not ?—It is created by the community's activity and presence.

So is the value of everything else ?—One is privately made and the other not.

The community must exist to give anything value ?—Nature's gift to all men is the air, the sun, and so on. That is open to all men. Land should be open to all men in an equal way. Knowledge which has come from past generations is open to all men ; it is available to all men.

But all men need not necessarily take it ?—No, but so long as the equal opportunity is there.

So that this is going to be your basis : That the unearned increment of land will be the sole method of paying taxation ; you would leave out altogether the ability to pay ?—Certainly. "Ability to pay"—I am not quite sure of the definition of that phrase. It has two definitions so far as I am concerned ; one is that you make the person pay if he has the means ; the other simply that if you buy anything at all, you will have the ability to buy it.

I am talking of the former meaning. Would you say, then, that he who benefits most should pay most ?—Yes, certainly.

Under our system I consider that I, a poor man, benefit more than some people I know who are rich. The Government protects me more than it does the people who are rich ; I get more benefit than the rich man ?—Your idea of protection of Government is principally what is stopping this policy from going in. The working-man thinks he has got more protection than the rich man. In fact, the benefits he gets from being a citizen of the State are not nearly so great as the benefits of the wealthy man. It benefits the man who owns natural resources.

There is one thing about the single tax so far as the taxation system is concerned. It lacks the virtue of elasticity. If you want some more revenue one year, you cannot increase your taxation ?—Of course you can.

The economic rent is fixed by price ?—You can take more. If the rental value of land is so much, you can surely put it up in a case of dire necessity.

You are not then taking the economic rent, but taking wealth as well ?—That is only in dire necessity.

My idea is that economic rent is an inelastic tax, that in times of dire necessity, it limits the spending of Governments. Take a falling price-level as in the last few years ; we want to expand our taxation in some direction. It has fallen on the economic rent side. You would not be able to do it on this tax unless you impose something extra ?—If the price-level falls, land-value falls and wages fall.

It all happens so slowly. If land-values fall, the return to the Government falls immediately, but their fixed payments do not fall ?—What fixed payments ?

Overseas debt for one thing ?—Eliminate that.

My salary for another ?—It will have to come out of my pocket. I cannot possibly enter into a discussion on the national debt, because it is impossible to pay a national debt, absolutely impossible ; and they are attempting to wipe out national debts by debasing money. I say there is no necessity to debase money ; national debts can be met once the people are working in profitable employment.

You made some point like that in your statement ?—So that the fall in the price-level, eliminating national debt—what other costs are there ?

Some costs are more inelastic than others. For instance, wage-rates will rise perhaps, but it is very difficult to put them down. Land-values can fall in one year, but wages may not have fallen until several years later ?—Why not ?

They have Arbitration Courts to support them, and there is the natural tendency of the man to hang on to what he has got ?—If he cannot get it, how is he going to hang on ?

Your position would be this, that if our land-values fall our revenue falls, our wages fall, and we have all got to take it ?—And you are on the same ratio as you were before, in so far as other costs go back at the same speed.

You do not think variety is desirable ?—Variety is very undesirable. A tax must conform to certain conditions. The revenue which the Government gets must be obtained from sources which will bear least on production ; which will take from the people as little as possible in addition to what it actually requires. It shall be easy of acquisition ; there will be no possible chance for people to evade it, or it will not lead to manipulation by officers in the collection of it. That it shall bear equally in payment for services rendered by the State to the individual.

Our difficulty has been that our income-tax went off. We had to balance our Budget ; we had to have some source of taxation to make it up. We had to increase Customs duty and put on a sales tax. Variety has enabled us to keep up our expenditure ?—May I ask, Is a Government wealthier than the people of the nation ?

Of course the answer is, No.

Mr. Nicolaus : If the Government is ruining the people, is it not going further into the mire ?

Dr. Sutch.] If it is ruining people ?—Well, it must be. If I produce a certain quantity of wealth and you insist on taking a larger share of it. The State has nothing to do with riches or poverty ; that has to do with the people. The Government does not produce wealth, it merely spends it.

Under this single tax we would not have to have a Budget because the unearned increment would come in automatically. We would not have to budget ahead?—You would have to budget ahead; you would have to have some idea of the spending side. On the collection side it would be like the City of Wellington.

So that we would not know a year ahead whether we were going to drop our dental clinics or not, or cut down education. It would depend on the amount that came in from the single tax?—Well, the amount that came in would be the full rental value of the land of New Zealand. You base your expenditure on that.

So that in one year we would be employing many school-teachers and the next a few?—Why?

Because your expenditure would have to come down, or would you just reduce their wages?—You are talking about a case of a fall in the price-level?

Yes?—A fall in the price-level does not, as a rule, take place very suddenly.

Not in the last half-dozen years? There has been a big drop in price-levels?—But did not that price-level come gradually from 1922 downwards?

It depends which price-level we are talking about?—Well, take the primary products.

I think Mr. Massey is more of an authority on primary products than I am. I was talking of a composite principle.

Mr. Langstone.] 1929 was our peak year?—Was it 2s. 6d. a pound for butterfat that year?

Dr. Sutch.] That is the assumption I am going on. I did not know which you included in your price-level. So that from year to year you could get a quick change. One year you would be rich and the next year you would be poor?—No. I do not agree with that. I look upon the price-level this way, that when a man buys land he buys it at a price which is beyond that day's productive value of that land—that is to say, a speculative value is attached to it. Now, if the price-level had been rising in 1928 all your soldier settlers and farmers would have been doing enormously well during that period, whereas all they were able to do was to pay their interest on mortgage and your soldier settlers were not able to do that.

That was due to a higher level of prices some years previously and the speculation that took place?—Yes. That is what I am pointing to, that the price-level was falling like that. I am taking it over the whole width of the farmers, not taking any one particular one. Mr. Langstone brought up the stock agent price-level, I bring up the general farmer level. If fair prices had been received farmers would have been paying off their mortgages or doing something else.

Mr. Clinkard.] Or buying motor-cars?—They might have done that and I do not blame them, because farming in the country is pretty rotten. I know.

Dr. Sutch.] But has not this quest after this unearned increment been an incentive to open up and develop the lands of the world?—It has been an incentive to exploit the peoples of the world.

Would you not agree, then, that it has been an incentive to open up Western America or New Zealand for that matter?—No.

It has had no effect, the thought that in the future you would get the unearned increment that makes for social progress?—No effect whatsoever. You can take concrete examples of that by tabling them if you like, because it is easily get-at-able, the amount of wealth that has been placed upon leased land, to which no unearned increment attaches.

But this whole system in New Zealand would then be a contradiction of the question I was asking?—Yes. Quite so.

But land-values do not necessarily increase?—No. Land-values may go right out altogether.

But if land-values went out altogether, would there be any economic rent?—There would be no people.

Are you talking of land-values generally or particularly?—I am talking of land-values particularly. In particular spots land-values can totally disappear.

Yes, that is the point I make?—But generally they cannot. If populations are increasing and science and invention are being used in progress as we know it, then land-values must be increasing.

In New Zealand that could be happening, the land-values going down because of the fall in prices of products overseas. You could have the increase of progress and population and invention in New Zealand, but such is our economy that if our price-level falls overseas our land-values will fall. The net result might be that land-values had fallen?—Oh, yes. They might drop. That is merely the equalizer like the gold standard; always keeping your feet on solid ground.

Would you say that the rich men of to-day obtained their fortunes from land?—The richest men most certainly.

So that these rich Americans we hear about who manipulated Wall Street allegedly (anyway they managed to get rich)—this man Insull in Greece for instance—would you say that his riches were due to land?—No, probably not.

But I can take other examples of that?—Due to manipulation?

I am not suggesting it was not due to speculation or manipulation. My suggestion is this, that if you are going to tax or take away the result of speculation and manipulation of land, why not do it in other directions?—Because speculation in commodities does not affect the people of the world one iota, but the manipulation of currencies and investment bonds does.

If I invest a thousand in land before your scheme comes into operation and you have a thousand in brewery shares and our investments each appreciate 50 per cent., I should be taxed and you would go free?—No. You would be unfortunate. You would lose the lot.

I would lose, but you would go free?—Absolutely. In fact, I would probably get a bonus because my shares would go up.

Yes. So that you would allow investment in everything but land?—Certainly. Otherwise, how does progress come about?

You think that is quite equitable? If you had £1,000 and I had £1,000 and I had put mine in land, but you put yours in brewery shares and I found when this tax came in I had lost mine and you were better off, I would not be very happy about it?—Of course you would not. But you would have greater opportunities to acquire more wealth.

From where?—From your labour.

Well, take the holder of Government securities. Or would you rather not discuss Government securities?—Oh, yes; you can go ahead.

He has got an assured income and no taxation under your proposals. How would you get at him through a single tax on economic rent?—I am afraid we cannot get at him at all. It is simply a case of paying your debts.

You have got to let him out?—Yes.

So that if I wanted to dodge taxation I am going to invest in Government securities or anything that returns me a fixed sum. Bonds would do?—You would find that no one would sell Government securities to you. You would be too late.

There would be a monopoly?—No one would sell; you would find securities in New Zealand would become fixed to the holders of them.

But you could have Government securities in England and the States. We could invest our money in Government securities all over the world?—Oh, yes.

So that we could have huge incomes but you would not get at us by taxation. You would just let us have them?—Absolutely. It is nothing to do with me what you do in other countries. You would be taxed there.

Not necessarily. If we had huge sums of money coming to us from abroad, whether we are taxed from abroad is beside the point. We are going to be allowed to possess that income in New Zealand without being taxed?—Absolutely.

So that the people who have land will have their economic rent taken from them. I am not saying that is inequitable, but what I am getting at is this, other people are going to go free?—Yes. But you do not infer that that would be detrimental?

I am not necessarily inferring anything. We have got to withhold judgment. The value of improvements is relatively greater in towns than in the country, so that if you tax £10,000 worth of land in the country on the unimproved value and tax the same amount in the town on unimproved value, the man in the town is probably making much more out of his property than the farmers?—Certainly. They would make the same were the capital and labour applied in both cases equal. Both would pay the same rent on different areas of land.

Would you let that happen?—Yes.

Mr. Langstone.] This is an age-long question is it not?—It is. Right from man's beginning.

And in some degree our taxing on unimproved values is in a small measure a recognition of the principles of taxing the unimproved value?—The Government exerting the people's sovereignty.

If you tax 5 per cent. while 5 per cent. was the accepted rate for exchange, you would be taking the whole of the capital, would you not?—Presumably.

The tax would run about 5 per cent. and you would get the whole lot?—That is what I am after. I do not believe in the taxation of land-values. I simply say straight out, land restoration, which means the taking of the full economic rent.

There is one other question, the question of property. Now, I suppose most of our laws—90 per cent. or more of them—are made to protect property?—Yes.

Therefore, the person who has the most property gets the most protection from the law?—Yes.

And a person who has no property has very little protection. Well, he is in a pitiable state mentally if he thinks he is getting more protection than the chap who has got a lot of property?—Yes.

On the question of tariffs, it is the people inside of the country that pay the tariff, not the people outside?—That is so. The idea that the foreigner pays is wrong.

And to stop wealth from coming into a country is not a very sensible thing, is it?—No.

We have got to draw a line of demarcation. I want to put it to you this way. There are private rights and duties and there are public rights and duties, are there not?—Quite so.

The question of the rights of private citizenship are in one category and the question of the public rights are in another. What I mean by that is, that there are many things which the State, acting as a State—the Government on behalf of the people—can do for the people much better than the individual can do for himself?—Shall we put it this way, that the Government can do certain things in a more equitable manner?

Yes. In fact, the individual could not do it for himself. Really there are lots of things that the individual can do for himself much better than even the State could do for him. In many ways it affects just purely his private life and his family surroundings and that sort of thing?—That is so.

And the idea, then, is to leave the income in the pockets of the individual to be able to meet all of those things in that private capacity and to take out of the pockets to spend in a public sense and do all of those things that can be best done in the second category?—Yes.

Now, when the Government spends money that is not the end of it, is it?—Mostly. Well, we never see it back again.

I mean to say that somebody else gets it. My spending is the income of somebody else?—No. I would not put it that way at all. Each person should own his own income, but what you spend is merely exchanging yours for his.

I am not talking of that. I am saying the Government have taken the income of all of the people to do a certain work. When they pay for that being done they can only pay by a form of income. They pay to the person who is running the service. It becomes the income of the other person. He spends it again and it becomes the income of somebody else, does it not?—I do not want

to be too meticulous about the whole thing, but if the Government, for instance, takes part of the wealth of the people and with that wealth supplies other men with food, clothing, and shelter to build reproductive works, then those men are actually producing wealth and they are actually producing their own wages.

Yes; that is all right. I quite admit the wealth is consumed and more wealth is being created as a result of the labour, but the money form of it which it represents goes through like some circulating factor and becomes the income of somebody else and does the same thing there?—Yes. But I like, if possible, to eliminate the money factor, simply saying that my goods and services flow to you and you give me your goods and services in exchange for them. This seems to me to try and make out that you are giving me your income to live on. You say your income becomes my means of livelihood. That is wrong, because you will not give me, of your own accord, your income, and me give you nothing in exchange.

No. There is this: That the Government hand me claims on wealth which they have extracted from the rest of the community. That claim on wealth satisfies my claim, but I pass it on as a recognition of a service that I have rendered entitling me to so much wealth, and the mere fact of my passing it on to somebody else is a recognition entitling them to so much wealth?—And so there must be a liquidation of it.

All money is a debt, money in that form, but we cannot eliminate the money factor to-day as much as we want to. A money economy such as we have got to-day, if it is run properly, allows the individual the greatest amount of freedom, does it not? If I have got a pound in my pocket under the money system properly run it gives the latitude and the liberty of going and buying what I want, where I want it, and when I want it. It gives me that liberty?—Yes.

So that we must have some form. We cannot barter. The farmer cannot exchange pigs for bread because the baker may not have enough bread. In fact, all the bread would have to go to feed the pigs and that would not be very good economy, so that we must have a money economy?—Yes, I understand.

When a Government collects taxation in the money form that does not mean the destruction of wealth. That is not the end of it?—No. It is simply changing wealth.

It is simply changing it and circulating it, and if they change that and put it to a good purpose then it is beneficial?—Oh, yes.

In addition to that it can be the greatest corrective factor by taking from those who have got too much and distributing it, like national superannuation or old-age pensions or something like that, which is a social function; an individual cannot do it?—Well, I do not agree with the Government taking from anybody.

But they have got to get something to run the State?—Yes. But they must not take the wealth earned by either labour or capital.

Well, there is this: There are duties and functions that a Government have got to attend to. Some of them are non-productive. Education is one. Our education is not a productive function is it? I mean to say, in the monetary or commercial sense. You could not make a profit and loss account out of our educational system?—No. Probably you could not.

Nor hospitals?—No.

Nor when you have got invalids and sick people and people who are too old, so that they have got to get sufficient revenue for that?—Yes.

And if they spend it where it is going to be advantageous to the State then nobody can complain about it, can they. I mean to say it reflects itself. I notice your definition of wealth. It is very good, but, of course, I would prefer to go to Ruskin's definition. Wealth is the opposite of illth. Wealth is anything that tends to the welfare and the happiness of the community or the individual and the community. Now you talked about the ambergris. I suppose why ambergris fetches a price is because of its scarcity?—Quite so.

And would you think that scarcity would be a good foundation to estimate values upon?—No. The supply and demand. They are estimated themselves. They work automatically.

But the question of ambergris and diamonds and that sort of thing, they are exceptional. Under your philosophy the value of an article is the labour socially necessary in creating the article that is bought?—Yes.

That means services as well as transport and all of those things, so that really the value of an article is embodied in the article, in bringing it from the raw material up to the commodity that is required, and no intelligent people are going to bother creating things unless there is a demand for them?—That is so.

You think that you could not do away with the profit increases?—Man must work. I consider that he is built like that.

Can there be a profit without a corresponding loss?—Of course there can.

You can have an increase in wealth I will admit. But let us define what a profit is, first. What is a profit?—A lot of people have tried to define profits and they cannot do it.

But in the ordinary accepted sense. We have got to take the ordinary accepted thing that we have got. Now, let me put it this way: That every business man or undertaking, when they have made out their balance-sheet at the end of the year and they find out that after meeting all of the expenses, rent, interest, wages, making provision for depreciation, and all of the contingencies, and when they have got something over and above that, that is profit is it not?—Yes.

Well, if there is a profit that means it is a gain to them?—No. It is a return.

Which they have extracted from the rest of the community?—Are you inferring that that gain comes from nowhere?

No. I am saying there is this, that they have rendered no corresponding service in respect to which therefore, the people who have had that have paid much more than they have received back ?—You mean to say the people are paying for something they have never received.

Yes, certainly. If there is a profit there must be a corresponding loss ?—You do not consider that that profit is wages by any means ?

Wages are paid for ?—Whose wages ?

The workers' wages ?—I am not talking about the workers. The owners of the capital, for instance, must earn their increase to capital. Well, then, profits are part of the return to capital.

No ?—They must be. They can not be anything else.

Oh, yes, they are ?—You have only got three things concerned in producing wealth—land, labour, and capital. How can you bring in a fourth factor ?

Either labour has been paid for or that which we call surplus labour is that portion of labour that has not been paid for. It is unpaid labour which has been created. The energy has been expended in the creation of it. When we come into the monetary factor it has not been paid for ?—You mean a mutual distribution of wealth ?

Yes ?—But that does not take place through the monetary system. It takes place through certain laws.

It takes place through the capital system. If we had done away with interest would it be possible to capitalize ?—You cannot do away with interest.

Well, that is a question that we can agree to disagree upon, but interest for money is in exactly the same category as the unimproved value of land ?—No ; I disagree with that.

Why ?—Well, it is very obvious. Interest on capital is a natural return to capital.

Well, the unimproved value of land I can say by the same reasoning is the natural return to land ?—Exactly, but it is going into the wrong pockets.

But so is interest ?—Well, it goes to the owner of capital, I presume.

Well, take the case of a bank, for argument. I see that you people disagree with it, but I do not think you are on quite sound grounds. There was a case put yesterday. I will put it again. It was not put by me, but I will borrow it from my friend. A person had £10,000 worth of unencumbered property and during the war-time he was compelled to put that forward as a base for taking up £10,000 worth of war bonds at £1 each. Now, that £10,000 of war bonds would bring 4½ per cent. Now, that monetized his capital. It did not alter the physical property at all, but it monetized his property. He still had his capital in the farm, but he could sell the ten thousand. We will say that my friend here was looking for an investment and he had £10,000 which represented some wealth, and he said, "I am looking for an investment of 4½ per cent. on £10,000." That would be £450 a year, and as long as he was prepared to accept £450 a year he would take my ten thousand war bonds and pay for them. He would get the £450, my farm would not have any collateral security over it at all, and I would be exactly in the same place as I was before, but my friend is getting £450, and the bank has been paid back the £10,000 that it advanced by way of overdraft to purchase the war bonds. How did that £10,000 come into existence ?—By the Government paying the value of its war bonds. That is where the fault lay.

That is so. Where did the war bonds come from ?—Emanated from Parliament.

That is so ?—Well, that is not the banking system or the monetary system. That is some one coming in and upsetting the monetary system.

Well, do not all bank-notes originate in the same way ?—No. Certainly not.

Where do they originate from ?—The bank-notes originate for one specific purpose and that is for the use of the community in exchanging wealth.

The war bonds were for the use of the community ?—The same principle behind the war bonds was behind the bank-notes.

You said yourself you must have a money economy. You must have something which will enable you to exchange your notes. They must emanate from somewhere, and what place is more appropriate to emanate from than the Government of a country ?—I have seen them emanate from private individuals.

How does the private individual do it ?—In Patagonia we simply cast our own coins made out of some celluloid sort of stuff, put the imprint of the company on it, and we created our own money ; but we did not make anything out of it. Well, then, the Government who issues the bank-notes does not make a farthing out of them.

But although the Government issue the law under which bank-notes are made possible, the Government do not issue the bank-notes. The banks do that ?—Yes. But they are issued under direct control of the Government.

Yes. With this difference (and I think you state the thing correctly in your programme) that any credit or any notes in the bank are just dead. They have no value at all. It is only when a bank-note goes out from the bank to the people, the community, that it becomes vitalized, that it is a vital factor, and every time that it changes it does transfer real wealth from one person to another ?—That is so.

But seeing that it is worth nothing in the bank, but the bank can use that bank-note, which has cost them nothing, to transfer the same amount of real wealth back to the bank that has been transferred from one individual in the community to the other, then they have got something for nothing ?—But how could they do that if the bank-note goes back into the bank and it becomes dead money ? They have got to revitalize it themselves if they are going to spend it in the community. They are not allowed to use that, because every time they bring a bank-note out it costs them 4½ per cent. to do so.

Oh, no, it does not. At least I do not think so ; but other members of the Committee do. If a bank prints £100 worth of notes and if it gives £4 10s. to the State and keeps £95 10s. for itself, is

that a tax ?—But what is it going to do with those notes ? If it simply keeps them in the bank, then it is losing money obviously.

What is the State going to do with them. What are they there for ?—You said the bank printed the notes and is making £94 out of them. I say, where are those notes ? Are they in the bank. If so, they are of no value to the bank whatsoever.

No, they are in circulation. But the banks want to pay the salaries of their servants. We were told yesterday that the bank could put these notes into circulation by paying the salaries. Now, suppose one gets £5 a week. When he gets those five notes, which cost the bank nothing, only the printing of them, when those five notes come to buy bread or meat or groceries they take real wealth. This person has given his services to the bank for a whole week for £5, but it has not cost the bank £5 as an institution to get in the £5 which is £5 outside of the bank, not inside of it ?—I put it this way: that in the community there is a certain circulation of notes going on. Now, it is impossible for the bank to put more notes into circulation than the people can use. Therefore, if they give the bank employees notes out of a new issue, notes of a similar amount will remain dead out of that issue.

You do not get my point. I quite readily admit that the bank will refuse to give notes if people want them. There is only a certain demand for notes. There is a certain ratio between what we call our petty cash, our notes, and so on in circulation with the general volume of business. There is a ratio there, but what it is I do not know. If we were to give notes to the unemployed you would not suggest that simply because they had them they would go back into the bank and become dead ?—Of course they would.

No ?—What I call dead money is this—not necessarily what goes back to the banks—that if you have a pound and you spend it with me, you transfer your pound to me and I give you goods in return. To you that pound is dead money; you cannot use the same pound again for another transaction. Before you can get that pound back you have to produce more service or goods.

That money in the banks is not working; it is evidence of a credit to the person, claim on goods; but the banks do not produce the goods, that is only bookkeeping ?—Exactly; and if you know anything about bookkeeping at all you will know it was evolved like money was evolved, simply to facilitate trade.

And a very necessary thing too ?—And that is all this bank does here: it records the existence of my wealth to some one else.

Yes, but the monetary form of wealth originates from the bank not from the person ?—I tried to point out to you that the monetary form of wealth can issue from me. If I wish to issue it I can.

You try it ?—It has been done over and over again.

It cannot be done in New Zealand by law ?—Several instances have occurred in New Zealand where companies have issued their own money.

Dr. Sutch.] Not at the moment, but in the past history they have ?—The monetary system has not changed since then.

Mr. Langstone.] We are talking of to-day, and no one can issue his own pound-note to-day ?—He can issue his own money to-day.

Dr. Sutch.] Not under the Reserve Bank Act ?—Under any Act. If the people are prepared to accept it the Government cannot stop me.

The Wellington City Council have applied to the Minister of Finance for permission to issue milk-tokens because the Reserve Bank Act stopped them from issuing tokens ?—Say I issue a promissory note, that is the same as a bank-note.

Mr. Langstone.] A promissory note has no standing, and you do not have to accept it; but a pound-note is convertible legal tender, and you have to accept it ?—I have not to accept it. The point I want to make is that merely because the Government has affixed a stamp on a coin or a note that does not make it acceptable to the people of the country.

Dr. Sutch: If I owed you £5 and come along with a five-pound note and say that I am paying you that five-pound note in payment of that debt, and you do not accept it, then you could not sue me in a Court of law ?—That is only one instance. Speaking of money generally, the fact that the Government stamps it does not make it acceptable to the people of the nation.

It originated by Act of Parliament. It was handed to the banks to be put into circulation and was made by law legal money ?—The law does not make money.

It must be accepted ?—The point is that it is accepted, but not because the law has made it money.

Dr. Sutch.] Your own definition of money is anything which is at all times expended in complete and final settlement of obligations ?—But that does not limit me to the Government stamp.

But the question of the final settlement is in the legal money.

Mr. Langstone.] Let us get on to the question of savings. We live from day to day, do we not ?—Yes.

And we live on current production ?—Yes.

How are you going to save ?—By restricting your consumption.

Is that a good thing ?—It all depends on the person who saves.

If you do not consume it, there it is. Nobody can leave wealth—I am not talking of money, but real wealth—in the past for consumption in the future ?—In some forms, but usually, no.

So that, really, when we talk of saving it is a term that we use rather loosely, and does not carry any great meaning. If there is always sufficient in current form to meet the current needs of the people that is all they can have ?—Quite so.

If there is sufficient current things current to do that, that is all that is necessary ?—If there are sufficient things current and the Government forces an equal position the savers have lost what they save.

In regard to the matter of the national debt overseas, you think that over a period, anyhow, we should not pay anything under your scheme ?—No, either overseas or internal. I include the total national debt.

When a loan has been made overseas that means that goods have come to New Zealand, not money but goods, and the internal monetary form of gold may be greater than the external monetary form, therefore it would be only fair and just that we should send them goods back again. Would you do that ?—Yes.

It would be the interest portion that you are dealing with ?—There would be no interest in that case.

And what about principal ?—I am assuming that you would pay for the loan with goods. That is all right, the loan is liquidated.

You have a pretty big loan on past borrowings, a contract that other Governments have entered into which carries forward ?—Then you can only pay what is accruing on the date by sending goods.

In the main you would have to meet the position in England as here, although it would be a burden, but ultimately under your scheme credits would accumulate overseas and a portion would be used to liquidate the debt and you would get rid of it ultimately ?—Yes.

I admit that. Now, we come to the question of values. We dominate them in some form. What is the method by which we do that ?—You attach a name to a thing when you are giving it value, say, pounds shillings and pence.

Therefore the money form, owing to that fact, is a very vital factor ?—It is very vital that it should be correct.

We talk of prices varying; that means that the money form of them has altered ?—That the money denomination has altered.

What causes the money denomination to alter ?—As money form originally represented labour value it is obvious, if that money denomination falls and it still represents labour, that labour is not being applied to the production of wealth.

That is not quite the answer I would like. I mean to say there must be some factor at work; something has happened that has caused the money form to vary. What has been that factor ?—On the London market, you mean to say that our goods originally were worth 1s. and all of a sudden they were worth 1s. 6d. ?

Or 6d. ?—One way or the other.

The tendency has been down to 6d. ?—If England had gone down to the gold standard your wool would have been 6d.; but if, on the other hand, she issued a pile of money it might have gone up to 2s.

I want to know what is the cause ?—That is the cause, either withdrawing currency or putting currency into circulation.

That is the answer I wanted. As this money factor operates it determines the price-level ?—It does and it does not. It can only do so to a certain extent. We have had experiments going on now for a time in the hope that an overissue of money and credit would raise price-levels. You might almost term it "costless credit" inasmuch as the Government is willing to help industry at any cost, but they have not raised wages, which is the prime factor before real prices can rise at all, so that the mere fact of issuing more currency will not help the consumption of wealth nor the production of wealth.

I readily admit that you can overdo almost anything, but there is a certain definite amount of this thing necessary to give the average volume of the exchange of wealth we need ?—Yes.

But if the money factor comes into it the volume of wealth is exactly the same, but our relationship has been very radically altered. We will assume that at the war-time you saved your gratuities and other things which amounted to £1,000, and you put that £1,000 into land and the only reason you put it into land would be that it was the only opportunity, and the prices of primary production compared with other things were showing a good profit ?—Yes.

We will assume that at that time butterfat was 2s. a pound and the farmer was producing 600 lb. of butterfat. Your interest was fixed at 6 per cent. While butter remained at 2s. a pound both you and the farmer were on the same contractual basis that you entered into ?—Yes.

But if the price of butterfat falls to 1s. a pound, then the farmer has to produce 1,200 lb. of butterfat, not 600 lb. He has lost in real goods, but you have gained in real goods. That means that his mortgage is not £1,000 now, it is £2,000; interest is not 6 per cent., it is 12 per cent. The relationship between the citizens in the same country has altered. One is dispossessed and the other appreciated. Between countries you get it the same ?—With regard to national debts, yes.

Therefore the money factor is a very important factor if it can do that sort of thing ?—It did not do that.

What did it do ?—You start off right on the wrong track and then fall over into a ditch at the end. If there is no mortgage at all that condition cannot arise, and that is what I want to bring about. I realize what your contention is, but mere manipulation of currency will not alter that.

I am not talking about there being no mortgages. I am talking of things as they are, and I am going to make this assertion and I think I am pretty right, and you said it a while ago: that taking money out of circulation with the same volume of business to be done and the same volume of goods to be distributed, then the taking of that money out of circulation causes the price of commodities to fall ?—Quite so.

That means that money becomes more valuable in relation to goods and services ?—The gold does.

The banks own the gold, the people do not ?—That is so.

Farmers and manufacturers produce goods and the labour of the workers purchases the goods ? Yes.

Therefore the man who owns the gold becomes more powerful or creates money, like the banks do, and the others become poorer, less powerful ?—They did not, as a matter of fact.

But they did ?—No. The banks do not trade in gold ; they put gold in their coffers as security for the issue of notes.

What I am saying is that when the war was on they went off gold ?—That is merely manipulation, I grant you that.

But when they came back again they came on gold and coming on gold meant that because they had a similar basis they had to contract money ?—Yes.

Therefore that reflected itself in a fall in prices ?—Yes, but the first step was the wrong one. The going off gold is the wrong step. Going back to gold is the right one. Before that wrong step was taken did any one worry about money, did the farmers worry about it, did you worry about it ? The farmer was all right on a rising price-level from 1896.

If you have studied the gold factor and read any economist on gold, you will find it has been the greatest disturbing monetary factor the world has ever known ?—And the greatest stabilizer.

No. However, we will agree to differ on that. Why I am bringing that forward is to show that money is subsidiary compared with goods and services ?—Yes.

But at the present time, partly through this manipulation, it puts up a question of the first magnitude to get rid of it ?—We have a disease and we have to cure ourselves. We cannot cure ourselves by giving ourselves another dose.

And you think you can still produce for profit and pay no interest on the national debt, and the mere fact that the taking of the community value which attaches itself to the land would be sufficient to give the Government all the revenue it needs from time to time to give all the services the Government is called upon to give ?—Yes, that can be proved by figures.

Mr. Lye.] I want to say at the outset that I am of the opinion that your paper is a valuable contribution to the investigations of the Committee, but I want to ask a number of questions for the purpose of getting more clearly your point of view. You say, "In order to ensure that all capital shall be of a reproductive nature, we recommend, 'That investments shall be restricted to production enterprises.'" You further go on to say, "This recommendation will ensure that land-mortgages, which constitute the greatest burden upon the people to-day throughout the world, will be removed and made impossible of being replaced." Now, in a young country like New Zealand it is necessary, of course, under our present system for farmers to mortgage land to refinance improvements ?—It is necessary to mortgage their lands to get on to them at all.

If he lacks capital he has to mortgage his land for the purpose of getting that additional capital for the purpose of carrying out improvements. That is the practice to-day ?—No, the farmer cannot store up enough labour in order to make further improvements on his farm, because of the high mortgage price he pays for the land.

He mortgages the improvements that have eaten up his capital in order to get further money. Would you, under your system, be opposed to private lending by private individuals ?—No, absolutely not.

If a man borrows, what security would he have if he borrowed against the land ?—The improvements.

His land would immediately become mortgaged ?—Not the land.

The improvements ?—His improvements become mortgaged.

You draw a fine point between the two ?—I do, and it can be easily seen, too.

The land-occupier is in the position, then, that he can only mortgage his improvements ?—That is so.

That clarifies the point I wanted to get at. Under your system of finance how would you dispose of the mortgages that may be already in existence and a first charge on the land ?—Take some figures as an example. Land of an unimproved value of £36,000 with improvements to the value of £6,000. The unimproved value by Government is £12,000. If the Government were to send to the owner, who is the person occupying the land, a bill for the rental value, based on their own valuation of £12,000, that would take the whole unimproved value. Then the £6,000 would represent the amount available for the first mortgagee to collect on, because if the owner said, "I am not content," then the first mortgagee at law would take possession of the land ; but as soon as he entered on the land he would become liable for the rent, even though all his capital would rest in the improvements and the stock.

I want to deal particularly with the taxation proposals of the land. You do not like the word tax, do you ?—No. The reason is that a tax implies that you are taking away from some person something that belongs to them.

You say the confiscation from labour and capital by taxation of the fruits of their industry is financially and ethically wrong. Do you agree that labour creates wealth ?—Labour applied to any raw material creates wealth.

It produces wealth, yes ?—The labourer or the worker having applied his skill and efforts to primary production produces wealth and at the same time produces an annual income for himself.

Under your system of taxation you do not propose to collect any income-tax ?—No income-tax whatsoever.

You intend to collect all the revenue that is required by way of taxation from the land. Is that because you consider that the land has a value attached to it ?—It has a community-created value and therefore is the legitimate source of revenue for Government purposes.

I think Dr. Sutch mentioned this point, and I want to elaborate it. In the first instance land-values do not always necessarily increase. Sometimes, if you read the history of England, it has decreased, as far as it applies to the farming districts during the last hundred years. There has been

a great fluctuation of land-values and the landlords have had to come to the relief of their tenants ?—Yes.

So that a serious fall in the land-values interferes with the amount of revenue that you would collect during that period of lower values ?—Yes.

How would you offset it ?—I would not offset it.

You do not reimburse the Government of the day ?—No. The Government has no debts to meet. I wish to eliminate the fact of the present national debt. What I want to get at is a condition under which society can function reasonably and decently, so I should like to leave out the national debt. If there was no national debt to pay, the Government would have no obligations, overseas or to anything else, other than social services.

What about the internal debt ?—That is included in the national debt.

Would you repudiate your obligation to pay that ?—For two years only. I would act the same as a company acts, or a board of directors, where the company's earning-power has dropped. They have to pass a dividend ; they cannot pay anything.

That first two years might be called by you a period of adjustment, inaugurating your scheme. Supposing you have got inaugurated, you have a very material drop in the revenue you get by way of taxing the land ?—If that could happen, we would be in Queer Street, but we have certainty. We have taken all factors into consideration, and think that the second year after this is inaugurated the revenue will be £37,000,000. This is without "higgling" with the Budget at all by borrowing.

I am approaching this question from the idea of understanding your point of view. Would you admit that any material and sustained fall in land-values through which you get your revenue would seriously embarrass the Government of the day ?—No. If the land-values fall the collection from the people falls—that is, revenue ; wages fall ; the cost of living would be so cheap.

Social services would be reduced ?—No. Social services are only wages. Maintenance is only wages. New rails and new trams are only wages.

Let us leave that point for the moment. To make any scheme acceptable to the public of New Zealand it must be fair and equitable to all sections of the community ?—Not exactly so.

You do not think so ?—No. I think that under the restoration of the land there are quite a number of people in New Zealand who have invested in land-values under the present unjust law and have involved themselves unconsciously in an unjust act towards the community as a whole. Those people are going to suffer, but I think I mentioned in my paper that any one who does so suffer, who does by an act of the people lose his livelihood and is unable of himself to keep and maintain himself in comfort, then it is the community's duty to see that he is maintained in comfort.

Is it not a recognized fact that every single member of the community owes a duty to the State in the way of taxation and supporting the State generally, and that any wholesale system of exemptions can operate unfairly and is really iniquitous ?—Taxation, which is a form of service claimed by the present Government, is merely a robbery of wages and capital. It cannot be any other.

Let us follow that line of thought. There are a great many other values in New Zealand apart from land-values, which from one reason or another (but not through any special individual effort of the owner of those values) have increased immensely in value ; your plan does not propose to touch that class of individual ?—Under our plan, those values disappear altogether. The value is given to gold by manipulation of social laws and the debasement of the currency which are being effected by the policy of certain Governments in certain countries. The values remain the same, but it does not alter prices.

Take the man who corners cotton ?—I have never heard of that.

They have done it, partially. Take the people who gamble on the stock exchange ; take oil kings who have almost unlimited power ?—Through owning the natural resources.

Would you take them away ?—Most certainly. If you put one of those oil-wells up for auction, the money paid by the community is the taxable value of it. It really takes away all value other than labour and wealth value.

Would there be a compulsory confiscation of assets that the individual had ?—No.

Would you compensate these men who had the control, the oil kings of the United States of America ?—No, why should we ?

I understood you would. Would you tax them ?—No, certainly not. I merely take the rental value of the natural resources which they personally get.

Which would be arrived at on a fair and equitable basis ? That is how you would adjust the position as far as these men who have control of the output of oil from the United States ?—Yes.

You say that the present system of collecting income-tax and Customs revenue is unethical and unfair ; I am a farmer ?—So am I.

I want to place on record a point of view ; I will read an extract from "Essays in Taxation," by Seligman :—

> "Towards the close of the eighteenth century, there was a school of French writers, the Physiocrats, who first advocated the plan of a single tax on land—the famous '*Impot Unique*.' It was considerably talked about until Voltaire turned his caustic pen upon them and wrote the celebrated essay '*L'homme a quarante ecus*'—the man of forty crowns—one of the most effective bits of mordant sarcasm ever written. Voltaire pictured the position of the French peasant toiling laboriously, amid conditions of unspeakable distress, but succeeding in getting from the soil a product equivalent to forty crowns. The tax-gatherer comes along, finds that the peasant can manage to keep body and soul together on twenty crowns, and takes away the other twenty. Then the peasant meets an old acquaintance, originally poor, who has been left a fortune of 400,000 crowns a year in money and securities. He rolls along the highway in a six-horse chariot, with six lackeys, each with double the

peasant's income; his maitre d'hotel gets 2,000 crowns salary, and steals 20,000, his mistress costs 80,000 crowns a year. 'You pay, of course, half your income, 200,000 crowns, to the State?' asked the peasant. 'You are joking, my friend,' answered he, 'I am no landed proprietor like you. The tax-gatherer would be an imbecile to assess me; for everything I have comes ultimately from the land, and somebody has paid the tax already. To make me pay would be intolerable double taxation. Ta-ta, my friend; you just pay your single tax, enjoy in peace your clear income of twenty crowns; serve your country well, and come once in a while to take dinner with my lackey. Yes, yes, the single tax, it is a glorious thing.' This little picture, perhaps, did more than all else to nullify the efforts of the Physiocrats."

That little extract shows the inequality and how unethical from my point of view, and, from the right point of view, how grossly unfair it would be, to allow a man to have an income of 400,000 crowns a year and not be subject to any taxation, whilst the individual on the land with only 40 crowns a year, had 20 crowns taken as revenue or single tax to render social service to the community, and he is only left with barely sufficient to keep body and soul together?—You have not reasoned that out for yourself—the point of view from which that man is writing. Have you actually taken that excerpt and thought it all out, or have you taken it as read?

I have read it before, and thought along those lines?—Do you believe that what that man says is true?

Yes; I will answer you fairly?—The record is there, and I want to contest that as being an untrue statement, or does not show up the true facts.

Without any bias in the world towards yourself, Mr. Nicolaus, upon reading your taxation proposal, it appeared to me that your proposals were not based on ethical lines at all. It appeared to me that you were going to make the land pay for everything, and it does not show any plan or system whereby those individuals who are enabled to use their fellows and the conditions which arise in trade and industry from time to time and enjoy a big income, yet the man who is at the root of it by farming the land and producing in its original form has to be taxed and the land is to be the source of all revenue to pay for the running of the State?—You are almost as bad as that man who wrote that article in that book. You continue to harp on the fact that it is the poor farmer who has to pay, whereas the land in London is worth £6,500,000 per acre. How many acres in the country will you get for £500,000, which is the price of an acre of land in some of our towns? We start from the ethical basis where every individual in this world has an equal right to life, liberty, and happiness.

As far as your land policy is concerned, you believe entirely in a usehold policy?—The people must own the land, not the Government.

And you say that each succeeding generation has an inherent right?—Yes, the same as his predecessor. We are here for only a few years, but the land is here for all times.

That is a sharp contrast; if that point of view is put into operation, it is a sharp contrast to the land-ownership to-day?—Yes. You read an extract against it; may I read an extract for it? This is an excerpt from the constitution of the Cherokee Nation in America. "August 1st, 1838, at Aquohee Camp I. Territory the United Cherokee Nation framed its constitution." The first article in the constitution is as follows: "The lands of the Cherokee Nation shall remain the common property, but the improvements made thereon and in the possession of the citizens of the nation are the exclusive and indefensible property of the citizens respectively who made or who may be rightfully in possession of them." I do not want to read what the Natives here have said; they have the same ideas as the American Indian. Always where man is closer to nature, that viewpoint is found. The Maoris knew that if they were deprived of their land they would be slaves.

I suppose it is useless to ask if you would recognize that in any system of taxation it should apply to all classes of the community?—Yes, all classes.

Where we differ is this: that you want to collect it from one particular class, the land?—Yes, but that applies to all classes.

You do not want to get any totalizator-tax?—No, they can keep that.

You do not want to get it from people who gamble on the stock exchange, no matter what they make at the expense of the people?—They make nothing at the expense of the people; they make it at the expense of individuals; what one gains another loses, but they do not affect the community.

They make it at the expense of the individual?—Yes, one against the other. Let the gamblers ruin each other.

Let us follow it a little. There may be many thousands of innocent individuals who, through the operations of a group of individuals who put up the price of bread, are suffering. An undue profit has been made out of the actions of this group of individuals and prices have been fixed by a group?—They must have had a monopoly to be able to do it.

They could get a monopoly if they have got the cash to go on the market?—Only through Governments. And the people of themselves cannot get or retain monopolies, except with the sanction of Governments. All you have to do is to open your ports and let the other nations come in.

Quite separate and apart from the question of taxation, you want an almost (and I do not say this in its worst aspect) revolutionary change in Government as compared with the system of to-day? You want a drastic change to put your plan into operation?—A drastic revision, as to the place from where revenue is derived.

You would take away the rights of individuals to do this, that, and the other thing, and invest their capital?—Yes, that would be all done away with.

Hon. Mr. Downie Stewart.] This in effect is very similar to the scheme of what is known as single taxation?—Yes.

You will agree with me that a scheme that is to function well must be acceptable to the community; we must bring forward something that the community will accept as practical?—Yes.

Does it not discourage you at all when you realize that for forty or fifty years organizations have been urging your scheme without apparent interest of the public ?—Not in the slightest.

You put it forward as an abstract statement ?—I am willing to fight for it, and I realize that natural law is forcing us towards this end.

Where you differ from the great mass of the community is that this proposal offends their sense of natural justice. You are quoting the Cherokee Indians; one can imagine your plan in a new community, being accepted there, but where you have got a long course of dealing, you do not consider there would be any injustice in dispossessing without compensation ?—Have you ever answered these questions ? "How long does it take for what was originally a wrong to grow into a right ? " "At what rate per annum do invalid claims become valid ? " "If a title gets perfect in a thousand years, how much more perfect will it become in two thousand years ? "

They are unanswerable questions ?—No, they are not.

It would not have been wrong; it was a wrong if you tried to introduce it after you allowed another system ?—This private ownership of land was never allowed by law.

It actually exists ?—Yes, but it was never recognized. Was it ever put up to the people, "Will you sell your birthright ? " It was never sanctioned by the people of any nation.

It was put on the statute-book ?—Not by parliaments, because the private ownership of land existed before parliaments existed.

All I can say is that you have a few hundred years' fight for the people of the Dominion ?—I cannot persuade them, but natural laws can, and it will not be long before we see it. You questioned me in regard to the justice of interfering in a thing which had become a custom and you inferred that the people would resent anything which interfered with a custom, and that also it would be unjust to a great many people. Have you ever thought how Governments have interfered with the people of to-day ?

Certainly ?—Have they protested ?

The people ?—Yes.

They have the opportunity of protesting ?—Is it effective ?

They are not powerful enough ?—Exactly; the Government is powerful enough to put these things into effect by threat of force.

No ?—It is force, or the threat of force.

No ?—Blackstone says, "No laws are binding on the subject which assault the body or violate the conscience."

That depends on your conscience, not on the community ?—Quite so. You have a community which is made up of business men, and disemployed and unemployed; the business men are undoubtedly crying out against this iniquitous taxation that the Government is putting on in New Zealand.

Are they ?—The papers are always full of it. I am going, of course, by what I read in the papers. The unemployed are also crying out against the restriction of their labour to weeding paths and working for a farmer for nothing; they are also another big section of our community. The farmers are also crying out against the iniquitous Government laws. Therefore you have the whole population against the Government, and yet you say the Government has the sanction of the people. They are only putting it in by force or the threat of force.

You are destroying the basis ?—No, the Government has destroyed that basis.

The people have not tried to prevent them ?—They have not the right method, but if they do get the right method it will only be natural law which will force them to get it.

You go far beyond that; you adopt the Quaker attitude that any law that to you individually is oppressive, you have the right to refuse ?—No. Any law which violates the conscience, or assaults the body. And why not ? Shall they have no right to refuse to kill their fellow-men ?

I am talking about taxation ?—And taxation; Thoreau did quite right to refuse to pay taxation. When Emmerson saw him in prison and commiserated with him, Thoreau said, "And what right have you, an honest man, to be outside ? "

You are simply what they call a philosophical anarchist; it is not a term of abuse. Regarding the Quakers' refusal to fight did you ever read in history what happened in one of the States when Red Indians attacked the Quakers ?—Men always defend themselves. I mean to say that you ask a Quaker or you ask me to fight a person I have never seen and never knew, that to all intents and purposes might be my best friend, I refuse to do so.

The case I refer to was one where the Indians wanted to kill the Quakers. What the latter did was to allow a poor old Highland Regiment who were worn out to be carted up in carts to the firing-line to defend them, and then when the Regiment came back, the Quakers did not even thank them ?—Well the Quakers probably thought, we are paying for this service; why should we not have it ? And quite rightly so. Why should I defend my ports when I pay for naval forces to do so ?

You say you do not believe in fighting ?—Not in fighting when you have no personal enmity.

To get back to your proposals; I want to know as a matter of opinion from you what would be the effect, in connection with farm lands to begin with, of taking the annual value ? It would be equivalent, would it not, let us say, to putting a mortgage on the capitalization of the annual value—that is to say, a farmer in buying a place would allow for the fact that the net annual value or the economic rent of the farm did not belong to him so that he would not pay on the present basis, would he ? It would be no justification for him to pay, in going into a farm, the capital value and the unearned value ?—He would pay the rental value.

Yes, but in buying an improved farm, really all he would pay for would be the improvements ?—That is so.

I am only asking this as a matter of curiosity. What would be the effect of that ? The farmer is free from all other taxation, of course ?—Yes, absolutely.

What would be the effect in the price offered by farmers for properties seeing that they are not liable for the economic rent of it? Would it in your opinion lead to an inflation of land-value? The general idea of the single tax is that it would reduce and cheapen land very much?—You are going very nicely into it. That is just what I was looking for; it is very seldom people inquire as deeply as you are inquiring. I consider that in two years from the institution of this condition in New Zealand, the Government's rent would be £37,000,000. That is, without any fiddling with the currency. Obviously that must mean an increase in land-values.

They would rise?—Yes, because you are only taking the economic rent and collecting no taxation. The reason for that is this: That you and I know that any improvements which are made by Governments such as roads or railways or by private people such as an increase in the return of butterfat per cow, reflect in land-values.

I am in agreement with you so far?—If I take off all taxation, will that not also reflect in land-values? That is where the Government value comes from. This is the crucial point of the whole of this scheme. The laws of nature—the law of rent is one; it must function naturally the same as the law of gravity. That means that rent, being the excess of products over the marginal lands, all labour and capital would be put on an equal footing—that is to say, if one person had the use of valley lands and the other had the use of second-class manuka land, provided equal labour were applied there for eight hours during the day, under our system the man on the river-flat would earn no more than the man on the manuka country. That is how it would operate. No matter what you do, rent takes all but the bare living. You cannot get away from that.

I do not dispute what you are saying, but the general public opinion is that the single tax would destroy the land-values; that is the popular impression?—I do not know the popular impression; I have met quite a number of people during my few years here who thought that the institution of the economic rent or the restoration of the land to the people would mean that fictitious land-values would drop—especially the *land* value—so it would eliminate the fictitious value which mortgages the land ahead.

But I think Sir George Fowlds and all the leaders of the old school were under the impression that the effect of their tax would be to cheapen land tremendously by reason of the appropriation of the land-value, whereas your view is the other way, that there would be a rise?—Everything gives in to land-values. That is natural. We cannot prevent it.

If we agree on that, then the next point is that so far from making it easier for a man to get on the land it would be more difficult?—No. On the contrary, land-values are rising—that is, rental value, not price, which are two different things.

Well, the price of his farm will cost him more?—No. It will cost him very much less, because he has got to pay no money down to get into it.

But because it is free from taxes it is a more valuable farm than it otherwise would be?—Yes.

Well, would he not pay more for it?—In rent only.

You understand there is a difference between rent and capitalization of rent. He has to pay the capitalization of rent with something added for future increase.

In our case he will have to pay the actual rental value with no price or mortgage. He walks in there without a mortgage, without a debt, and he does not need to have much capital to do it.

I am accepting for the moment your idea that there would not be a very grave shock to the community in initiating your scheme?—The greatest shock would be to the unemployed man who would get back into a profitable job again.

But do you not think that as you reabsorbed the unemployed on the one hand you would be creating an equal volume of unemployment on the other?—We would be creating quite a lot of unemployment, but we would be putting on the labour market people who never did a hand's tap in their lives and lived on the earnings of others. That is what I intend to do if I can possibly bring it about.

That is not what I have in mind. I am only asking as a matter of practical politics. One of the main features here is the abolition of all Customs duties, and a rise in wages under those circumstances, would not that mean that the whole of our secondary industries would be unable to compete with the imported article?—No, not necessarily.

They would have no protection from overseas, and, having higher charges to pay, they have got no protection whatever?—Yes, they have.

Where does it come in? If you can tell me where protection is protection, then the whole of my theory falls to the ground. I mean, can you tell me where so-called protection or tariffs give protection to industries in the country in which those tariffs are placed?—I only go on the broad principle.

Well, what is the principle?—The principle is that owing to having a smaller market and a higher cost and a higher standard of living here they cannot compete successfully with the imported manufactured goods from abroad. So the community, being desirous of having certain industries established in New Zealand, eases the level of that competition for you by tariffs which will compensate you for the higher wages and the smaller market you have got and the other disabilities.

Does that mean that you have put that man on the bread-line?—No.

What do you do to him then? We give him a chance to live and employ hundreds of thousands of men?—All on the bread line?

No, I do not think so?—Are there any protected industries in New Zealand to-day which are quite satisfied with the position and are not crying for more duties?

Yes. I know quite a number of them. I have had them offer to have their duties reduced?—Yes. I know one. Bobby Hannah. I know that he said, "There is no need for me to have duties on my goods. I can compete with overseas without duties, but naturally I will take it. Obviously an industry of that type would not go up, would it?

No. Not if he can compete without a duty ?—The effect of taking duties off would make it cheaper for industry to manufacture goods, would it not ?

It depends whether they had power to import raw materials on which they are paying duty ?—The duty does not only operate on goods coming over from the ship on to the wharf. It operates on everything that is produced in the country.

Yes ?—Therefore any raw material which was operated on and which was subject to tariff, whether it came out of a country abroad or whether it came out of our own country, would still enforce that more capital was necessary to start that industry in the first place, and would make it very much harder to compete with any outside industry which could have its raw materials free.

Mr. Schramm.] You had a few hard words to say about the parliamentary machine a little while ago ?—Not the machine, but what happened when the machine worked.

I suppose you recognize that the machine, or the personnel of Parliament, is a reflection on the will of the people ?—No.

You do not recognize that ?—No. Not entirely.

You would not say the people get the party or the Government that they ask for ?—Not entirely.

Do you want to put it in the words of Captain Rushworth and say they get all they deserve ?—No. You can put it this way: That a different system of election would give a more equitable representation of the people, in which minorities were represented as well as majorities. You might say that the people who are in power to-day could agree amongst themselves in Parliament to say, "Let us bring this more equitable means of electing representatives to Parliament in without applying to the people at all. Let us pass a law like we passed the exchange and all these things." But they do not do that. So in that way the people might not get what they deserve.

You say this system of election is not equitable. Well, suppose it was not and they returned the party to power that is in power at present, well, the people get exactly the Government that they asked for appointing them ?—Yes.

You realize that the only way you can get your scheme in force is by having a law passed and placed on the statute-book ?—Quite so.

And your job is to convince the people of New Zealand to return representatives to Parliament who will give you a majority whereby you can put your scheme into force ?—Yes.

So therefore the system of parliamentary government is the best and only logical scheme to adopt in civilized countries ?—Quite so.

Have you seen those proposals for the rehabilitation of New Zealand that Major Douglas has put forward ?—I have.

What do you think of them ?—I do not think much of them. In fact, I really doubt whether they amounted to a proposal.

I notice in reading this document of yours you are in favour of the present banking system continuing ?—Yes.

Have you got any suggestions of amendment to that system ?—Any suggestions of amendment to the actual banking system, which to my mind consists in the recording of transactions and nothing more, could only come from experience and evolution. That is to say, as it has arrived at its present stage through that system as an organism grows, so it can come to better methods as they are warranted.

I suppose that this scheme that you have put forward about taking the full economic rent is to secure social justice to all the people ?—That is so.

Do you think the present banking system operated by private control, whereby the dividends go into the hands of private persons and the State is really left at a disadvantage—controlled, I say, by the banking system—do you think that gives social justice to the people ?—Somebody said to me the other day, "Look at the banks paying 14 per cent." I said, "Look at Woolworths paying 30 per cent. and Courtaulds paying 100 per cent." What are you going to do to these people ? If the State is going to take over the increase from industry you are simply running into communism.

I put it to you, I believe in the State taking over the whole function of banking business and controlling the whole issue. If you are after social justice by this scheme of yours of taking the full economic rent, I understand it thoroughly. Do you not think it would be social justice to take control of the whole banking system, lock, stock, and barrel ?—If you could show me a way whereby the banking system earned an unearned increment, something that had nothing to do with capital or labour, something that had nothing to do with the exertions of men either bodily or mentally, something that had nothing to do with a natural increase which comes to capital, being used by labour, then I say the State has a right to take it; but until you can show me that there is an unearned increment in the trade or profession of banking, then I say it belongs only to those who bank.

You apply the term "unearned increment" to land ?—That is so. That is the only unearned increment there is or can be.

It is a profit when you use the term as regards a bank; a dividend ?—Yes. Dividends or profits or increase to capital. Increase due to the use of capital.

Do you think to-day that the banking system is the heart and core of the whole system ?—I remember when I was a farmer I used to go to the bank manager sometimes and say, "Look here, I want £20," and he would let me have it without any security or anything. But the fact remains that that £20 I would use from the banking system does not belong to me at all. I am using some one else's goods. That is what it amounts to, because I buy goods with that £20. I put it into goods of which the banking system only reflects the tangible value of wealth in circulation.

But do you not see that wealth earned in such a way as that should be earned for the benefit of the State ?—If you look at it in that light, then you must include the earnings of all capital for the State.

Well, ultimately you would ?—If you say wealth in one form should belong to the State, then you must include in it that wealth of all forms should belong to the State. It must be, because you cannot separate one form of wealth from another.

Should not all public wealth anyway belong to the State ?—There is no such thing as public wealth.

Everything except the personal belongings of a person. Is not that the ultimate end of all things, a fair view to take ?—You mean to say natural resources ?

Yes ?—Natural resources outside man himself belong to the people.

And do you not think that these things like banking, which may become the monopoly and control of private individuals, and running post and telegraphs and those sort of things, railways and that, public utilities, those great concerns that vitally concern the whole life of the community, should be under and controlled solely by the State for the benefit of the people ?—I have heard that in California to-day, where all those things that you mention are run by private enterprise, not only are they run more efficiently, but they are run more cheaply than in the Eastern States where they are under Government supervision. That is an actual fact to-day. I am not bringing in any assumption. That is an actual fact.

Dr. Sutch.] Do you suggest that in the Eastern States all the utilities are run by public enterprise ?—No, they are not.

Then your statement is not entirely correct ?—It covers those particular ones I referred to.

But there are other qualifications you could bring in, so that your statement could not be taken on the face of it to prove your point. You must be able to compare the institutions which you are comparing ?—In what way ? You mean to say they must be similar institutions ?

For instance, you have got the St. Lawrence waterways scheme being developed which promises to supply electricity much more cheaply than in any other place in the United States or Canada. It is going to be run by public enterprise ?—I am speaking more of city services.

Mr. Schramm.] I think you said we have got some fell disease and we cannot cure ourselves by giving ourselves another dose. Now let us pursue that to a logical conclusion. If our fell disease is a poison in the body politic and the social system, do you not think we should take something to drive it out and clean the system up ?—The only thing we can do—I mean, a man may be suffering from a disease but it is no use killing him by giving him a terrible cure. I mean to say a cure could come about through a fearful revolution.

I do not believe in that ?—Whether you believe in it or not it might happen. You cannot stop it, and unless you cure these things before a certain time you will get it. It is not in your power to stop it.

Well, I am going to Auckland to-night by the 7 o'clock express ?—It is only a matter of passing good laws for bad. It is only a matter of rescinding laws in the Houses of Parliament. That is within the power of Parliament to do. Why shouldn't they do it instead of putting bad laws in which make me pay an unemployment-tax out of earnings that hardly keep myself. Why should not they do it ?

Dr. Sutch.] Tax the farmer ?—No. The farmer has not got anything to tax. I do not know what is all the squeal about the farmer losing things when he has lost it already. He is only there on sufferance of the mortgagee and in many cases he never lived better in his life than he is living to-day, because up to now he has always wanted to pay off the mortgage, but now he knows it is no use trying to pay it off.

Mr. Massey.] Dealing with the banks, you said that you were quite willing to allow the banks to retain their all, but in dealing with land I want to put one question to you. Take the case of a man who develops his property with his own labour. Are you going to take that land off him without compensating him for the labour he puts into it ?—I wish to make this perfectly clear because there must be no mistake at all: we do not intend to take any land whatsoever.

Well, how do you intend to get hold of the title ?—I mean to say this: that the Wellington City Council, when collecting rates, which is collecting unearned increment, do not take the land on which the house stands. Your improvements are on your land, on your farm land, and you as a farmer would receive a notice to pay so much, the same as you receive a notice for your county rates to-day and you pay them. Well, that is all that would happen to you in the matter of rent-collection. Your farm remains your own. You still have the exclusive right to the private ownership if you like to call it such. You have exclusive right to use that land. No one else can come on it.

Hon. Mr. Downie Stewart.] Only he gets a bigger bill than he does at present for his rates ?—In other words, his rates and his county tax would come right off and what he produced he would get full value for in return from overseas.

Mr. Massey.] Following up that point, that leads me to another question, and that is this: You said that you would expect the Government would benefit to the tune of £37,000,000 ground rent. At present there are about 40,000,000 acres of land in occupation to-day, and if somebody else wanted to take over that land then you would actually capitalize £37,000,000, or the proportion of £37,000,000 ?—How do you mean, if some one wanted to take over ?

If some one wanted to rent that land ?—You mean there is 40,000,000 acres unused.

No; 40,000,000 acres of land in occupation, in use, and you say that the State would benefit to the extent of about £37,000,000 per annum ?—Yes; in rent.

In round figures you would actually capitalize that £37,000,000 ?—No. That is merely rent that would never be capitalized. The capital value of land would disappear altogether.

Then, if somebody wanted to go on the land or take up a holding would you assess the value on that basis ?—I am inferring that you mean that this land is free land to-day. It is not occupied.

Oh yes; it is occupied ?—Well, you mean a change of occupier ?

Yes ?—The change of occupier simply comes about the same as it would do on the Quay down here where they are on municipal land. You simply go in there and you either have an adjudicator or

agree between yourselves on the value of the land. Now, the man who comes to make the deal knows, before he comes, the rental value you are paying, because all these rental values are open to the public and would be open to the public in the Lands Department. So that any one would know exactly the rent you were paying for your property.

Why not put all the business houses on the same footing ?—The business houses would be.

Not banks ?—The D.I.C., for instance, would be paying something like £6,000 a year in ground rent to the Government, where to-day it pays about £2,000. The banks would also have to pay on their valuable blocks of land.

Hon. Mr. Downie Stewart.] Mr. Massey thought that the banks would not come under your scheme ?—No. Every occupier of land would come under the rent collector's summons.

WELLINGTON, WEDNESDAY, 11TH APRIL, 1934.

Witness: MR. E. W. NICOLAUS.

Mr. Nicolaus: On the previous occasion when I appeared before the Monetary Committee time did not permit of giving proof of the contentions contained in the paper with regard to the governing of wages and interest by natural law. To our mind that is the chief evidence of our paper, and it refutes any idea that you can raise the condition of a people by merely the manipulation of currency or by land-settlement or any other means which have been and which are probably about to be taken in the endeavour to do away with unemployment. I have given you certain definitions and I would like to know if any member of the Committee has any disagreement with any of those terms before we start. Then we shall know exactly what we are talking about, and there will be no mistakes.

Captain Rushworth.] Could you elaborate your definition of land ? According to my paper here it is all natural resources and powers apart from man himself ?—The properties are the natural resources—that is, heat from the sun, and the air, atmosphere, and all those sort of things attached to the land itself.

You do not include railways and transport system ?—No ; merely the natural resources. What was here before man came here.

Mr. Langstone.] The land in its native state ?—Yes. And all its properties attached to it.

Dr. Sutch.] Rivers, and sea, and all that ?—Certainly. I will take it that you agree to those definitions. In introducing political economy into the evidence, it is done because political economy is the science which should guide us so far as our social problems are concerned. It is not a set of ideas simply put down on paper by certain men, who each have their own ideas of what political economy is. It is really a co-relation of actual happenings and actual facts, which can be seen from day to day by every one who cares to observe these things. They are not abstract things ; they are actual facts, and they are observable by any one in a condition where every one knows that labour and capital is simply wasting and being unused except at a loss. It is obvious, or should be, that there is some obstacle which is preventing labour and capital from functioning at a profit, from satisfying their desires, and from increasing the comforts and luxuries to which every one should have access in these days of advancement and progress in the arts and sciences of production and wealth. Now, political economy must be able to give an answer, otherwise it is worth nothing. It must be able to answer that riddle which every one is trying to solve to-day, for the reason of the disemployment of labour and capital. Under the law of rent, which is one of the laws of distribution (the laws are the law of rent, wages, and interest) the wages or interest on capital are not governed by any increase of production which they singly or in combination may bring about.

Mr. Langstone.] Does not profit come into it ? Rent, interest, wages, and profit ?—No. Profit is not a term which political economy takes any notice of. It merely takes the return to the three factors in production—that is to say, land, labour, and capital.

But it is a physical fact, just the same as the others ?—There is a contention, a controversial one, under which profits can be divided into anything at all, can be part of this, and part of that, and part of the other. I mean to say, if you care to take part of interest and say that is a profit, well and good. I am not going to contest that in the slightest. Or if you take a part of wages and call it a profit.

Let us define the term of " profit." If we get the term of profit in the ordinary accepted sense. If you are running a business and you have got all of your expenses in connection with that business, maybe interest on a loan, there is rent, wages, and everything connected with the running of that business, but then after you have met all of those and made all the arrangements for contingencies and there is a surplus over, is not that what profit means ?—Yes. If that is profit, well and good. That is merely the result of the exertions of labour and capital. It is a surplus over and above their needs of the particular production, which they produce, which every man, no matter in what stage he is, can do. He can work at a profit, if you care to put it that way. He can make a surplus beyond his immediate needs of what he himself produces.

Who makes the loss ?—There is no loss attached to it.

There must be ?—No. If I produce a certain article I can, by fixing my labour on the production of that article, produce more of it than I actually need or than I can consume immediately, and that surplus is a profit of my labour.

That is wealth. That is not profit ?—Profits must come out of wealth. If man had not worked at a profit—that is to say, being able to produce a surplus of any particular thing, we would never have advanced beyond the stage of the primitive savage. The whole progress of society shows that man himself can work at a profit, or otherwise produce a surplus, so that the wages and interest can never

be increased other than at the expense of rent—that is to say, rent will take all increase and all surplus or profit if you care to have it so, over and above what labour and capital are willing to work for under the ordinary conditions of the time in which we speak. Taking any given time as a certain standard of living, that standard which labour demands, and under that standard it will not work, or goes on strike, or you can call it a lockout if you like; but all the increase over and above that minimum is taken by rent—that is to say, the rent of land, economic rent. Rent is governed by the margin of cultivation. Now the margin of cultivation is land upon which no rent is paid—that is to say, land which has no value in the economic sense, no land value, no unimproved value. Now, as that margin rises, as it expands, so does rent rise. As it falls, as it contracts, so does rent fall. Wages and interest naturally rise or fall inversely to the rise and fall of rent—that is to say, when rent goes up wages and interest go down proportionately.

Captain Rushworth.] Is that margin expanding or contracting at the present time ?—That margin is contracting.

Mr. Ashwin.] But under that process will interest necessarily do so ?—If rent takes all the surplus above a minimum, if that rent falls the minimum must fall too. It is obvious.

Dr. Sutch.] No. If rent is the surplus above a minimum and rent falls——?—Wages increase.

That does not mean that the minimum falls ?—No; the minimum remains. It remains the minimum proportionately.

Well, that means wages and interest still might be the same ?—It is proportionate—that is to say, if you take it down to its lowest, where land pays no rent at all, wages obviously take all the production.

But they do not necessarily fall ?—They get the full share.

Wages do not fall. It is not essential ?—No. The minimum remains at the same level.

Mr. Ashwin.] But my point really was that it is quite compatible for wages and rent both to rise ?—Certainly it is. Wages will not rise as you might envisage a monetary wage, but they would rise under a standard-of-living condition—that is to say, more amenities and comforts would be available to the people.

Dr. Sutch.] Real wages would rise ?—Real wages would rise. Now, rent arises through the unequal fertility of land, and the unequal site-values attaching to land. That is how rent arises. If the return to labour and capital is fixed by the margin of cultivation at a minimum—that is, the maximum which they can ever get because any increase, as I said before, which comes about through increased application to the production of wealth, must be taken by rent. Now, you can follow what I say by referring to our own country here, where you could take for example any great increase that has come about, and taking the purchasing-power of wages at that period or prior to the increase, and after that increase has been in vogue for some considerable period, then refer to your purchsing-power of wages again, and you will find that wages, as such, have not increased one iota, but, on the other hand, land-values have increased tremendously. Now, it does not mean to say that while wages are at a minimum that the individual cannot increase his production. He can always do so—that is to say, he can apply himself by longer hours, or using better methods than the average, and thus increase his individual production without increasing his rent—without increasing the rent of his land. It is only when a general increase in production takes place that rent rises at all. The individual has nothing to do with it. Rent takes no notice of the individual's exertions. It takes notice of only general exertions, society's exertions.

Mr. Langstone.] We have had an increase in production, and rents and everything have fallen to a vanishing point, so that they are not paying anything. We have had an increase in production already in the dairy industry ?—You are taking one portion of production. I am talking of all production or all wages.

It reflects itself all round ?—Without going into it too deeply, take what the Geneva Bureau has stated, I think in last night's paper, that the aggregate trade — that is to say, the trade of the world—has fallen about 50 per cent.—that is to say, that the production of wealth has fallen to that amount, because, obviously, people do not produce wealth and let it rot.

Is not that because of price-levels ? We measure our exports in a price-level. If the price-level has fallen, although we have sent more goods away, because the price-level has fallen we say that trade has fallen, although the volume of goods has been increased ?—Trade has fallen, but several factors have brought that about. For instance, our own Government here has maintained or is maintaining a great credit balance in England that obviously should have come back here in goods. We are sending away wealth and getting nothing back in return. We are definitely poorer for that manipulation. Japan is doing the same thing, England is doing the same thing, America is doing the same thing. They are all restricting trade, restricting the exchange of goods.

Captain Rushworth.] Are they all poorer in consequence ?—All poorer in consequence.

Well, if we are poorer because we export goods and get nothing back, surely the country that receives those goods is better off ?—It is in a way—that is to say, we are either paying our debts or we may be receiving goods in exchange, but not the goods that we want—that is to say, we are receiving, for instance, war material. If you receive war material, obviously the general public cannot make any use of that. It is of no benefit to them whatever. It is a waste, a loss, a real loss to society.

But if all countries are exporting and they are poorer, some countries must be benefiting surely ?—It is merely a matter of liquidating debts. You get Japan, for instance. Fifty per cent. of her huge budget, half of which was raised by an issue of bonds, is simply buying war material and paying for those ridiculous attempts to conquer countries and push her own people in there where they are not suited. It is costing her an enormous amount. That is a loss to the Japanese nation as a whole.

Is not that question of the liquidation of debt a very important one ?—A very important one to my mind. The increase in rent can come about through either of two or a combination of two factors—that is, the increase of population and an increase in the new methods and tools of production.

The Chairman.] What do you mean by increase in population? Immigration?—It does not matter how it comes about, whether it is immigration or otherwise. Every person brings his land-value with him as he lands off the boat in New Zealand.

And would you suggest that if we had several millions more people brought from the Old Country into New Zealand that we would still be able to deal with them and provide for them?—They provide for themselves. There would be no trouble whatsoever. You envisage America. Most of her population is immigrant population. In a very short period of time she came from practically nothing to 120,000,000. Each one of those persons naturally not only brings consuming-power, but they bring a producing-power with them.

Mr. Langstone.] They leave the country that they come from so much the poorer?—Exactly. When the people left Thames or Hokitika the land-value went. When people left Kalgoorlie values were not worth anything. You could not give anything away. It is a people value.

But looking at it from a broad sense, taking away from one and giving to another, although New Zealand might be richer England would be that much poorer?—Quite so. You cannot shift aggregates of values. Aggregates of values must remain.

The Chairman.] But you said that bringing these people in—suppose we had another two million people brought from the Old Country. These people come as immigrants. They have nothing. They have only their labour to offer. Are they going to be provided for?—They cannot possibly be provided for under our present system.

No. We cannot provide for our own people?—Political economy does not take into account any condition. It simply envisages a free condition. It is a matter of allowing the people to make the best use of the country for themselves. That is really what it amounts to. Taking away those restrictions which debar labour from getting in contact with natural resources, producing what they want themselves. Given those conditions, then the more labour we have in New Zealand the higher will be the aggregate production and the higher the real wages of each individual. I can show that. Surely the increase in population, for instance, brings about a greater division of labour. Now, a division of labour facilitates the production of wealth, and that in itself releases men from certain production. Take your primary industry. If you get new methods you can produce the same amount of foodstuffs with less labour. Now that releases labour for other occupations. If, for instance, in a state of society like we are to-day, new inventions come in which release labour from certain production it should mean that there will be more leisure. And if men were content and did not desire any more than we have to-day—the few things we have, such as motor-cars and so on—if we were content with those things, it would simply mean that labour would work less and remain unemployed. But man is not content and never will be. He never has been and never will be. As he gets one thing he wants another thing. As soon as one desire is satisfied it raises another desire in his mind.

Mr. Langstone.] And it is not desirable that it should be so, is it?—No. He is made that way. So that as labour is freed from one production it automatically and naturally starts up other production. In order to produce wealth you must have land. You cannot do it otherwise. So that this demand for more or greater wealth through the release of labour, by the more minute division of labour, creates a demand for land. Now, then, you have your present margin of cultivation, and you have the released labour demanding more land. Then they must go beyond the present margin of cultivation and take up land beyond the margin. Now, that becomes marginal land, and all land inside that acquires a value which is the rental value or the value attaching to unimproved land. It means that the labourers who go beyond the margin of cultivation, the then margin of cultivation, will receive the same wages as labourers previously received in what was the old margin of cultivation before that increase occurred. So that, as the margin widens, all labour has to go on to still poorer land.

Mr. Clinkard.] Does that follow?—Yes, it can, with the increased ability to produce.

Does it not mean that when they go beyond the margin they frequently bring that into cultivation at something less? They are satisfied to take less for themselves, and so that enables them to utilize that land outside the margin. Is that not so?—No. You see, the increased production can only come about through increased facilities—that is to say, labour can, with less labour, produce the same quantity of goods it did before. Now, that increase in the ability to produce enables those who go beyond that previous margin to get the same wages as those others previously got before the increase came about. It is an increased ability that has come to labour, so that by going on to poorer land he can maintain the wages that he previously had.

But they do at times go beyond the margin with those increased facilities, in which case they have to do it at the expense of the others?—Quite so. I am coming to that. But with the increase of population it widens the margin of cultivation and it also not only widens the margin of cultivation, but it increases the productivity or what might be termed the natural productivity of land in particular spots—that is to say, you can have an increase in population in the City of Wellington. All cities and towns I term "particular land," where an increase of population without increasing the margin of, say, sheep-farms, or anything like that, will actually increase rent very much indeed on this particular land, by demanding house-room. For instance, it brings in what was previously agricultural land into what we term the boroughs or the town boundaries, and that increases the rent right down to the centre of the business area—that is, increasing rent of particular land without any increase at all in the arts or methods of production, simply through population increase.

Captain Rushworth.] To exaggerate that a little, would you say that an addition to the convicts on Devil's Island increased the rental value of the land?—Well, if, for instance, the convicts were increased and Devil's Island naturally cannot be extended, those who supply the food to the convicts would probably be able to charge the French Government a bit more, unless they imported, and as more convicts go to Devil's Island, there is a greater demand for land, although it might not be a demand for land in Devil's Island. It would be a demand for land from where those supplies are drawn. Now

we come to the increase in the land-value due solely to the methods of production and the new tools used. This is without envisaging a rise in the population at all, a population more or less stationary. Now, labour-saving devices, as every one knows, increase the power of labour to produce wealth. You may say they can do it cheaper, but in economic terms you simply say that the labour-saving devices increase the power or the ability of labour to produce the same amount of wealth with less exertion.

Dr. Sutch.] Do labour-saving devices raise rents or lower them ?—They raise rents.

What about the discovery of steam when it brought the virgin plains of Canada into competition with British agriculture ? Did not rents fall ?—Yes. But you are taking rents of particular lands. I am talking of rent in general.

You think they rose in other lands as a result ?—Of course they did. They rose tremendously. For instance, they have risen in London, while lands in Derbyshire or Dartmoor might still be the same value as that prior to the invention of steam or the application of steam. Land-value in London, of course, has risen enormously and in all the cities.

But you are taking the land-values of the whole world into consideration ?—Certainly. They have a bearing.

Well, the indication of history is that land-values as a whole fell and the rise in land-value in London as a port did not compensate for the decrease in land-values in the rest of England. Some labour-saving devices would raise rent. Others might lower it ?—Well, if increase in production raises rent, if the increased ability of labour to produce wealth raises rent, then certainly steam must have raised it enormously on all particular lands. For instance, take your shipbuilding, take your great iron and steel works, your ore-mines, your coal-mines. All those portions must have been raised in land-value very considerably, when the production of machinery and trains and all those new things came about.

That is true, but you are bringing into account all those things that fell in value through this shift in production ?—You mean by taking people away to all those new lands ?

No. Some lines of activity were made unprofitable by this discovery, and other lines profitable ?—The stage coach was made unprofitable.

The net result might have been a fall in land-values ?—The net result must have been a rise in land-value. If labour can produce more with less effort, then land-values must rise.

Mr. Ashwin.] How would you get on in the case of synthetic production ? By synthetic means you can make a product in a factory that formerly required a very large acreage to produce by natural means—in certain cases dyes, which might have formerly been produced from vegetable sources, required a very large acreage. As a result of invention you can produce equally good dyes by synthetic means from coal and other things like that, and the substitution of artificial silk for the genuine article. It requires far less land. In the agricultural sense that must narrow your margin considerably ?—In an agricultural sense, surely agriculture—that is, the primary production—must be affected by new methods which are brought to bear on that particular production. For instance, the growing of wheat, where you can raise wheat with a rainfall of 8 in. instead of 20 in., you have widened the margin very considerably.

Yes, if you get a wider margin every way. If you can make clothing from, say, wood, or any other means instead of having to make it from wool, you require less land, do you not ?—Yes ; but the land would be used for other purposes.

The pressure might be less. Land is a limited quantity, and the pressure would be considerably less ?—You are releasing labour from production ?

Yes ?—As I said before, if man's desires were stationary, it would simply mean that labour would have more leisure, and there would be unemployment, but leisurely unemployment—not starvation unemployment—but as soon as labour is released from any industry it flies into another industry where there is an opportunity.

Apropos of your question about rent, with the rise in the value of the factory site, it would make the synthetic product compensate for the fall in agricultural land as a result ?—I cannot envisage that. It is very hard to visualize that anything which is a vital necessity for the lives of people will ever go out of production. We have envisaged, for instance, the synthetic food, tabloid food, and all those sorts of things ; but we are not built that way. We are not made to assimilate tabloid foodstuffs ; we are not built like that.

There are limitations to the human stomach, but, at the same time, with regard to clothing, it is quite conceivable that they will be made from synthetic products ?—That is only going into the realms of conjecture. I want to deal with actual occurrences to-day, as they are to-day ; I do not want to take notice of what they will be in a hundred years' time.

Captain Rushworth.] I find myself in a fundamental difficulty in following what you are saying, because it is not clear in my mind as to what you mean by the term " value of land." There is a real value, and a money value ?—Leave the money value out.

It is rather difficult for us to envisage what you mean exactly by the term " value of land," if you leave the question of money out. We are accustomed to talk of land-values, and when we talk of land-values we envisage prices ; that is the fundamental difficulty ?—Yes, I see your point. Could you not look upon land-value as simply taking a share of the wool, butter, and other products over the year ?

Mr. Clinkard.] Measure it by the same units as you would use to measure the other factors in production ?—Yes. If you envisage that you are paying wages in money, you could also envisage that you are paying rent in money.

Captain Rushworth.] As soon as we get into the realm of money we are faced with the difficulty that land-values in terms of money turn on the value of the products of the land in terms of money ?—They have nothing to do with the price of produce, of course ?

No ; but if the price of wheat and butter goes up, the land-values tend to go up ?—Yes.

Conversely, when these commodities fall, the land-values fall ?—Not necessarily. They may fall by the great increase in the ability to produce. Commodity price would fall to the purchaser and the consumer.

If we envisage land-values in terms of prices, we have to consider the question of price of the land-products ?—That is only one feature in dealing with the rise or fall in land-values. The price of products certainly comes in.

We had an illustration of that during the war, when, owing to the policy of inflation, the price of commodities rose and the price of land rose, too. With the policy of deflation, you find the price of commodities falling and the price of land tending to fall ?—It would have fallen had not obstacles been put in its way. Undoubtedly rent would have fallen with the reduced value of commodities under that particular manipulation.

I did not wish to interrupt, but wished to get clear as to what you meant by land-values.

Mr. Langstone.] What would you propose to do, taking a mesaure of value ? What instrument would you use ? If we are going to talk about values we have got to have some idea of what value is and its relationship to something. We relate it to price, to a money form. Can you put it in any other form ? You say you are going to run New Zealand on single tax ; you have got to monetize economic rent ; it has got to come into some form of revenue in the form of money ?—That has always been done.

Yes, but you are asking us to visualize it leaving the money factor out of it ?—It is simply a matter of division of the wealth. If you put your wealth down at £100, you may put rent at £30 or £40, interest on capital so-much, and wages so-much.

Mr. Clinkard.] And if you use £50 and all those other factors in the same way, it would stand just the same ?—Yes. It is a proportion of the units of value.

Captain Rushworth.] You vary your terms in the same way ?—Certainly. We know by experience that wages and interest have not been raised through any increase in production that has come about through invention or through the toil of labour or the application of capital tools to the production of wealth ; that is our experience not only in New Zealand but all over the world. It is not only in New Zealand where land has gone up to £150 per acre for the production of primary products. That has gone on in countries where you might least expect it. For instance, in Japan the land-values there averaged in 1924 £152 per acre for rice lands, and for upland land £58 2s. per acre. We call them primitive, but that is their values, and that is what they paid and the rent they paid accordingly. In envisaging, for instance, the increase in values without an increase of population, you can take the example of Scotland and Ireland. Not only has the population failed to increase, but it has decreased. Take Ireland and the rent of that country when there were only rut roads, in the old days, and take the rent to-day. In the old days there were over eight millions population, and to-day only about four millions, and yet the land-rents are being increased enormously through the use of new tools and new methods in the production of wealth. As Dr. Sutch remarked—he brought in the point that land-values are not necessarily governed by what you are doing in that particular country, but by what other labour is doing in other countries. Where trade is becoming so widespread, where it is so closely linked one country with the other, what progress one country makes must have an effect on all the other countries, so that in spite of there being no increase in population, rent will rise through the better methods and tools used. I might use a diagram here, which will show you ocularly how the law of rent acts. [Diagram drawn on board and explained.]

Captain Rushworth.] If that diagram is correct, then it means that an increased proportion of the wealth of the country is going to the receivers of land-rent ?—Yes.

All the profits being obtained by the wage-earners are going into the hands of the private owners of land ?—Yes.

Well, where are they, because the taxable returns do not show them ?—Those things which are drained from labour and capital are not put back into capital, because those people know only too well that industry is a decreasing quantity ; industry uses actual wealth.

How do the receivers of rent escape taxation ?—They do not place their capital in industry. Wealth as soon as it is produced tends to disappear again. It obviously does not pay to use wealth, so they invest these surpluses in further lands and further mortgages.

But it is an income ?—Yes.

But the income-tax returns do not show that ; how do they escape ?—You ask the Government. I do not say what income-tax the very wealthy pay, but it is obviously a very small proportion to what the labourer is taxed. That is where the most of our revenue comes, from the labourer, the poorer class. The richer class do not pay in proportion anything like the poorer class.

If your diagram is correct, in this and in other countries there seems to be a section of the community receiving an enormously increasing income at the present time ?—I can give you an idea of one man, Lord Howard de Walden, who owns an area in London of 209 acres, but his annual income is £2,900,000 a year.

Mr. Lye : And paying taxation on it ?—In one slam, he put in £2,250,000 in tax-free bonds.

Captain Rushworth.] The Duke of Devonshire and the Duke of Norfolk own fairly big spaces of London, but their taxation returns show a falling return, not a rising one ?—Their income is not a thing which is measured by taxation ; it is effectively measured and governed by the amount of products which they can take as their share. It is merely a portion of wealth ; they get it in money form because the people who owe rent must sell their produce in order to pay them in money form. They might just as well take the produce itself and endeavour to sell it, but they refuse to do that.

Mr. Langstone.] Are the wealthy people in the world to-day the people who own debts and not land ?—The landowner, you mean to say, owns the debt and the land-occupier owes it ?

The wealthy person would be a person who had taken up debentures on, say, Wellington. He is a debenture-holder or holding shares ; they are evidences of debt, therefore he is a wealthy man because he owns debts, not because he owns land. He has not got the title to the land at all ?—Quite so.

He is certainly extracting from the land by way of income through the activities of all the people that have to pay the taxes and the rates, but he does not own the title to the land ?—Quite so. Undoubtedly there are other manipulations. For instance, the people who own the national debt are living without having any title to land, but in the first instance the Government, in order to pay them, extract from the people, in the form of tangible wealth, an amount sufficient to pay for interest. That debt would never have come about if the Government had taken the land-rent in the first instance.

There is another person that is getting it from your diagrams ?—Have you visualized the condition which appertained at Home prior to the war. They were landed aristocracy owning entailed estates, which could not be mortgaged, or only for the person's life interest. Under those conditions the accumulations of rent by one person is very noticeable ; they become extremely wealthy. But in a country like New Zealand where land has been sold and sold again, and turned over and over from person to person, the increase, the tremendous rise in rent that has taken place, is not reflected in great incomes of private individuals. In fact, the people who own land to-day are probably poorer people, but that does not mean to say the rent is not being extracted. If a person who came to New Zealand in the early days had retained the land he then got, you would see a great accumulation of wealth ; but where the land is continually changing hands, each one has to pass that rise on. So that the man who is last left with it, although in a time of prosperity he may be barely making ends meet, when it comes to a fall in values where the price of land actually locks labour out, he is in a very serious position—the man who retains the land. If he does not keep it, it comes down to this : That he has been trusting to the rent of the land to enable him to live and the occupier finds it takes three-quarters of the proceeds to keep him and his family, and he has no rent to give. So that the owner is in as big a hole, almost, as the occupier.

Do you think that sufficient money would be obtained if you took the economic rent to pay for all social services and other commitments that it is the bounden duty of the Government to perform ?—Not the commitments at present hanging over our heads. If you could say to yourself, the New Zealand Government has no overhanging debts, if you could start on a clean sheet, you could say with great confidence that the present worth of the land-value of New Zealand would be amply sufficient. You would have more money to spend on social services than you have ever had.

Mr. Clinkard.] How do you propose to get into that desirable position of starting with a clean sheet ?—I will come to that ; it can be done.

Mr. Langstone.] Do you not think that the economic rent would tend to go out of existence ? I know of a block of buildings in Wellington ; the unimproved value is £10,500, the value of improvements £20,000, £30,500 of capital value. Suppose the owner of that building said, I am not going to collect 5 per cent. on the land just to hand it over to the Government. So he reduces his rent by that amount, and only charges, say, 7½ per cent. on the capital value of £20,000. How is the Government going to get any revenue from the £10,500, seeing that it ceases to exist then ?—But the mere fact of this man saying he will not collect the rent does not mean that the land-rent ceases to exist.

How will he pay it if he is not getting it ? Instead of his income being £1,727 it is down now to £1,500. If he is not getting that income and is not charging it, how is the Government to get it ?—Say that he is kind enough to remit those rental charges from the occupier of his building on the unimproved value, he is merely going to charge on the building ; he does not want that rent ? In the morning he comes down to his office, with, perhaps, a bad liver, and finds a notice from the Government saying the rental value of the land on which his building stands is assessed at so much, and that it has got to be paid in four quarterly instalments ; what will he do about that ?

They are not getting any return from it ; that would mean there would be £527 less on that one particular. That would act just the same as a reduction in wages and salaries, although there would be more in their pockets for a time so that there was no need for this particular volume of money in existence ; it would be cancelled out, and make so much less purchasing-power ? Do you really mean to say that rent could be ignored ?

If you pay 100 per cent. of the rent you receive to the Government you have no incentive whatever to charge any rent. If I had £1 to pay in rent and 10s. tax to the Government I would carry on charging rent, but if they took the whole with taxation there is no incentive to me to charge at all ?—Undoubtedly the Government will collect it. That does not matter to the Government. The Government says that that land has a certain value and that rent has to be paid. What about rates ? If this gentleman who owns this property in Wellington says to the City Council I am sorry I cannot pay my rates because I have no unimproved value at all, what is going to happen ?

They would soon recover it.* If he did not pay they would take his building ?—They only want the unimproved value. It is not a matter of the man collecting it. It is a matter of the owner paying it.

He has to have it collected before he pays it ?—No. Why should he have to collect it first ?

If everybody is acting under the same desire, they are all in the same boat, and the source that you thought that you would get revenue from ceases to produce the revenue ?—It does not cease to produce it. Land does not cease to produce rent. You can read history, and it will always tell you that there is an increasing rise in the value of the land.

You have not taken the 100-per-cent. tax on the land-value ?—100 per cent. has been taken, according to history. The rates only take about 2½ per cent. of the unimproved value.

Take the case of a district where the local rates are the land-tax on the unimproved value and some of the capital value as well ?—There are instances where the rent has been collected.

I think the Chairman could bear that out ?—I do not uphold all values. Some land is badly valued, some too high and some too low. If they think it is too high they can always appeal.

The Chairman.] They cannot get away from the law ?—The law allows them to appeal. Why do they not default on paying taxes to-day ? Why should they default if they had to pay rent instead of taxation—if this man has written it down to its present value.

Mr. Langstone.] That is the value of the property in the City of Wellington to-day ?—I am talking about the £20,000. Is that an old valuation ?

That value would be made at the same time as the unimproved value ?—They first of all take the unimproved, so that rent can be struck without any buildings on it at all.

Under the present system ?—Under any system, there is a science of valuation. If you care I can bring up expert evidence. There is a site-value.

Mr. Clinkard.] Value on every use ?—Yes. I can bring expert evidence to back me up. The unimproved value of land in 1891 in New Zealand was £75,000,000. People were willing to pay that. In 1933 it was £321,000,000, or four and a half times greater. The population has only increased two and a half times. My point is that that speculative rent is the real cause of slumps, it is driving labour and capital below the remunerative point—that is, speculative rent, not the economic rent. Economic rent is equitable rent, speculative rent is inequitable ; it takes more than labour can produce from the land in order to pay it. In Japan in 1875 out of a Budget of 59,000,000 yen, they collected 50,000,000 yen by means of land rentals. In 695 there was no taxation at all, it was all land-rent. In England in 1400 we had the same thing. There was no taxation, it was all land-rent and all the wars of England were paid out of that. The Court, and hospitals, and schools were paid out of that land-rent and that was the highest peak to which wages ever reached in England. As soon as Henry VIII started his dispoilation of the people of their land by giving it to particular people, wages dropped like a stone, almost straight down, and have practically never risen since ; only in the event of insurrections that took place among the land workers of England was there a tendency to raise wages a little bit.

You would not suggest that the real value of wages was less now than it was in former times ?—Yes. Very much.

Is the enjoyment greater to-day ?—I am talking of the standard of living.

Mr. Langstone.] They had a feudal system then ?—Yes.

The break-up of the feudal system was the introduction of the rent for land ?—It was the introduction of labour being locked out from land. It was not the introduction of the rent for land.

I think as soon as they introduced rent they created tenant farmers and got rid of the serfs.

They got rid of the serfs from the land, but there was no taxation in England at all prior to 1601. They then started levying merely local taxation.

The Chairman.] The time is getting on, Mr. Nicolaus. I do not know whether you object to interjections ?—Not so long as they bring out relevant facts.

What I am concerned about is the fact that you have much material to get through ?—I would prefer to make my point with regard to the law of rent, because that covers all the other things. Whatever information you may have brought in front of you to increase the production of wealth, you will know from the law of rent that that cannot raise wages, and under private ownership of land any increase of production which may be brought about through getting your butter Home in the same condition as Danish butter is sold in England, will really increase the rental value of your dairying land in New Zealand. As soon as your son wants to go into dairying he will have to pay a higher rent. That increase will not accrue to labour, it will accrue to the land. That to my mind is the vital factor in the whole of the economic structure. Rent is the key to the whole thing.

Mr. Clinkard.] And the other thing is accumulated debt ?—Yes. Brought about by the speculative rent. To-day they say interest is a burden. Interest should not be a burden. It is merely a burden to-day because the capital used is unproductive to the owner of capital. It is non-remunerative, therefore the interest you pay on it is simply another lump off the little that remains.

Mr. Ashwin.] Is your implication that all people who urge that we should alter the monetary system are wrong ? The basis of your argument is that there is not much wrong with the monetary system, but that the taxation system is wrong ?—Yes. It is an economic problem, not a monetary problem.

Captain Rushworth.] Can you divorce money from economics ?—Yes. If you divorce money from political economy, I think you can get a clearer idea.

It is simply that we have reverted to a state of barter ?—If money is a secondary factor—that is to say, only comes in after wealth is produced, it only comes in later on the scene. Then if you alter, first of all, the division of the wealth once it is *in situ*—if you say a greater share is accruing to the Government, and that share will be sufficient to let the Government function without borrowing—you do away with taxation in Government ; you do away with the necessity for the Government to borrow, and you do away with the necessity of the industrialists to borrow, because labour will make its own capital.

The Chairman.] Do you suggest that the Government should take this tax in butter, wheat, &c. ?—It could if it liked. That is not the best way. It is too cumbersome. It would have to be converted into money. There should be no difficulty, because there is ample money *in situ*, and it is merely a matter of saying your rent is one-third of your produce.

Mr. Clinkard.] If you were starting *de novo* you could invent fresh units of value which would do the same thing that money is doing ?—You could take coal. It is the unit of measurement. Money, to my mind, is more or less a simple thing. The manipulation of money is a different thing.

Captain Rushworth.] What does a unit of money to-day mean in New Zealand ?—At present we do not know exactly what it represents. It should represent a certain weight of fine gold—that is to say, it should represent commodities.

Why should it represent a certain weight of fine gold and not a certain weight of butter or wool ?—Gold is a commodity which it is fairly difficult to produce. It is not used generally in trade. There are no methods and means whereby gold could be produced, for instance, like we could produce wheat, in increasing quantities, or butter or rice ; it has the most stable cost of production of any commodity.

Till very recently there was a law in the United States that ½ oz. of gold would be one dollar. They have recently abrogated that law. Do you think that was wrong ?—It is wrong, Sir. I would like to point out to you what Professor Reid of the Cornell University has said.

We have read that.

Mr. Clinkard.] Is not evolution one means by which you could get towards a clean slate ?—Why not get towards it straight out. It is only a matter of a sneak thief as against a straight-out robber. If a man comes to you and says, " Your money or your life," you know what he is after. If you are standing in a crowd and a man comes and picks your pocket it comes to the same thing in the end. Undoubtedly the relation of the debtor and the creditor is one of the biggest factors in the world to-day, because through labour having been so long without being able to accumulate its own capital it has borrowed and borrowed without being able to pay for land and it has had to take mortgage on mortgage. That is the effect on most people.

Most of the European countries have wiped out their debt by inflation ?—Quite so, but why do that. Why does Britain say to America we cannot afford to pay you this £1,000,000,000, we are not going to pay it. Why does she make all sorts of excuses and then come up with a £31,000,000 surplus in her Budget.

They would do the same to her ?—That is so. If there is repudiation there will be general repudiation, not only between Governments, but between men and men.

Captain Rushworth.] If inflation is a sort of sneak thief, what is deflation ?—Deflation is the natural outcome of the rotten condition under which we live. There should be no necessity for deflation or inflation.

It has been suggested to us that inflation represents the creditor and deflation the debtor. Is that not true ?—I am not concerned with the debtor and creditor. I am not concerned with the unjust functioning under present conditions or any other condition. Now, you have a condition of social laws under which these phenomena take place. It is not a secret, every one knows of it. When a man makes a contract he says, " I am going to make a lot of money out of this," maybe he comes a cropper. If a man goes into a thing and it turns out right does the debtor ever willingly pay the creditor more than he has contracted to do ? Why then should he pay him less. The creditor should not be the loser.

We agree to that, but the converse is, will the debtor not be called on to pay on two and three times the value of his debt ?—If that comes about, Sir, do you think it is possible for a man to do that ?

During the war people borrowed wheat at the rate of 10s. a bushel and they are called upon to return it at 2s. 1d. Is that fair ?—They are not doing it, are they ? They cannot do it. These debts cannot be liquidated.

Mr. Clinkard.] Do you say that applies to the world to-day ?—They cannot be liquidated under this present system. People are getting poorer. The big debts cannot be liquidated to-day. The mere fact of issuing money cannot alter the amount of the share which the debtor or creditor will get. As the money is put into circulation the price of the wheat will rise, as will the price of any stable commodity which it is necessary for people to use in order to live.

You have told us that the world's debts cannot be liquidated. If they cannot be liquidated is repudiation inevitable ?—It is not a matter of repudiation. It is a matter of inability to pay. Repudiation means deliberate intention.

You say repudiation owing to inability to pay ?—Exactly.

Mr. Langstone.] Is it true that it is a question of the price-level ? Japan is prepared to send all goods straight to England to pay the debt, but she has sent two or three times as much. We are in the same position in New Zealand. If they failed to pay the same price for goods as those ruling when the debts were incurred then more goods must be sent forward to pay the debt charges consequently the debt burden becomes greater ?—Why not, instead, put yourselves in such a position that you can produce wealth in such quantities that the payment of that debt would not hurt you at all. Instead of handing your creditor half a pound, hand him his pound-note, even if it costs you a little more to produce it. I say it is possible to pay debts under certain conditions. I think that is the best and most honest way to meet the case.

A lot of the countries will not allow it through tariff measures ?—That is a different matter. If they say, " We will only take our debt in one form," we will say, " We are sorry we cannot do that." Undoubtedly there is no necessity for one country to sit down under the dictates of another so far as debt repayments are concerned. Why does not New Zealand send home a peremptory statement ? It is no good waiting for other countries to move—they are doing the same as you are. New Zealand by taking up a definite line of action would have a great influence on other countries.

New Zealand could not fix a price-level in London ?—She does not need to. All I am asking for is for New Zealand to be honest. New Zealand is not honest. She is robbing her people.

I mean her relationship with Great Britain ?—She is not really honest. You cannot rob a lifeless body. As you are being impoverished there is the less chance of next year's debt being paid. The chance is always less and less. That is not the way to pay a debt at all. So far as international economic relationships are concerned, these should also be fairly easy to work out so far as our own country is concerned on a payable basis and on an equitable and a lasting basis. International economic relationship means a trade relationship. Trade, I think I stated previously, is a mutually profitable transaction. It must go further than that, it must be profitable to the importer and finally to the consumer of those goods imported. Trade must go right through from the purchaser, through all the chain of transport and exchange to the consumer in a profitable manner in order to be carried out. We know that is so.

That is not the object underlying their idea. The idea is to put out a cheap article and sell it ?—If I make a deal with some goods to my advantage and I come to you and I say what about these goods, and you say, " Those are fine, where did you get them," I am not forced to tell you where I got them, and what I paid for them. You put a price on them yourself. I say they are worth £1 (they may not have cost me 5s.). You decide, " Is it more profitable to keep the £1 in my pocket or is it more desirable to have these goods in my possession ? " You desire them; it is your own decision which will effect the sale, it all rests with the individual.

The individual has to live ?—Exactly. I am merely talking of trade. If it is more desirable for you to have this object than your £1 you will take it.

The law of nature compels you to take the thing?—Through Governments manipulating currencies and exchanges they are forcing the people who are already on the bread-line to desist from buying anything else than foodstuffs in the endeavour to keep up the value of land. That was the one thing the World Economic Conference agreed upon, that was, to raise the price of foodstuffs. As soon as you raise the price of food you are putting other people out of employment, because labour cannot spend in as many directions.

They have not raised the price of food?—They have. If you find out the price of meat and things in England you will soon see that the price of foodstuffs has been raised. The quota is having an effect on special lines. As soon as one line is raised which is an essential line then other lines go out of business altogether. Primary production under these circumstances is of no greater incentive to labour in order to produce more. All those things have come to light as soon as they started the quota business in England. Major Elliott, like many other big men, says, "We are going to do certain things and the doing of these will result in such and such a thing happening." They are wrong, and have been proved wrong, but they are carrying out these experiments at the cost of labour and lives. When Major Elliott put this wheat quota on, it only resulted in the acreage of wheat increasing and in the acreage of oats and barley decreasing, and not another man was employed in raising wheat. It put the price of bread up against the masses. The only effect that has is that bread goes up against the masses and they can pay less for other things and unemployment increases in those other industries. Trade must be profitable, otherwise it will not keep going at all.

There are reasons given for not trading with various countries. The two main ones are: We must not trade with those countries which have a low wage; and we must not trade with any other country at all, if possible, on account of hurting British labour. The patriotic man says that you have got to keep up the Home Country and the other man who is concerned over his own individual things in the country says if we trade with those people with a low standard of living we will bring our people down to that same standard. That, of course, envisages the probability that wages enter into the cost of production. Wages do not enter into the cost of production; neither does rent nor interest, and because those things do not enter into the cost of production it is feasible and possible for a country with a high standard of living to go forth and trade with a country whose people are in a primitive stage, and it is possible for both countries to trade at a profit.

How do you get at the cost of production?—The cost is a loss. Wages and interest and rent do not enter into the cost of production.

What do you base the cost of production on?—The cost of production is merely the consumption of those things such as capital—tools which are lost for good—the proportion of the tools which disappears in the process.

How do they come into existence?—Labour brings them into existence.

Then everything we see is crystallized labour in some form?—Quite so. But that is not the cost of production. You have produced some commodity. Is that a gain to you or a loss to you?

A gain?—Therefore the gain cannot be a cost. It is a definite gain. It is an advantage.

You have used up other things in the production?—The other things are a cost, but not labour. Now rent: That article that you produced—your labour has a share of it, your rent and your capital have a share of it. Therefore they have produced something which was not in existence before, so that cannot be a cost. It is a gain.

Is not capital the profit of labour?—Yes. Therefore it is not a cost. There is a definite division. Although you may produce capital you may produce some capital work or goods and exchange them with me, and I use them. With less labour I can produce the same amount by using your capital cost. I am making use of your labour in effect, but, nevertheless, that does not do away with the fact that by using that capital I can produce the same amount with less labour than I did before. Therefore that extra amount is due to capital as such.

That is why it is produced?—Yes. That is why I bring it in. The production and the exchange of production is merely exchange of goods for goods—that is to say, the cost of growing rice in Japan, Australia, or Egypt must be the same. There may be a different return for the expenditure of capital cost.

Mr. Clinkard.] But the human effort would be the same?—Yes. But of course in regard to fertilizers, or methods of irrigation, &c., that are used in various rice-growing countries, you cannot differentiate one against another. Seed is still seed. The natural fertility of the soil may give you a greater increase from your labours in some countries than in others, but the cost of production as we will call it, is the same in Japan as in Australia or Egypt for rice-growing, &c.

Mr. Murdoch.] Do you not take into consideration that it may take more fertilizer in one country than in another, and that you might get a lesser return?

Mr. Clinkard.] That would affect the value of the area on which you carried out the operation?—It would affect the return to the factors in producing it. It would affect the rental value. It would affect the return on capital and the return to labour as wages. To a certain point it is understood that you cannot do certain things in certain places and you do not attempt them. There is a profitable trade between Japan and New Zealand, between China and New Zealand, and between the different Islands and New Zealand—that is a fact; this goes to prove that trade can be carried on between a people with a high standard of living and a people with a low standard of living with mutual profit and advantage. That does away with the first assertion that a country with a high standard of living cannot trade with a country with a low standard of living.

Mr. Langstone.] Where you have a people with a high standard of living it is an indication of a higher mentality?—That is so. Where the standard of living is good, the lot of the people has been improved by the Government and the municipalities putting in social services. You can gauge the value of production more from the value of land than you can from almost anything else. You take

the valuation of the land in the Nile Valley—that is one of the highest-priced pieces of land in the world, and yet the fellahin is as much a slave to-day as ever he was. Every bit of his produce went in rent to the Princes of Egypt and to England. These things are allowed by the Government. These monopolies can only be maintained by the permission of Government, because people cannot get or retain them otherwise. With reference to the statement that if we treat with other countries we are doing harm to Great Britain. That is obviously wrong, fundamentally wrong. If we give Britain our primary products and take nothing back from her at all, Britain has to produce a certain value of goods in order to liquidate her indebtedness for our butter and cheese and wool. Whether she sends them to us or not does not matter one iota. Those two points are fundamental points in international trade, which somehow or other seem to be pushed on one side and a lot of irrelevancies and fallacies introduced in their place. Undoubtedly those irrelevancies and fallacies are brought in by special interests, because the ordinary man in the street gives no thought with whom his country trades. He does not know. It is done individually by letter and cable. It does not affect the ordinary individual at all, but when special interests get together, they say things have to come " our way " and they start to use the lever and to bribe and corrupt, and finally they get their own way. That is the only reason why tariffs have ever been put on at the behest of special interests. Kings, as such, had no reason for bringing in tariffs other than for their own private purposes, and Governments have none. The British workman has to get to work and produce the equivalent value of what he receives in goods from overseas. Although we might supply him with goods of a certain kind and take nothing back from him at all, that does not disturb labour or keep it out of work in England for a moment. If does not matter whether we buy our goods from other countries and take nothing from Great Britain. Patriotism does not enter into the facts of life at all.

Dr. Sutch.] It is good selling-value though ?—Yes. There has been a lot of dirty work done under the Union Jack—in New Zealand too. There we have those two facts which are discernible by any person, especially by people who are concerned in the search for these things. You can get those facts from the Year-Book without knowing anything about political economy at all. The standard of living is simply brought about by greater inventions and so forth which are the outcome of production and liberty, and those have come into general use, and no outside trade can destroy them. The mercantile theory which always looked upon the seller as a man who got all the money and the buyer as the man who lost all the money—that, and the false theory or thought that wages were paid from capital—has been responsible for all these mix-ups in trade—for instance, trade-unionism, &c. It is those fundamentally wrong ideas about wages and about the selling and buying of goods which have brought all the trouble between capital and labour. There is really no trouble between capital and labour whatever. They work together harmoniously.

Mr. Langstone.] Surely the idea of there being a wages fund for the payment of labour is not accepted by intelligent people to-day ?—Although people may say that is an old thing, yet they keep on talking of the old fundamental fallacy. Take our shipping, for instance—all our ideas of getting subsidies for this and subsidies for that—what are they ? That is the old idea. It is the old idea again when the employer says, " If I pay so-much wages I will get so-much less profit." Mr. J. P. Luke, for instance, emphatically avers that the employer employs labour and pays labour and that labour ought to be thankful for employers. That is the wrong idea, and that is the idea that you say has been played out. It has not, and yet it is plainly a wrong one. Obviously labour makes its own wages.

Yes. A producer is not only he who milks the cows ?—He produces it to the first stage, and then the lorry-man produces it a bit further, and so on. They are all producers in that chain, and each producer has a share of that wealth. Each man in that chain has a right to a certain part of that pound of butter. Merely because the milking-farmer wants to have the whole of the butter in his hands to deal with finally at Home, he buys out this man and buys out that man and the next—he buys out certain men's shares in the product.

Mr. Clinkard.] His object is to buy them out at a fixed rate, and if the product should rise or fall in the market, those in between get the same continuously ?—Yes. The manufacturer or the farmer is willing to take the risk. He need not. Mr. Polson and one or two others do not take that risk. They say, " I will pay my men in kind." These men employ share-milkers to milk on their land. They are as bad as the barons of old. They have people all over the place. All they do is to say, " Here is permission to work on my run, you get one-third and I get two-thirds." They do it in Australia with wheat-growing. In New Zealand I suppose you can say it is generally the case that the employer wishes to have control of the article and he pays the other men for it.

Mr. Langstone.] The real point when I brought up the question of the Wellington property was this : In the event of not being able to get sufficient income from that source you would have to adopt another source ?—No. Where it is income, in the last analysis, it comes from the land.

Captain Rushworth.] You do not agree with Adam Smith ? He points out that the physiocrat's contention that all value comes from land is an error ?—I always forget Adam Smith's definition of wealth. Adam Smith said it was the product of society. In his introduction he makes the thing quite plain that what he means by wealth is the product that is produced by labour from land. He probably got on to the physiocrats from this point. The physiocrats did not recognize that industry produces a land-value. Adam Smith did. The physiocrats said the land-value only included rural areas ; they did not recognize the city at all. Adam Smith undoubtedly gained tremendously from the physiocrats by his connection with them. For instance, his free trade was all brought up by the physiocrats before he started to write at all. They have most beautiful conceptions of the freedom of men and the freedom of trade. They blew out the mercantile theory in those days. They were the real fathers of political economy.

He says in England Stewart and North were the predecessors of the physiocrats. That gets away from the main point, the argument as to whether land does rest entirely on the products of the land.

There is such a thing as organizing ability ?—That is labour. That ultimately rests in the product of the land.

You have an elementary illustration of a Gainsborough picture 18 in. square. The products of the land are the canvas and the pigment, but the value lies in that fact that Gainsborough painted it. The illustration goes on to say that a bank purchases that picture for £20,000 which it created, and hangs it in its bank parlour, attaching thereby the value of £20,000 to the picture ?—I am afraid that is hardly how the picture got its value. The picture really is a unique commodity in that it is unreplaceable. The supply and demand by lovers of pictures of that identical sort determine their price irrespective of whether the bank creates the money or not.

Whether you include money in it or not the fact remains that there is a value in those things to humanity and that value does not lay in the land ?—Those services have got to be paid for out of the products of the land, have they not ? If you destroy all those pictures and things of that description—promissory notes, bank-notes—would you be destroying one atom of wealth ? Would the nation be poorer ?

Yes, the people would be poorer ?—Economics cannot consider the gain to a man of religious thought. We are talking of one thing—the production of wealth and wealth in that phrase means tangible things.

It is more than production. There is the distribution of wealth. There is scientific discovery, &c. They are part and parcel of our wealth ?—Adam Smith said that wealth is something which the decrease of impoverishes man or the increase of makes him wealthy.

Mr. Clinkard.] There is another definition that everything is wealth which has an exchange value—that is, for which some one is prepared to exchange something in order to possess it ?—Yes. Going into that you have to take into consideration that there are things for which you will give a certain *quid pro quo*, but which, if they went out of existence altogether, would not harm the population of the world one bit.

Mr. Ashwin.] Captain Rushworth's point is that while it may be true that land has got to play a part, great or small, in the production of all things the whole trend is for the direct part played by land to become less with the development of production on one hand and personal service on the other ?—Personal service can only enter into the thing at all after a certain stage of production has been reached and certain desires of the people have been satisfied. Service is only a secondary consideration. The direct production of essentials must come first. That is all that wealth should deal with. The singer is obviously rendering a service which other people are willing to listen to, but he is not producing wealth of any kind.

You mean an essentially material wealth ?—Yes, exactly, essentially material wealth. Essentially material wealth is the only thing that affects land-values other than population.

Captain Rushworth.] It limits the term "wealth" to food and shelter ?—Hardly. You cannot limit wealth. It is a wide description of tangible goods. Obviously they must be useful to a community. Anything which is produced in a tangible form and has a desirable exchange value is wealth.

Would you call a wireless set wealth ?—Yes.

It has no use at all unless you have the performer ?—A wireless set—of course, you might as well say cable is not wealth. I mean to say its price may increase because there are performers, but it has value as actual wealth itself. There is the timber, vulcanite, and all sorts of things, which go to the making of it.

It is taking up valuable space. If there were no performers you could have a room crowded with wireless sets, but they would not be wealth ?—I am merely taking it as wealth because it is exchangeable for other goods. If people went off the air you will still have use for wireless sets, there would be the timber, for instance. Foreign currency can affect your price-values of course—that is to say, the debasement of currency—and this debasement has only been manipulated by Governments probably greatly influenced by the desire to get rid of debts and also from the popular clamour that the creditor should be paid off with the least amount possible. A debasement is a tax. It acts as a tax on the people of a country. Any debasement of the currency acts as extra tax in addition to what is there. Any issue of pounds adds taxation to the people. It can increase the export of any country the same as the fictitious exchange can, but it cannot interfere with trade—that is to say, the exchange of goods for goods, because it is the only way in which goods can be paid for; but it can change the kind of goods which are brought back. It makes the ordinary goods which the people buy so expensive that they simply refuse to order them. They say, "We cannot afford these goods."

Mr. Clinkard.] Does it not have the effect of making the people say, "I cannot afford that; I will make it for myself" ?—Yes; but if you have to go back to making your own homespun there will not be much time for other production. It affects the import trade merely in kind of goods. You are able to bring back woollen materials or you bring back very expensive luxury goods which only the wealthy people can afford to buy. The exchange-rate acts in the same way, you either get back less goods for credit or you get back goods of such a description that are no use to the masses of the people. They are only useful or purchaseable by the more wealthy people in the country. The whole of this Coalition Government's policy has been for the safeguarding of investors only.

The Chairman.] Has it done nothing else for anybody at all ?—Yes. But this is something of benefit. It has legislated so that the trend of certain factors have been altered by which the investors have been safeguarded—I will not say benefited, inasmuch as they have had more than was coming to them—but they have benefited in this way, that every possible avenue has been exploited in order to enable those who are in debt to the investors to pay the interest as it falls due.

Dr. Sutch.] The conversion of the internal debt was just part of that ?—It was one way. The exchange is another, the depreciation of the currency is another. Obviously the investor spoken of by Mr. Coates—I am quoting Mr. Coates when he says that the policy of this Government has been for

that purpose—the investor is not the investor in goods, he is not the investor in industry, he is not the investor in milk, or cows, or sheep, because these investors have been ruthlessly slaughtered. Their investments have been ignored. Their return has disappeared, and it must and does only mean investors in land. There is no other investor who has been legislated for at all. Industrial investments have been pushed to one side. They do not care about the business man or the farmer as a farmer.

The Chairman.] The business man can get relief?—The only relief you can give the business man is to put the unemployed back to work. No legislation has been enacted which will benefit the man investing in capital goods.

Dr. Sutch.] Would you then have pure *laissez-faire*? What would have happened in New Zealand in your opinion if the Government had not cut interest-rates, cut overdraft rates, cut rents, cut wages, raised the exchange-rate, converted the internal debt? Would the situation in New Zealand be any better?—If all values had been allowed to come down to their true economic value.

Captain Rushworth.] What is their true economic value?—That would have been found out by the parties concerned. Wages would have come down without cutting them. The real wages would not have come down, but the money wages would have come down.

What about the wage-earner's contracts?—There should be no contracts except free contracts.

There should be no formal contracts at all?—No formal contracts of wages. You can contract to buy and sell.

If you contract to buy and sell and something happens to the monetary system so that you have to cut down, what then?—If something happens to the monetary system it does not matter what contracts you make. That puts everything out of gear.

It is a question of manipulating currencies—that is, that the debased currency was permanent currency?—That is the meat so far as the worker is concerned.

What happens when you have an appreciated monetary system?—There should be no appreciated monetary system. It should be a fair and equal measure from day to day and year to year; it should reflect not only the condition of people, but it should reflect the increase in all production.

You advocate using gold. If you have discoveries of gold not equal to your requirements in trade, industry, and commerce, what is going to happen to your monetary system?—It will be quite all right.

Surely your discoveries of gold must work in uniform progress with your requirements for trade, industry, and commerce?—You mean the money wage might fluctuate; not the actual share the labourer gets?

You have so many fine grains of gold for your money unit; surely your money would depend upon the number of grains that are discovered?—No; if you are short of gold or gold was appreciated, that would encourage or stimulate production of gold. The production of gold to day is about as high as it has been in the world's history.

You cannot produce it synthetically?—There is so much gold discovered, they do not know where to start digging it. When the demand for gold is above the normal cost of working rich deposits, then they turn their minds to those known deposits which are of a little lower grade.

You visualize the time when trade, industry, and commerce develop so much that every able-bodied man will be seeking gold?—Hardly; that is rather ridiculous.

It is exaggerating, certainly, but is not that the position?—No. Cannot you visualize a time when the same money wage of £3 a week would be able to buy £20 worth of goods? Cannot you see that all the increased production due to the division of labour can cheapen the article without raising the money wage; therefore your gold that you have at present would serve your requirements for twenty years ahead?

No; because you have an increase in population and increased requirements?—You increase your notes as they are required.

So that is a manipulation of your money system?—No, that is sticking to a certain measure. I know what they are doing in Sweden to a certain extent, but we have not heard the full story of Sweden. Sweden is not doing too well. While she is cheapening in one way, she is getting more expense in other directions. You cannot control the price of all goods all over the world.

Do you not think the money should be directly in ratio to the real wealth that is produced?—As long as it is kept in a true and honest measure of value. At one period I know that the £1 will buy so many, say, motor-cars. Then the production of motor-cars suddenly increases owing to some invention by which certain things can be turned out much more quickly and expeditiously; under these conditions the same car will cost me 15s. You want it to mean that your £1 will be increased to £1 5s.?

No, I want your idea?—My idea is that this pound shall be a measure. The goods as they are produced in increasing quantities according to this measure will be cheaper to the men. What benefits society can get from those actions will be reflected in lowered prices of commodities and luxuries and comforts.

You used the phrase that money should be "an honest measure," and you indicated that is is not an honest measure, and had not been so since Henry VIII's time?—Henry VIII was the first one, so far as I know, to manipulate currencies for his own benefit. It comes down to Government manipulation.

But an honest measure is desirable; it is not an honest measure at the present time and has not been for centuries?—Oh, yes; it has. Before Solon started his tricks in Greece, there was a long period when it was honest.

We will not quarrel about the centuries; say, a long time?—Since the war. Not for a long period before the war was money dishonest.

Since 1844?—No; I do not think so. Pitt depreciated the currency, I think.

Might I suggest you look up the British Banking Law of 1844 and study that and see whether it was not the commencement of a new era of manipulation of the money system?—It can only mean that one day I can buy so-much, and another day so much less or more.

No, it is a question of equal content in that case ?—If a Government arbitrarily decided that the money unit be a unit reflecting so many grains of gold and sticks to it, obviously it must be constant.

Prior to 1844, the British law was that 120 grains of fine gold should be £1, but they then passed a law that 4 units should be equal to that number of grains. Is that a manipulation ?—No ; it is only an admission that the requirements of the population may make it necessary that more of these notes shall be in circulation.

Mr. Clinkard.] Representative money ?—That is all. The bank has then the power when the population increases, as soon as the demand comes for more notes, they shall be available ; it does not mean that they shall put them into circulation all at once.

That is exactly what they did ; the historians say that brought the end of the "hungry forties" ?—I cannot see that. If they had more notes than the population could absorb at that particular period, that would make the "hungry forties" more hungry. That actually lowers wages, because it raises prices.

AUCKLAND, 21ST MARCH, 1934.

Witness : Mr. F. A. CARLISLE.

Mr. Carlisle : I am told that I am the first to appear in defence of the present system. That is just as I expected. I did not think many people, other than the banks, would come forward to support the present system. The banks have interests to defend, and it is their duty to support the present system. I feel that I have something to say that perhaps the banks would not say, probably would not approve of my saying, but that does not deter me in doing what I hope I shall be able to do. The only other system that is worthy of comment from me at the present moment is the Douglas Credit system. I have no desire whatever to run down any man's system or speak derogatively of it in any way, but I wish to express my firm belief that the Douglas Credit system has no value whatever, either in intrinsic or potential value. It would eventually, under the present conceptions of trade and business life generally, end up just where we are now with our present monetary system. If it has no value, if it is costless credit without value, then it is entirely useless, and does not offer any hope whatever for the amelioration of the difficulties we have to contend with. The present monetary system is adequate to supply the needs of our country. It is purely a matter of control. That the present system has failed in some material aspects cannot be disputed ; there is no doubt whatever that there is a serious failure on the part of the money operations of the country at the present time. That failure is due to circumstances which have never been faced. That is my opinion, of course, and I do not envy the Committee its job in facing it, because I know it is a very difficult question to face. The facts that you have to face require certain wisdom on your part and courage too, but if you are guided by right principles in your inquiries, then I think you will not fail to see the good amongst the many codes put before you. The courage to recommend those suggestions which you decide are good requires a different effort. It is much more difficult. The courage that is required to face the difficulties to-day is enormous, but I put it to you, as honourable members of Parliament faced with the duty that has been imposed upon you by the country, that you must exercise that courage in face of all difficulties and recommend something that will be of everlasting benefit to the community at large. May I refer you to the chart which I have brought with me. I have divided the community into five sections, as you will see. The original of this plan is not my own. I do not claim authorship of it ; it is the work of some gentleman who lived in Wellington, who published it in a book, and I neither know the name of the book nor the name of the gentleman who wrote it. The cover of the book in my possession is torn off and with it the name of the author, so I have to thank some gentleman in Wellington, whose name I do not know. I have elaborated upon it. The black triangle represents the services and wealth produced by the people of this country. You will find the unskilled labourers, pastoralists, agriculturists, and dairy-farmers at the bottom. Those are of the greatest importance to the community. The skilled labourers and artisans come next in number and importance in the country, and that includes too, factory hands ; commerce comes third ; managers, engineers, and superintendents come fourth ; and the mortgages, as mortgagees, and landowners and professions come last. I want you to note especially, in connection with that chart, *that the lower section only produces wealth.* Some of you may disagree with me, but I am prepared to defend that.

Mr. Clinkard.] Would you say that the landowners do not produce wealth ?—As landowners, no.

The Chairman.] They come in as pastoralists ?—Yes, that is quite clear. The next important question is that we have an enormous debt upon the country. I think you will agree with me that it is quite unbearable ; it is quite impossible for us as a nation to ever pay that debt. Indeed, it is impossible to go on very much longer paying yearly the interest on the debt. Something must be done, and it should, I think, be done in the matter of finance. There is no doubt about that whatever in my mind. The public debt of our country, according to the latest figures I have seen, up to 1932 is : Local-body and General Government debt, £344,000,000 ; mortgage debt, up to the end of 1931—from which date there has been no declaration of the amount—£299,493,507. In 1931 £9,706,410 had been added to the total, so I am prepared to suggest to you that to-day with the accumulations of unpaid interest there is close on £350,000,000 of mortgage debt owing. That piles up £700,000,000 of debt existing in the country. If that were all, I might proceed, but you know that is not all. It is not nearly all. There are bonds and debentures and shares and chattels transfer instruments, and legal debts, and hire purchase, and deferred payments. By the hundreds of thousands they exist in the Dominion, and, while it is quite impossible to assess accurately, the amount, they cover, I submit to you, another £300,000,000. All these added up make the debt in the country to-day £1,000,000,000, and I challenge

you to prove me wrong. Now, to get back to my chart, the only source from which interest, to say nothing of paying off principal, can be got in the Dominion is from the lower section, the pastoralists, agriculturists, and some, though not all, of the unskilled labourers.

Dr. Sutch.] What about the skilled labourer?—I submit that they do not produce wealth. If you will let me proceed I will be prepared to argue that point with you later. That bottom section alone, with a few of the unskilled labourers eliminated, produces the wealth of the country; and, as they produce the wealth of the country, they send a stream of gold up to the mortgagee. Almost every one of these pastoralists and agriculturists and dairy-farmers are burdened with mortgage debt, and they pay tribute up to the mortgagee, and so on right up to the top of the chart. So the whole of the wealth that it is possible to produce, even in good times, is paid in a stream of tribute up to the mortgagee. The mortgagee is receiving far more than he is able to spend; it is absolutely impossible to spend it and he has deposited it on fixed deposit in the banks. That only applies to the mortgage debt. Then there is the Government finance in connection with payment of interest on the public debt which these wealth-producers have to find and pay. They pay it through all those services. They also have to pay interest on the local debts which are constantly current and all the time increasing, and the pastoralists, agriculturists, and dairy-farmers have to find all this money. When the Coalition Government was first established in 1931 they set up a Committee to examine the financial po ition of the country, but no very important statement or definite statement was made to the public as the result of its deliberations, but certain facts were made public. After the Coalition Government had been established and set up the Hon. Mr. Downie Stewart, in his first Financial Statement to the Coalition Government, made the statement that the mortgage was the greatest stumbling block the farmer had to contend with. I think that is actually word for word what he said, that the mortgage was the greatest stumbling block the farmer had to contend with. Another statement was made public by the Hon. Mr. Masters, who was a member of that Committee—after he became Leader of the Legislative Council—to the effect that there were eighty thousand farmers in New Zealand. On the face of it that looks correct; but I think I may check him up. My calculation is that there are eighty thousand farms, but only fifty thousand farmers. Many farmers have several farms which are registered as separate entities. Mr. Masters said the evidence of the banks was to the effect that 40 per cent. of the farmers in New Zealand (in 1931) were safe financially. Of the remaining 60 per cent. he said that 30 per cent. were just on the balance—the least thing would tip them into bankruptcy; the least little thing might save them. The remaining 30 per cent. were totally bankrupt and completely hopeless. That statement is a fearful presentment of the position of the farmers to-day. That has been due largely to the inflation in land-values. Through the flooding of the country with money during the war (almost Douglas Credit) or, shall we say, "Massey Credit," prices rose to an enormous extent. Land-values went up at a huge rate and the mortgages were piled up millions by millions, year by year, until eventually it could not proceed further, at which time collapse had to come, and I am just afraid that we have not reached the limit of that collapse. I think there is hope for the country, but I think it lies only in my suggestions. The problem of the country to-day is that it cannot possibly find the money to pay interest alone, to say nothing of paying anything off capital amounts, either local-body, Government, or internal mortgages, or any of the other debts that are floating around. Businesses are run practically on credit from one end of the country to the other, and we have come to the period when something must be done. I suggest to you that the control of this money must be undertaken by the State. No other body, influence, or corporation of any kind can deal with it. Control of the money must be undertaken by the State. That control can only, in my opinion, be accomplished by taxation; it is the only way. There is no hope whatever in flooding the country with money; there has already been far too much of that. Indeed, there is ample money in the country for our needs. It must, therefore, necessarily be controlled by taxation. The effect of taxation at various steps in commercial and national life is rather marked—indeed, it is contradictory. The effect of taxation upon anything that is produced upon the earth has three direct influences upon it—two positive, and one negative. In the first place, it increases the cost to the consumer. We have not time to go into details in explaining that, because I am sure you understand it. It increases the cost to the consumer. The method of collecting taxation through the Customs Department, as we do it now, adds at least as much again to the goods as they originally cost, in fact, it is estimated at twice as much—for landing costs, wholesale costs, middleman's costs, and retailers' costs on the amount of the tariff taxation. They each put their profit on, that they require for running their business, and when the consumer gets the goods they are 100 per cent. more than their original cost. It increases cost, and it checks production. Those are the two positive things. The negative effect is this: That no matter how much taxation you put upon them, your commodities will not last one day longer than if you get them free of taxation. The other side of the question, if you tax the land, has just the opposite effect. It has two positives and one negative just the same, but it has just the opposite effect. To tax land to its full rental value decreases the cost of land.

Mr. Munro.] Is it full rental value or unimproved rental value?—Full rental value of land; I am only talking about land that is in effect unimproved land. I want to make my point clear that if you tax to the full rental value you can get land for nothing. The justice of that is—I do not know what theological views you hold—"The earth is the Lord's and the fullness thereof is the Lord's," and it was given to the sons of man as an inheritance for all time, and no Government has ever had the right or can ever have the right to sell the birthright of unborn generations. That is the position in a nut-shell. That makes the land the property of the people and any unearned increment in that value of land is, of necessity, the property of the State, and should be collected by the Government. It is the Government's property and if the Government was to collect to-day the full rental value of land it would soon have sufficient revenue to wipe off the whole of our borrowed money. In fifty years there would not be a penny of debt in the country, not one. That is my opinion, of course. I do not want to collect the full rental value of land as it is marketed to-day, but the full rental of the unimproved value of the land

is unmistakably the property of the State. The Government unimproved value of land in New Zealand is £338,000,000 in round figures; 6 per cent. on £338,000,000 would bring in revenue of nearly £21,000,000. I think that would pretty near satisfy the Government to-day. 7½ per cent. would bring in £25,000,000, and I think that would satisfy the Government. If that is done automatically two or three things happen. All forms of revenue of the Government's as at present would be wiped out, with one exception, which I shall deal with later. I want all forms of Government revenue taxation abolished immediately, and until that is done you can never get prices down. It is quite impossible for any business man to do that here in the City of Auckland. I can give you instances of how it is impossible for him to bring prices down, because of the drain on his resources day by day as a result of taxation. Mr. Closey has made, in several pronouncements, the point that the Auckland business men are charging £4 for a suit that ought to be sold for £2. I challenge that. You take, for instance, the Hon. Sir George Fowlds' shop in Victoria Arcade, for which he was paying £4,500 a year——

The Chairman.] If you cut the price of the suit down to £2 where would the tailor and tailoress come in? They have to be paid?—That was Mr. Closey's statement. I say that it is impossible to sell those suits for less than £4 when you consider that they have to pay such enormous rents. Here is Woolworths, paying £3,700 a year in rent; George Walker, the auctioner is, I understand, paying £2,800. One section, part of the Civic Theatre site, was sold by public auction lease only a few years ago and was knocked down at £1,920 annually. That section, after negotiations with the City Council, was sold at an advance of £1,000 without anything being done to it, and the unimproved value of that Civic Theatre site—not the Government value—runs into £402,875 an acre, the bare land with nothing on it whatever. That is what these people have to pay for, and that is why the farmer, the agriculturist, the pastoralist, and the dairy-farmers have to find money for these gentlemen to pay these enormous rates to the mortgagee. Just a striking example of the unearned increment of values was published in the *Herald* the other day. You probably noticed where Mr. Hutchinson entertained or welcomed the delegates to the Justices Conference, and he stated that the original purchase of the City of Auckland, amounting to about 3,000 acres (and he wisely said more or less, because I do not suppose it was confined to 3,000 acres by any means) was bought for £50 of cash and few barrels of tobacco, 100 yards of fabric for dresses, and 100 pipes.

The Chairman.] They did not pay any cash at all for Wellington?—Well, I put it to you that that was no more value than £150 at the outside. To-day, gentlemen, that same piece of land (I do not know what extent it was, but I am assuming that it is in the city proper) is valued at £16,000,000 unimproved value, and the producers are paying the mortgage on that property to men who have never done anything to improve the value, not on a single foot of it, nor has any owner ever done anything to improve the value since the day ninety-four years ago that that was sold for £150, but they are drawing interest on it and they are crippling the nation. (Now, I make one exception in my free-trade proposals, and that exception is petrol. I would not allow petrol into the country on any circumstances whatever without paying a heavy taxation, for the one sole purpose of maintaining the roads and protecting our railways. The measures that are adopted now to maintain our roads and protect our railways are totally inadequate. The farmer, as you know, is complaining everywhere and crying out for derating of farm lands. He has no hope whatever of getting derating of farm lands, because when he does that he immediately draws a line of demarcation between town and country which is always the bugbear, and he can never hope to get it, nor should he get it, because the taxation of the country should be derived from the land; but to protect the railways, which is the greatest asset that we have, and it is going back, and will inevitably go back, and must of necessity go back unless transport is tackled fearlessly and without favour, petrol-tax should be utilized. Concentration is being made upon goods and bus transport. That is inadequate. The private motor-car is the biggest difficulty that the railways have to contend with.) Now I want to proceed. The effect of single taxation—that is, all revenue of the country being derived from the land—would immediately wipe out automatically every mortgage value that exists in New Zealand in respect of land, and that taxation, when it is imposed, as I hope it will be (indeed it will have to be, because there is no other way out of the difficulty that we are in just now), when it is imposed it will be necessary to make it the only taxation—*i.e.*, the only charge leviable upon or collectable in respect of land, and that will settle the question. The law will have to provide for the total rental value of land being taxable because, if that is not provided for, I can see the law will be circumvented. The tax will have to be fixed at the full rental value. It will not be necessary to collect that amount. I am quite sure it will not, but it will have to be provided for, because I see an opening for trafficking which would be difficult to contend with otherwise. If that is made law, the full rental value of the land shall be the taxation upon the country; then no traffic can exist that the Government will not reap the full benefit of. That is my point. When the taxation upon land-values has been imposed, you can see the enormous drain that will be stopped from the producers of wealth. They will then receive what they make, and I take it that is an axiom in life. Henry George has said that "what a man makes or produces is his own as against all the world to use or to destroy, to keep, give, or to exchange. No one else has any right to it, and his exclusive right to what he produces brings no hardship whatever upon any other person." What a man produces is his right absolutely, be it whatever value. I am not distinguishing between value. If it is only a match and he produces it it is his and no one else has any right to it. If, as a result of his energy in connection with the land that he is prepared to pay the unimproved value to the Government for, he makes £60,000 or £100,000 a year, well, good luck to him. He deserves it and on the other hand, if he has a section of land, be it whatever size, and, as many of them are doing to-day, he leaves the land entirely unimproved and reaps the benefit of other people's labour, he has no right whatever to that unearned value. I know a piece of land in our own district. Thirty years ago it was sold for 2s. 6d. an acre. A few years after, only a very few years after, it was sold for £2 10s. Nothing done to it. It was smothered in gorse and ti-tree

from end to end. It was sold for £2 10s. A few years after a gentleman from Auckland went up and bought it for £8 an acre, still covered with gorse and ti-tree, entirely inaccessible, no road to it, no, nothing. He bought it for £8 an acre. He held it for a very few years until the boom was at the highest and he sold it totally unimproved for £20 an acre, and an old friend of mine is struggling and wasting his very existance trying to keep up the payments of that £20 an acre, and he has it practically cleared, and a beautiful farm, and the whole of the improvements are his. Yet he is paying interest on £20 an acre and is expected to pay the capital money as soon as possible. That is the position that we are in to-day, and that is where the money of the country is landing, and it cannot be checked from landing there. All the money, whatever you choose to call it, you cannot check it from landing up with the mortgagee by any means whatever other than land-taxation. It is not possible, do what you will, strive how you will, it can only be checked and brought under subjection to the will of the people themselves who produce it, only by land-taxation. I do not know that I need take up your time very much more, gentlemen.

The Chairman: We want to put some questions. It will take some time, and that will enable you to go on further explaining.

Mr. Carlisle: Thank you very much for your patient and attentive hearing. I shall now answer, if I can, the questions that you put to me.

Mr. Clinkard.] I have been very interested in your remarks. I think I gathered from your remarks that you would say that the world struggle to-day is not so much a shortage of money tokens, as it is that the world, the nations, and the individuals, are absolutely steeped in debt ?—Yes. That is so ; and, incidentally, they are steeped in wealth.

Yes. But leave the wealth side out. Another suggestion, perhaps, you would agree with is that owing to this enormous load of debt with which the world is flooded to-day the people of the earth are collecting sixpenny bits continuously all round in order to pay out thousands ?—Excuse me. I did not come here to discuss the finances of the world, but the same thing applies to the world as applies to New Zealand, because we are all in the same boat.

You would notice in my first question I put the world, nations, and individuals. Secondly, I think my question is quite a fair one. The second one, that we are collecting sixpenny bits to pay thousands—that is, in different forms of taxation. We do it in all sorts of different ways ?—I think you might put it a little bit more severely than that. You are not only collecting sixpenny bits to pay thousands, you are collecting thousands to pay thousands, and still not getting over the difficulty.

I was referring to taxation particularly. Of course, as you say, in individual cases it is exchanging thousands to pay thousands. If that is your opinion, would you say that we are not suffering from too little credit, but rather from too much credit ?—No. We are not suffering from too much credit.

Has it not been credit that has run us into this costly condition ?—Well, what do you call credit, notes ? Are notes credit ?

No. I am not referring to tokens at all. I am referring to the contracts of credit by which one undertakes to pay what he will not be able to pay ?—Yes ; exactly.

Then the difficulty has been not that credit has been withheld, but that credit has been too freely availed of ?—Yes. Resulting in the ultimate accumulation of the total of the fluid or liquid capital and money the country and the world has.

And, consequently, the suggestion that we should facilitate the still further opportunity for plunging into debt will not get us out of the mess, will it ?—No, I do not suggest that, do I ?

No. But I am asking you questions. I want to get your opinion ?—Why not proceed along a different line. I may agree with you in your hypothesis at the commencement, but I am not agreeing with your treatment. Why not attack it from another angle. Follow something along the lines of the statute of limitations, and say that from now on all debts of any description and of any kind should be reduced automatically by 5 per cent. Why not tackle it in that way.

Yes. And in the interim, while it is in the process of development ? It will take twenty years presumably ?—My idea of the thing is, once having found the thing is wrong the only way to deal with it is to cut it right out. I do not know whether any of you know Professor H. P. Bedford. He published a book some time ago. He says he is not a single-taxer, because he says, *inter alia*, that it is the very nature of wrong principles to make it impossible to get back on to right principles without imposing an injustice upon some one. Now, I disagree with the Professor entirely. I say that it is the very nature of wrong principles to make it impossible to get back into right principles without *exposing the injustice that has been done years and years ago.* It is an exposition. It is not an imposition of injustice ; it is an exposition of the injustice that has been done years ago.

I see that you exempt petrol from your free trade, we will call it. But this is what puzzles me : Why protect the railways and not protect other industries. It is true that the railways are the property of the State, but so also is the road ?—Exactly. It would protect the road, too. My statement was that it was to maintain the roads and protect the railways.

But by your efforts for the protection of railways there is the assumption that you will tax the roading service in order to maintain the railways ?—I think that is justifiable.

It may be ?—It is justifiable for this reason : We will say that when the motor transport business entered into the Dominion it was faced with the same problem that the railways were faced with when they entered into business in the Dominion. The railways had to first of all acquire its own land for the whole of its lines and for its various stations. It had to build all its own buildings. It had to build and construct its tracks and roads and it has to maintain the whole thing, lock, stock, and barrel—rolling-stock and all—out of its revenue. Now, if, when the motor business entered the Dominion as a serious competitor, the Government had said, " If you are going to run in opposition to our railway you must provide a road of your own, you must build your own buildings that are necessary for you to accommodate the public, you must keep your road in order out of your own revenue," do you think there would have been any motor competition ?

I do not think it would have been a fair position at all?—Well, I do. That would place the motor competition on exactly the same footing that the railway is placed upon, and the railway would then not need the protection.

But you would have asked the motor to start at the pinnacle of perfection instead of where the railways started. The railways started at the bottom and began by short sections. The first railway was from Auckland to Onehunga, easily constructed, with a good traffic between, and so they developed up to a pinnacle of perfection, as it were, and then when the motor comes in we would have expected them to start not where the others started by small degrees, but to start in competition on equality with the others?—Actually, of course, they did start in small degrees, but at our expense. They first ran along the roads the public had provided for them, instead of having to provide their own roads.

Are you sure it was at our expense?—Absolutely. The agriculturists and the pastoralists provided the whole of the money for those road constructions in the form of loans which they have now to pay interest upon, and they will eventually have to pay the capital expenditure. It is not paid yet.

Why did they do it?—I am not here to answer that.

In order to get the advantage of the motor transport?—No. We fixed this railway long before to get the advantage.

You say that the motor transport was at the expense of the local bodies, who borrowed money to make the roads to facilitate their transport. Then, I say, why did the local bodies do it? Was it not for the sake of the advantages which they hoped to obtain from those facilities?—Might I suggest that the only answer I can give is the commercial possibilities of the motor.

I think that some of them went a great deal too far?—Commercial possibilities. Selling and reselling, and selling again. It was the main factor in that.

We have come to this position to-day, that in many cases the railways go to certain points, but they do not go everywhere?—They ought to.

Do you really think that?—Yes. If I were in power——

I am prepared to meet you on this. I would suggest to you that it would be impossible to carry out the transport of New Zealand with railways and that the feeders to the railways are essentially motor transport. Is that not so?—Yes. As long as they stick at feeders. But you know perfectly well they do not. The Motor Regulations Act has to some extent forced the transport motor to act as feeders to some extent only, but the whole force of the private car is running every day in opposition to the railway and is taking from the railway the revenue that ought to go to the State for the maintenance of the road and railway.

Then you would not agree that, with the exception of main trunks, the day of the railway is past?—No. I do not.

I have only one other question to ask you: If you had this universal free trade which is implied in your plan, how would you get over the question of dumping goods which would destroy our industries?—It has always been a puzzle to me why we as a people should charge ourselves millions by Customs taxation for receiving goods that we badly need. I have never been able to get over it. Supposing Japan—presumably that is the one you have in mind?

No?—Japan will do for an example. If Japan is prepared to put stuff into our country and it is valuable stuff, I do not think anybody can dispute that. Even a pair of rubber shoes that you can buy for 2s. 3d., if it lasts only a quarter as long as a Canadian pair that you pay 9s. or 10s. for, it is quite equal value, and if Japan will put that article on the market here and you know as well as I do that goods are paid for in goods, let them take out produce to Japan and we are nothing the worse off—nothing at all.

That is not my point. We have very many thousands of children here in New Zealand looking for some occupation. We will say that you, as an industrialist, establish a small industry, or a large one, I do not mind which, turning out goods, rendering good service to your people. Some great factory, we will say, in America, is turning out goods and making a profit out of their own market, and they are overrun; their residue they will sell at any price they can get for it?—The way we are doing with wheat.

Very good. They dump it in here, and the result of that would be to destroy your industry, and with it at the same time throw our people out of employment. Do you not think it would be necessary to do something to guard against that?—No. I do not think that. I think that what has already been done—that is, the elimination of the values of land, that is wiped out, and the reception of all our raw stuff that we need into the country free of taxation would make it so that there is no country in the world could compete with us, even though they dumped it in on top of us. And even if they did dump it I do not know that it is at all necessary that we should necessarily work every one of our people for eight hours a day tensely straining every nerve to keep these mortgagees going. That is all it is done for.

Mr. Munro.] I appreciate that plan, which really represents, in my opinion, the position that we are in to-day. How are you going to give effect to the unimproved rental of land to-day? Do you think it is possible?—It is not only possible. It is an actual fact.

What is this you are quoting from?—The Local Authorities Handbook.

I just wanted to know at what figure you would start. Would you start with these figures in the Handbook?—Yes.

You think that your system could be put into operation in a short time?—Yes. There is already every law in the statute-book necessary to carry the thing into effect immediately. The only Act that is necessary is the annual Finance Act. All that is necessary is to say that 7½ per cent. on the unimproved value of land should be collected as revenue for the Government, and there it is.

In Wellington the Committee heard the representatives of a similar organization, and they were very emphatic in taking the whole of the economic, or what we call the community created value of land. Possibly you will agree with that?—Do you mean nationalizing it?

No appropriating it ?—Do you mean the annual value of that ?

Yes ?—Yes, that is right. Only with this proviso——

You propose taking 7½ per cent. and they propose taking the whole of it ?—My point is that the whole of it will be necessary to be included in the Act, because otherwise it leaves opportunity for trafficking. It can only be met by an Act providing for the whole of the annual unearned increment to be taken by the State. It need not say that it will have to be taken by the State, because I do not think it will be necessary.

I take it that you have put your proposals before farmers and explained your proposals to them ?—Yes.

How do the farmers take it ?—They have taken it very kindly.

We are in the position of the farmer to-day, and the farmer is clamouring for a derating. This would give to the farmer indirectly what he is asking for ?—This would give to the farmers exactly what they are asking for, and my farmer friends in the Waikato, whom I have had the privilege of addressing twice in their Farmers' Union, with one accord have agreed that it is practically the only thing that will get them out of the difficulty at the present time.

Mr. Munro : I am very pleased to hear that.

Mr. Carlisle : I wish Mr. Massey was here.

Mr. Munro.] The way I see it, the farmers would be the greatest objectors, because the farmers to-day, or a great number of them, can pay practically nothing now. You believe that by substituting your scheme they would be able to pay that tax, and because of the relief from all other forms of taxation and the lessening of the cost of production, they could pay this tax ?—I am sure of that. May I make one explanation ? One of my friends suggested it would put them back thousands of years, back to the Dark Ages, and it would be impossible to live. I said, "How much would you be worse off if your total mortgage value—and I know it is a big one—was entirely removed ; would it affect you ?" He said, "Yes, it would fix me permanently on my land." I said, "That is not going to put you back into the Dark Ages. Supposing, also, the whole of the taxation, rates, and motor-taxation of every description (I only include petrol in my scheme) were wiped out, too, would that put you in any better position ?" He said, "I would be as happy as a lord."

Did you explain to him how much his contribution in tax would be ?—I showed him the Local Authorities Handbook. He knows that the capital value of practically every county in the Dominion is just about twice the unimproved value, according to that book. He knows also that the mortgage value is in the vicinity of four times the unimproved value in that book.

You are fimly convinced this is the only scheme ?—Yes.

Have you ever considered the point that another scheme that would obliterate interest altogether out of the system would bring about the same effect ?—No ; I do not know that I have, but what scheme could you adopt that would not be single-tax ?

Some of the monetary schemes ?—But whatever scheme you get, if it earns profit, some one has to pay it.

Some of the schemes that have been submitted to the Committee will give you costless money and gradually do away with it ?—Costless money ! That was tried in America in the early stages of the United States. One of the States which had been engaged in war against Canada started on a campaign of costless money. It proved quite successful, and with very little effect upon inflation. As a result of that, presumably, most successful effort, they launched forth in wild schemes of inflation, and in a very short time their currency was totally valueless. Another State immediately adjacent to it or contiguous to it, started on the same scheme and went so far that it resulted in the Federal Government prohibiting any State from issuing any currency at all of its own, and establishing a State currency. A still greater instance is after the French Revolution. The German 10,000,000 mark, issued as currency, is not worth the paper it is written on. All your Douglas schemes or any other schemes will finish up where this mark is.

I was rather surprised at the attitude you took up towards the users of petrol ; you would put a special tax on petrol largely because they are in opposition to the railways ?—Yes.

I am not going to say you are not right, but though the railways are owned by the people, the same operation was going on that the people are in at the apex of your pyramid. Had the railways, when they first commenced, been built on a land-tax instead of money borrowed from London, we would have had to-day our railways almost costless, and there would not be a possibility of any method of transport coming into opposition ?—That is the position exactly. I might have said that, while I want to impose the taxation upon petrol, I believe in a very short time that too will go. I believe that the railways and nearly every public service in the Dominion can be run absolutely free of cost, as a result of the income of the Government following this line of taxation.

With possibly some special taxation ?—No special taxation at all, upon anybody or anything. At a meeting in Waiuku I was asked, "How would I fix the value of land ?" I pointed to this Local Authorities Handbook, and he said, "Supposing I object to the valuation ?" I replied, "I would suggest to you through the Department that you fix your own value, with the proviso that if the Department is not satisfied with your own value, the property be immediately put up for public auction. That would settle once and for all the unnecessary cutting-down of any unimproved value as represented in this book."

You are quite aware that there are a number of cities in New Zealand taxing on the unimproved rating theory ?—The first step to single-tax.

It is not so complete as you would suggest, but you are aware wherever these cities were under the unimproved method of taxation they have quite a number of special taxes for special purposes ?—I do not know that. That is imposing something upon a section of the community that either they must reap the benefit from or they must be unjustifiably imposed upon.

The cities that are under the unimproved taxation and those upon an unimproved land-value—the Government will take the whole of the country? You are quite sure that that would be adequate? The cities which are under unimproved rating schemes to-day find the revenue from the unimproved rating is not sufficient to carry on, so that they have to impose certain other special taxation, and they find to-day that their taxation or rates in general are equivalent to, or there is very little difference between, the city under the capital value. Would that happen with the whole country if you were taxed under the scheme as suggested by you?—No; it could not possibly happen.

But it is happening in those cities?—I respect your opinion, but I challenge it. It is not happening. Why, in so many instances have they adopted unimproved taxation, have gone back in a few cases to capital taxation, and again reverted to unimproved taxation? The imposition of any special taxation in any section of the city must of necessity either confer benefit on that section or it imposes an injustice and should not be allowed.

I quite agree with your ideas. Take Christchurch City: that was unimproved, went back to capital, and back again to unimproved. If the benefits of unimproved rating were so apparent to the cities—and it must be very apparent—do you think it would be possible to do it?—A snap vote would do it. Then, of course, they are only reaping half the benefit of single-tax.

That is the point. They are not reaping the full benefit because of that fact?—That cannot be if it is fixed in the Finance Act that the total unimproved value of land as fixed in this book shall be made the basis of taxation of the country.

Those are the figures you would take?—Those are all the figures.

Mr. Langstone.] If you are going to receive your £24,000,000, do you think that is going to take the place of all other forms of taxation for State, local bodies, and everything?—Yes. You are taking the smallest amount. I said this would do that.

If you take 5 per cent. as a basis, you have taken the whole capital value. Your idea is not a credited tax; it is to put the 5 per cent. of the capital value each year?—You are wrong—the unimproved value.

Call it the capital unimproved value; 5 per cent. of the capital unimproved value?—That is a new term to me.

Call it unimproved value. If you tax the 5 per cent you have taken the lot, have you not?—Yes, you credit 5 per cent.

Customs taxation is about £6,000,000, local-bodies taxation is about £6,000,000, Post Office is about £4,000,000, railways are about £7,500,000?—The Post Office tax is about £4,000,000?

The charge for the service of giving this service?—You are going to run all the services free immediately? That is an entirely wrong idea. I said, "before very long" almost every service in the Government would be run free, but not immediately.

But even so, if you were to do that it would mean much more than £24,000,000?—I challenge that. It does not; I have gone into the figures.

In lots of districts to-day it is impossible for the people to pay any rates at all?—Yes.

If they are not paying interest on the mortgages, they are not able to pay the rates. I can point to definite cases where the income is so small that they are not paying anything to-day, so that unless we have something different there would not be any tax coming from that man at all?—I cannot accept your statement that they are not paying anything. I can give you one instance: This man last month received his cheque for butterfat—he is milking forty cows—and his payment amounted to 8s. 4d. for the month. You ask, How on earth can any man pay anything on that? But you may not know the circumstances as well as I know them. I know that he has appealed to the Committee and to the Court for easement of his position, and they have appointed a receiver and the receiver pays all the debts that there is money to pay for and gives him the balance. Another case: A man bought 80 acres at £40 an acre. He has been on it fifteen years. He is an excellent worker, and has paid the Government in interest alone £1,700. He has put up hundreds of pounds of improvements on his farm; he has practically cleared the whole thing, and now he is in debt £75 to the Government, and he told me just last week that one of the Government officials (I am not saying anything against the Government officials) told him that the Government, not spitefully, is so secure in its position that he could get out of it just as soon as he liked. And that man has not enough money; he has been starving his wife and children.

What is the cause of that?—The cause is here (diagram).

There was a time when that still existed, when he could pay?—If he had not had to pay rent.

In 1929 that man could pay; to-day he cannot. The conditions that you have got there are exactly the same to-day as in 1929. What has altered that he cannot pay?—They will not give him the money for his produce.

You say that the money does not matter?—It is my opinion that money is the greatest blessing we have in the world.

You say that there is no alteration in quality; you mean quantity?—No; I mean both.

"No alteration in quality, or in the form of our currency, can offer any improvement in our country's needs"?—No.

And yet you say it is an important thing?—Yes, because there is plenty of money in the country to do it now.

Where has it gone to?—In fixed deposit in the banks, £37,000,000 of it.

If the advances keep pace with the deposits, it is also out of the bank?—No; it is not.

What do advances consist of?—I am not an authority on banking, but it is stated that there is £15,000,000 on free deposits in the bank and £37,000,000 on fixed deposit. If that £37,000,000 is let out it is on current account, is it not? People do not borrow money to put it back on fixed deposit, but it must of necessity be let out on current account. Can you tell me where the £37,000,000 is represented if £15,000,000 only are represented in free deposits?

The banks do not lend their actual deposits from the deposits that are put here, but they create money for loans which become further deposits ?—I do not believe that.

Reginald McKenna, Chairman of the Midland Bank, who is an authority, says it does do that ?—Notwithstanding that, I do not believe that they do ; I cannot see where it is.

We will have to leave it ?—It is not that I do not want to believe it, but I cannot see where £37,000,000 on fixed deposit account and again advanced is represented in £15,000,000 of free deposit.

It is not represented in the £15,000,000 ?—Where is it, then ?

The advances are considerably more than £15,000,000 ; they are possibly £50,000,000 or £60,000,000 ?—Where are they ?

The deposits equal the advances, or near enough to it. In all banking the advances and deposits tend to balance ?—I know that quite well, but I cannot accept it.

If you get a loan from a man on your security and you pay it to Mr. Munro, what would Mr. Munro do ? He puts it into the bank, does he not ?—Presumably.

Well, then, it is a deposit. If he does not want it on current account he will put it on fixed deposit ?—People do not do that.

It just depends on his position. The spending of it certainly comes out of current account. I quite agree with you that the question of the production of wealth is the labour in the production of wealth. You said profit is a tax on the rest of the community ?—Perhaps I should have said, produce value. He does not make profit.

Produce values monetized means he makes £50,000 or £60,000 ; and the country can tax the community to that extent, because he cannot consume that ?—For the rest of the community.

But then some one is giving you more. Suppose you run the whole of New Zealand absolutely and completely ; all the freezing-works and factories belong to you. You run it as a concern. Would it be possible for you to make a profit ? What benefit would it be ? If you got freezing-works and tried to make a profit out of some one else, that other department would show a loss to the extent of the profit earned by the freezing-works. It cancels out ?—I cannot see that there is any soundness in your argument.

Do you think it is possible to run New Zealand as a going concern and if you are able to show a profit out of yourself, do you owe yourself money ?—No.

Is that not exactly the same position ?—Oh, no.

AUCKLAND, TUESDAY, 13TH MARCH, 1934.

Witness : Mr. F. W. NICOLL.

Mr. Nicoll : Mr. Chairman and gentlemen, I believe before you can rebuild anything it is necessary to pull down, but I do not propose to-day to do any drastic destruction, because I have come to this conclusion : That the present system is an inevitable result of bad legislation on the part of Governments. I do not say which Government. It is sort of following the leader, and I have come to the conclusion that the time has come when, rather than fall away, better get back to the beginning, if necessary. I will read my letter to the Committee. There is nothing much in it :—

> Change is essential because of the monopoly and special consideration given to the present monetary system, gold being the basis and the only commodity given this special consideration. A great advantage is given to the producers and holders of that commodity as against all other producers, making them the real rulers that can dictate to the Government. I would suggest that the law be repealed and that the same privelege be given to producers and holders of all kinds of produce and commodities, including gold and services, so that our note-issue would be promises to pay goods or services. These promises, &c., would have the whole of the nation's productions behind them. (2) The unimproved value of land could also be made a foundation for our monetary system, which values are reflected by the total production of the people, and such value is not subject to much fluctuation.

That is the text of it. Now, the fact of this Committee meeting at all proves that there is dissatisfaction with the present system. There would not have been a Monetary Committee set up to consider these things unless there was some need for it, which is the result of the present system. As I said, the condition in the world to-day is inevitably the cause of that system being run for the benefit of private enterprise and private individuals. We cannot wonder at the people being exploited. Any system that gives special priveleges to some is at the expense of the rest, and I say the banking system has been given special privileges. One commodity has been given permanence, and the holders of that one commodity have been put in the position of dictating the policy of the world, because, in quoting a statement that comes out of the Old Book it says, "Money answereth all things," and those that have a monopoly of money are those that will dictate all things. Now, I could go on quoting all sorts of statements that have been said, that are true no doubt, to pull down the old system, but I would rather try and build. I am not a very fluent speaker and I do not propose to take up too much time. I believe that a policy like the monetary policy affects every individual in the State. There is no person in this land who is not affected by this monetary system. Everybody is interested in it, or should be. I do not represent any special section of the community, but I have a right to speak on behalf of my fellow-man, and on behalf of myself. I will take you back to the words of the greatest teacher this world has ever heard or seen, and that is Jesus Christ. He once asked for a penny, and he said, "Whose image and superscription is this." They said unto him, "Cæsar's." He said, "Render, therefore,

unto Cæsar the things that are Cæsar's." Now Cæsar stands for the Government, the Government of that time, and He gave us the key to this: That it was the Government's function to be interested in the money question, and the Government, as our trustee, should control the money question. I am one who has suffered a great deal because of this unfair money question. I have lost a good many hundred acres because of the condition of the world and the condition of the money-market.

The Chairman.] Farming?—Yes. I have been brought practically as low as it is possible to be brought. It is not very nice to have to say this to a number of gentlemen, but it was those who were concerned in the finance of this country that brought that about. Had there been more currency available I could have been saved, there is no doubt about it, and others besides me. Private banks and bankers seek their own interests; there is no doubt about that. They are bound to. The State's function would be to seek the interests of its subjects. I was brought up in the greatest gold-producing country in the world, that is, the Transvaal, Africa, and what has been done for gold in that country, if you knew the history, would astonish you. Done legally, I admit. But that only brings home to us this: That all monopoly is done legally, all monopoly is brought about through legal enactments, and those causes that brought these things about must have a method by which they must be changed. The Government has to do it. It will not come any other way. We have been told that gold is something that does not fluctuate. I do not know anything that has gone up more than gold in recent years. I can remember a time when a ten-pennyweight proposition was considered just payable. To-day two or three pennyweights are payable and the price is higher, so we can see the advantage that the gold-producers have got. I think it is inevitable that the State must control banking, and it must be based on real wealth. I have no time for schemes that give us a fictitious value. It must be real wealth. If one scarce commodity can be made a standard of value—just one scarce commodity—that is gold, why cannot all commodities be put in the same position. Instead of our notes and promises to pay reading, "I promise to pay gold" they could read "I promise to pay goods or services," which would include gold. I know there is great dissatisfaction amongst all classes, from the working classes to the higher classes. Perhaps the bankers are the only ones who are not dissatisfied. But there is something wrong. It says money is a defence also in the Old Book, but what is the condition of the State? If it wants money it has to mortgage itself and its people to a few individuals, so it has no defence. It is the very opposite. It is a destruction under the existing conditions. I only intend to deal with principles. I am not going into detail. I believe now there is another system which would be an advantage to New Zealand, and that is that the economic rent be used as a basis for our banking system. The economic rent of New Zealand is sufficient for all our needs, including banking, and I am of the opinion that it is this fact which will not create fictitious capital. Many schemes that are put before us to-day are creating fictitious capital, and I say that fictitious capital is one of the things that is keeping the world where it is. Production hardly pays interest on fictitious capital, much less provides the needs of the community to-day, and there is an accumulation of fictitious capital. Some of the propositions that I have read in the papers are practically creating unlimited fictitious capital. These two proposals are what I put forward. I am not an expert on it. It is my own opinion that I have gathered from the study for years, and I say this without fear of contradiction: That until we get back to the beginning and start from there this world will not be much better. The land is the solution, and the laws that pertain to that are the laws that will govern man's condition on this planet. I do not wish to say any more at present. There is one thing in favour of a basis of economic rent, and that is that you can tax it down to stability, you can stabilize your money by a method, and I do not call it a tax, but by resuming ground rents to the right extent you can stabilize it to almost perfect stability.

The Chairman.] That means the State owning the land?—Not owning the land. The State holds it in trust for the people. But taking the economic rent, you know that all prosperity reflects in land-values. Everything reflects in land values, anything, both arts and everything else. You cannot make any improvements anywhere without improving land-values, and it grows as natural as the grass grows, and it is the natural fund that should be taken for community purposes. Natural law is what it is, and the sooner we get back to the beginning, that is, to nature, the sooner we will be out of our troubles.

Dr. Sutch.] There are one or two questions that have occurred to me when reading through your brief scheme, and they are largely questions that have come up before. For instance, as to whether there is a monopoly of credit in New Zealand. That is a question that has often been asked. Do you think there is?—Well, if there is a monopoly of issuing it, there must be.

What institutions do you consider issue credit in New Zealand?—There are finance corporations and banks.

And stock and station agents?—Yes.

Building societies and the Public Trust and State Advances Office and Rural Intermediate Credit Board. Would you say there was a monopoly there?—To my mind there is, because the majority of the funds come from the banks.

The stock and station agents have deposit accounts. They have advances quite independent of the trading banks of New Zealand. Would you say that they were subject to a monopoly too?—We are told that when the bank shuts up every institution shuts up, and it seems to be my experience.

You say that gold is the basis of the present monetary system. I suppose you mean the monetary system of New Zealand?—Yes. I do not know that it has been changed. We still have gold as the basis of it. Still the law.

You talk of legislation repealing the law. The Reserve Bank Act provides that we need not have an ounce of gold to back our currency if we so wish?—That is New Zealand currency? Goods is the nearest approach to an international money.

Yes. In New Zealand we do not need to have gold. Since 1914 we have been legally off the gold standard, and before that our credit was not issued against gold, even though we had sovereigns ?—If it has not the backing it is fictitious.

You are basing some of your remarks on the fact that gold is the basis of our monetary system. Some of the evidence that has already been brought before the Committee suggests that the basis of our credit is the prices realized for our exported products in the foreign markets. That is goods, products, not gold ?—International money is goods, the exchange of goods. What do you get in place of your goods ?

What I am trying to get at is this gold basis of our money system in New Zealand. I am trying to suggest that the monetary system of New Zealand is not founded on gold nor has it been for many years ?—Then has the law been altered ? Once the standard is set by law it holds good until the law is altered.

Unfortunately, the economic side of it took charge and the law of New Zealand had no effect. As to the gold backing, we had a law before 1913 that we had to have a third of our note-issue backed by gold, but the real situation was that we had 100 per cent. backing to our note-issue, and that did not matter even ?—I believe the position is that there may come a time when there is no definite law in existence, and it may be used as the means of frustrating reform.

The reform has already taken place ; by the Reserve Bank Act of last year they have totally eliminated gold from the banking structure of New Zealand. Legally gold can be held in reserve, but there is no necessity for it to be held. The law is already altered. Of course, we could pass another law and bring in gold status, and we could alter that again. You say here that the producers and holders of gold make them the rulers that can dictate to our Government ?—Yes, that is what I said.

Do you think that applies to New Zealand conditions, if it applies anywhere ?—If, as I said, the monetary system is based upon gold, then gold would be in that position. A set price has been fixed on gold. I know it does not exist to-day. It does not hold good because we are off the gold standard, but when that gold standard did exist that was the condition.

I am trying to suggest that the gold standard has not had very much effect in New Zealand. We have had statistics and graphs and all kinds of evidence before us to show that the advances to people in New Zealand have varied with the prices realized for our primary products abroad, and that the man who had access to sterling funds was the man who had control of the financial strength of this country. That is, you are one of those men as a farmer ?—To some extent.

So that our note is really a promise to pay goods and services, as you wish it. Even now it is a promise to pay £1 sterling. That is until the Reserve Bank takes charge ; but gold will not be in it at all. You say that the unimproved value of land would be a good foundation for our monetary system. Have you heard of the French experiment over a century ago ?—Yes. But that is not based upon the unimproved value of land. That was based upon improved values and rising values.

I have not the figure with me for the unimproved value of land in New Zealand, but do you mind if we take it as £100,000,000 ?—It is more than £100,000,000.

But take that as a basis. Well, we will take it as £300,000,000, just to get more nearly to it. Would you issue currency to that extent—£300,000,000 ?—Not necessarily.

What proportion would you use ?—I should certainly issue all that is necessary.

How would you decide how much was necessary ?—There would be experts to do that. I would not decide at all if I was Premier. I should adopt a principle and then I should have experts to advise me.

What I am trying to get at is the principle that you would adopt ?—What would that £300,000,000 be now. Do you not think that after all trading is only an exchange ?

It is not a matter of what I think at the moment. I am just trying to get the principle that you are going to base your currency on ?—I do not think you would issue the equivalent.

Fifty per cent. of it ?—Yes, at the very least, I should say, for a start, owing to the cost of pulling down—after as circumstances require.

Mr. Clinkard has just told me that between 1920 and 1929 the unimproved land-value of New Zealand rose by £100,000,000, and I was wondering how you reconciled that fact, if it is a fact, with your statement that the unimproved value of land does not fluctuate much ?—But it does. That improvement would be an advantage.

Yes ?—It would be an advantage. It does fluctuate, but it fluctuates because the value is there.

We will assume that there is £300,000,000 in values and you are going to issue currency to at least 50 per cent. That means you are going to issue £150,000,000 of credit and currency in some form. The total of our bank deposits at the moment in New Zealand varies between £50,000,000 and £60,000,000, so that means you are going to multiply that by three straightaway. Do you think that would have any effect on the value of land ?—No.

You do not think that would drive up the value of land ?—It would have no effect owing to the fact that the value would go to the State if it was increased.

It would go to the State ?—Yes.

But it would increase the value ?—It would increase the value in that respect; but reduce fictitious value, or speculative value. By industry you increase the value.

So that if your unimproved land-value went up you would be able to issue more currency because the valuation is increased in money terms ? If your unimproved land-values went up from £300,000,000 to £400,000,000 under this extra issue of currency you would then have an extra backing for more and more currency ?—There is no need to issue it unless it is needed.

I am trying to get at the principle on which you issue it. You state you would issue at least 50 per cent., and I am trying to follow that through. However, we can leave that for the moment. You say that those who are concerned in the financial administration of this country brought it about that your property was lost to you, or words to that effect ?—That is right.

I am not quite sure how that works. Could you explain ?—There comes a time when a man wants money, and he goes to money-lenders, maybe the banks, maybe the finance corporations, and so on, and because of the scarcity of money they make their own terms.

Why should money be scarce ?—Why should it be scarce, that is what I want to know, because it seems to me that everything is money in right when you come to analyse anything that can be exchanged.

So it was the activities of these money-lenders and banks that brought about the fall in values. It was not the fall in values of our primary production overseas that helped ?—It helps, I suppose. Banks operate on a certain basis.

What is that basis ?—Well, it seems to me that they have their cake and eat it and still have it. That is, I think, the basis of the banks.

The banks have told the Committee that they have money to issue : it is waiting there to be lent out. They want to issue it ?—Yes, at their own valuation I suppose.

By their own valuation you mean ?—By their own valuation.

The rate of interest ?—On their own terms.

That means the rate of interest generally ?—And my experience is that generally means transferring your interests to the bank.

I do not want to go into the question of the banks to-day too much. I want to get at what you are driving at in regard to one or two of your statements. I was wondering how you felt about fallen overseas prices and the fact that the banks have the money to lend and no one wants to borrow it. You say that economic rent is the basis for banking, and you also mention the fact that we have great stability. In so far as our economic rent-values and the market prices of our products are concerned, we are going to have greater instability if we are to form it purely on economic rental values ?—You would alter your rental values accordingly.

Yes, but I understood you could not alter them ?—Yes, they alter from time to time. Economic rent is due not only to prices but also due to place and position and pressure of population.

I know they alter, but do you alter them ?—Your valuation must if you are going to control it. Valuations can be made frequently

Yes, but the valuations surely depend on the prices you realise for your products, and if that varies your economic rental varies ?—Why should it be based on the value of land ?

You base it on something else ; you make a valuation ?—Yes, from what it produces.

It would not be economic rent, then ?—Yes ; economic rent. One of the differences in production. You take the differences for the community.

Yes, I understand that. I can see what you mean. There is another thing, talking of land-values, you say that every improvement in production is reflected in land-values. I came across a striking illustration recently : In America in the last twelve years they have turned over to mechanized agriculture very much, which has had the effect of doing away with horses and labour. There is so much more land for agriculture and the value of the land over all has fallen, so that your rule would not apply in every case ?—Yes, but has the presure of population balanced that ? Fictitious values only can fall.

No. This was in the United States of America. As a matter of fact, the population have turned over from heavy foods to lighter foods, so the tendency was in the reverse direction. However, that is all I have to ask.

Mr. Schramm.] Of course, you are against the present financial monetary system being controlled by private enterprise ?—Yes, my contention is that it is a function of the State.

You would go to the extent of eliminating all private shareholding in banking ?—Yes, I would allow no private income from banking.

And, of course, you would compensate the present shareholders during the process of taking over ?—Yes, the compensation is there up to a point, but I maintain this : That the true compensation will be in the new system even to them—the compensation to every man, woman, and child in this country.

Of course you recognize that the shareholders in the banks have done pretty well during the last few years, notwithstanding the fact of the slump ?—More than well. They have nothing to complain about.

Would you say that they have had more than their value already ?—In nine cases out of ten, yes.

Do you not think that to base your currency on goods and services would be better than economic rent ?—I think one is a reflection of the other ; so it does not make much difference.

You state that you have suffered on account of the present depression in the loss of your land. Do you think that the enforcement of the legal covenant under mortgages to-day acts as a detriment to the community ?—I know what you mean, I have advocated a different system.

Would you advocate the abolition of the personal covenant in mortgages ? Do you know what I mean there ?—Not definitely.

A mortgage is given to-day by a man over his property ; he not only mortgages the property for the amount of the money he receives and makes a charge on the property, but also gives a personal covenant to the mortgagee ?—I know that.

You find that they take the property and then come on to the personal covenant for moneys which they say have not been realized under the mortgage, making the man liable not only for the land but for all time under the personal covenant. Is that a fair thing ?—No.

You advocate the abolition of that ?—I would, because it was understood that it was a definite thing at the start. It was understood that there was a definite agreement for a definite thing, and they both understood and were satisfied at the valuation at the start, so why should one suffer everything and the other just a proportion ?

You were asked a question about the currency. You are only speaking as a layman, but would you hand over the administration of the issue of that currency to experts and let them decide what is right and wrong ?—Yes.

You would not give an engineering job to a navvy ?—That is quite right. The fact remains that we are not all engineers and not all professionals.

You have been living in the country, of course, in Te Awamutu, which is a farming-area. What is the general opinion in the farming-areas about the present monetary system in New Zealand ? Is it the opinion of the farming-areas that there should be a radical change ?—Yes, I am sure it is. I am sure that is the opinion, and you hear a lot about Douglas Credit, and so on, but I want to say that I am not in favour of it. It is creating fictitious values, amounts, and so on.

Mr. Clinkard.] You appear to have a strong objection to the basis of the monetary system the world over in the form of gold, is that so ?—Yes.

I suppose you have made a study of the origin of the use of gold and precious metals as the currency of the world ?—Yes, but my experience is that custom makes a fool of us.

Never mind that. My question is, have you made a study of the reasons for the use of precious metals ?—I have not made a definite study, but I have read a good deal about it.

I suppose you are aware of all the different methods that have been tried the world over at different times to obviate the necessity of using precious metals ?—I have read a good many.

We are told that the first use of representative money was the image of the ox stamped on a piece of leather to obviate the necessity of exchange in the actual animal ?—Instead of barter, yes.

That was the first development of representative money ?—Yes.

The first ideas on the use of money were worked out many years ago and it was pointed out that money was a measure of value, and in order to get something to measure we were told it was necessary to have something of the same value that would not perish by rust, that would be the same value at different weights and could be divided, and all those different qualifications. You are aware of that ?—That is what we have been told.

Even at the present time you may have noticed in connection with the United States of America that though they have gone off gold they are even now buying gold for the purpose of determining the measure of the dollar that they are using ?—Yes, but cannot you have a measure of anything——

That is just what I am coming to. You state in your memorandum the use of wheat and other commodities. Now, you know those commodities can be increased out of all proportion and increased rapidly, and include real value or labour. Gold, on the other hand, till this maldistribution came in could not be increased so rapidly, and consequently though it does fluctuate it was more stable than other commodities. You recognize that ?—Yes. The printing-press can be used to issue paper currency to represent all wealth.

But the thing is, when it comes to represent all wealth, to get a measure by which to calculate wealth. It is so easy to get weights and scales, but in values the difficulty is to get something by which you can measure all values. Now, supposing you take the index number—that is what you have in mind, I think ?—Yes.

Supposing you take the index number of New Zealand commodities, how would that apply over all commodities in another part of the world ? You see the difficulty ? Say you take another part of the world—Great Britain—take the value of her commodities, her index number, and establish a measure for world commerce, how would that measurement tally with the measurement of other countries and of New Zealand ? It has to be acceptable to others. We cannot dictate what will be acceptable to others, and you have to have a measurement which will enable this country to deal in merchandise with another country. If other sides are going up and down according to their index number differently how can you obtain stability as between contracts, as between the different contracting parties ?—I see your point.

You see the difficulty ?—Yes.

I just wanted to show you that we have not closed our eyes to the difficulties in connection with gold currency or the present system or anything else, but we must analyse any proposal for an alteration and while we may see the difficulties of one we may find a greater difficulty in others. Now, I merely put that to you for the sake of getting you to realize how difficult it is for you to begin to deal with a thing like this, particularly in one little island in the Pacific, and say what is to be the measure of value as between us and the rest of the world ?—That condition exists to-day in many countries.

Not entirely. You will find that Europe, while they went off the gold standard and inflated their currency and wiped out their indebtedness through inflation—Germany, Austria, Slovakia, France (to a lesser degree reduced hers from 10d. to 2d. of gold valuation)—they are all based in some form or other on a gold measurement, not the use of gold. Great Britain, though she is off gold to a great extent, is based on gold measurement. She buys and sells gold to keep her sterling on a gold measurement. The United States is even now trying to base her dollar on a gold basis at 50 per cent. of what it was previously, and the difficulty is to find something which will be acceptable to the world over to take the place of that gold measurement. Personally, I have not seen anything so far. I recognize the possibilities in regard to the index number, but it has not been established yet that that is a workable system of international currency. However, you realize the fact that there are difficulties ?—I have yet to realize that gold is international currency only as a commodity.

Mr. Munro.] I take it that you have put no plan before the Committee. What you have in your mind is a State bank ?—Yes, a State bank, a people's bank.

Based on the economic rent of land or your commodity prices, but that is not the point. You stated that had there been a State bank in operation that State bank would have been able to save you as a farmer ; is that so ?—Yes.

In what way ?—We were led to believe there was a shortage of currency.

And you believe that a State bank, if it had been brought into being, would have been able to assist you. You would have been able to go to that bank and it would have given you enough currency or money to carry on. Is that your idea ?—That is my idea.

Owing to the fall in prices obtained for your produce evidently your farming was not an economic proposition; it was not a profitable proposition. And do you think the State bank would have loaned you a certain amount of currency, of money, on the security of your farm?—Yes, but conditions existed which were created by the system invoked. That is what created the position. If those conditions had not existed that would not have been the position.

Your point is that they could have saved you after the fall in prices, but the fall in prices would not have happened, is that the point?—The fall in prices may have happened, but it seems to me that if you have a certain condition prevailing you create another condition, and you cannot get out of it except by wiping out the first condition.

We will take your farm. You are a farmer. You would go to an ordinary bank to-day and they would not finance you because your securities were not good enough—because you were not making profits on your farm?—Had a proper method existed the value of produce and the value of the security would rise and fall together.

In so far as your present farm is concerned, the fall in prices was overseas over which we have no control even if we had had a State bank in operation, consequently your farm was brought down to an unprofitable basis and the security naturally fell, and under the present banking system of the banks they would refuse to give you credit and carry you on. Do you believe that a State bank operated by a Governor or by a Board under the jurisdiction of the Government could have carried you on?—Yes.

Even if your farm was unprofitable?—Yes, I believe the production of the country was going up. It was going up as a quantity and has gone up ever since.

But the price at Home in the Old Country for the produce produced on your farm was going down. We will say that your property was losing £500 a year, would you expect the State bank to finance you until such time as prices rose in the world markets?

Mr. Schramm.] I suppose you are going on the assumption that prices would be stabilized in New Zealand?—Yes.

Mr. Munro.] You believe the State bank could have stabilized the whole of the primary products of New Zealand?—Yes, if that was their policy they could have done so; they could have done it if they had wanted to.

Mr. Lye.] In your opening remarks you made a statement that part of the difficulties of to-day were caused by bad legislation by Governments. What do you really mean by that—keeping to New Zealand?—If New Zealand follows another country then you can make it apply generally. I say the banking system of the world is wrong.

Would you suggest that the Government's efforts to adjust costs to prices, in the direction of the loan conversion, which reduced the internal debt by 20 per cent. and saved approximately £1,000,000 to the taxpayers, was bad legislation?—They do sometimes do some good.

I want to know what the bad legislation is. The 20 per cent. reduction of rent and interest, was that bad legislation? Was that in the interests of enabling the people to meet the difficult period through which the country was passing?—Yes, but if you take it off with one hand and put it on with another what is the difference? It is not put down by 20 per cent.

Where is it taken off with one hand and put on with another? What do you mean by that?—Well, what has been the increase in taxation?

Yes, what has been the increase?—I could not tell you, but it is more than 20 per cent.

You are making inferences and advancing theories that you cannot substantiate. I want to get something definite.

Dr. Sutch.] The Government revenue has gone down?—Has it gone down as a proportion of the production?

Mr. Lye.] Would you say that the reduction of the bank-overdraft rate, which in 1931 was 7 per cent. and which is now 5 per cent. was bad legislation, having regard to the fact that the whole of our export trade from July approximately till Christmas is carried on and financed on bank overdrafts and in comparison with the 1931 bank-overdraft rate there is a saving to the producers of this country of approximately 2 per cent. Would that be described as bad legislation, or would it be described as the Government attempting to do something in the interests of the primary producer to improve the position generally?—Well, of course, they are supposed to be endeavouring to improve the position, but I do not think the banks have been very magnanimous, even to the Government.

Do you suggest that there is a monopoly held by the banking institutions of this country?—I think so.

Notwithstanding the banks there are many other financial and lending institutions in New Zealand which come into direct competition with the banks in so far as the lending of funds is concerned?—My experience has been that many of those other institutions are merely sprats to catch a mackerel; they are simply part of the banks.

If I could show you a set of figures which I had, to show that there is far more credit advanced by way of loans to the people of New Zealand. The banks' assets were £68,701,282 in 1921, and £68,557,120 in 1931. The total assets in New Zealand of these financial institutions, which include savings-banks, Public Trust Office, friendly societies, building societies, life assurance, and National Provident Fund were £174,000,000. There is competition in the lending-market by these institutions other than the banks. How can you substantiate your claim that the banks have a monopoly of the credit in New Zealand?—I could not give you details, but I think it can be proved, and I can show you that the banks——

Would you not sooner say, "I think it can be stated"?—I would not state it if I did not think I could prove it.

For your information, I would like to put these figures on record. In view of the fact that you look upon the banks as having a monopoly of credit, and as not giving the people of New Zealand a fair deal,

I want to put on record a statement compiled from the Official Year-Book of 1934. In 1921 the assets of the banks of issue were approximately £68,701,000; in 1931 their assets were valued at £68,557,000. There was a decrease in the value of their assets in 1931 as compared with 1921, and there was an increase in the value of assets of the other list of financial institutions which I mentioned. The savings-bank, for instance, showed an increase of 13·12 per cent. as between 1921 and 1931; the friendly societies showed an increase in the value of assets of 74·90 per cent. over that period; the building societies showed an increase in the value of their assets over the same period of 130 per cent.; while the value of the assets of the banks went down. The life-assurance companies showed an increase of 99·60 per cent. The banks' percentage of total assets of these financial institutions which I have mentioned was that: In 1921 it was 49 per cent. and in 1931 39 per cent., so that while the lending institutions have made profits and their assets have increased, the six banks' assets have considerably decreased. That does not bear out your argument that the banks have a monopoly of credit in New Zealand. Do you consider that there is a shortage of credit and currency in New Zealand at the present time?—It is generally recognized that there is.

How is that established? It is easy to make a statement and say that it is recognized. Can you in any way give any evidence to verify that statement?—Figures will prove anything, and if valuations are altered, so the figures will be accordingly.

What would you say to this? This has been ascertained from a reliable source and can be verified from the bank returns of the Dominion: That it is not the present banking policy to restrict financial accommodation, and moreover the amount of demand deposits in the saving-banks and trading banks in 1933 amounted to over £70,000,000; that money is available for good investments; and is it not a question of whether people have confidence to mark down their undertakings in view of the statement that the bank deposits have now reached the figure of £70,000,000? It there not evidence that there is any amount of currency and credit available provided the people have sufficient confidence to draw upon those funds?—My experience over my long years has been this: That banks do well when the people do badly. I have not heard of any banks recently closing their doors, except perhaps in America, but I am thinking now of New Zealand. I want to give you another statement concerning banks.

Is not what you have stated a tribute to the banking methods employed in this country—that the banks have not lost the confidence of the people or endangered their deposits?—Where would the people put their money if it were not for the system of banking as it is to-day? Custom has made them what they are.

You consider then that the very fact that the banks have not closed their doors and lost the depositors' money condemns the present banking system?—No, not that alone.

Do you consider that it is necessary to increase the currency to facilitate an approach to better times?—Yes, I do.

Will you agree that the bulk of our import and export trade in New Zealand is carried on by a transfer of credit, and not a transfer of currency or of money? In the last analysis, I am driving at. Do not the goods which we export pay for the goods which we import?—They should.

And that sufficient currency over and above that may be necessary to provide the people of the Dominion with change or till money. Do you admit that?—If I am producing year in, year out, and I have produced a certain amount, how is that I do not get sufficient?

Sufficient what?—Money to carry on, if what I produce is profitable in that respect. I am producing two where I should need to produce only one.

The reason why, if you are sending your goods Home, you are not getting sufficient is that the margin between costs and prices does not provide you with sufficient purchasing-power. The cost of producing here and the price at which you sell in the markets of the world does not leave you a margin sufficient for your needs, but that is not due to the failure of the banking system?—I think it is.

The price-level factor is the factor that counts?—The banking helps to make prices one thing or another—high or low.

Will you agree that the purchasing-power of the people of this Dominion depends almost entirely upon the exchange value of their goods and services in the market in which they dispose of them?—That is as it ought to be.

That is a simple question I should say one could answer yes or no without elaborating. In the final analysis, is it not the exchange value of our goods and services in the markets of the world which determines our well-being and general prosperity?—Yes, under the present system.

You say that gold has been a contributing factor to our difficulties, and that you would base the issue of credit and currency on goods and services?—That may be a far better basis.

Is it not a fact, if you closely analyse the present system of exchange, that our system is now based on the exchange of goods and services, and the monetary factor is only a small consideration. You understand, I presume, what occurs when we send our produce Home and sell it in the markets of Great Britian and the importer buys goods. Do you know what transpires?—I believe I understand it.

Can you agree that the present system of finance is, generally speaking, based upon the exchange of our goods and services in exchange for other goods and services we require?—As far as book-keeping is concerned it may be so, but does the exchange actually take place?

Coming to the question of the State bank, do you consider the establishment of a central Reserve Bank with the sole right of note-issue is a step in the right direction?—No, I do not think another bank will make any difference to the people in that respect.

You said you were in favour of the State bank?—Yes, but it is another private bank; it is not a State bank.

To all intents and purposes, will you agree that this, comparatively speaking, is a State bank, with the exception of £500,000 share capital with interest payable at 5 per cent?—That share capital makes it private.

But the bank is free from political control, but subject to Parliament. Do you really believe that the causes of the depression are almost entirely monetary causes ?—They are not production causes, at any rate.

Yes, but would you say they are monetary causes ?—I believe so.

The Macmillan report says they are not, and that the monetary troubles of to-day are a reflection of non-monetary causes which have brought about a heavy fall in the values of goods and services ?—I think a reflection is generally from the same source ; if you look in a mirror, you see yourself.

Although in your statement to the Committee you say that bad legislation by the Government and bank monopoly and the powers which banks as financial institutions exercise have caused the troubles of to-day. Can you give us a short statement as to the steps you would take to correct the economic position of to-day ?—The first thing I would tell you is that I would take it out of private hands because private hands will always tend for private profit, and I am thinking of the community.

Take recent history : Has private banking been so wonderfully successful, particularly in America where thirty banks failed, and the history of private banking has shown from time to time serious losses of depositor's money ? Do you feel that private banking has anything to recommend it ?—I will tell you what I have known. I have known of great financial interests pushing smaller interests along a certain line so as to get legislation that will benefit the big interests, and wipe out a lot of small ones to get the benefits for the big ones.

Mr. Langstone.] Mr. Lye put a question to you which I think needs an answer. When he was dealing with the question of the assets of the banks and the assets of other things. You realize that the banks make their own valuation of their assets but other concerns do not, and that makes all the difference ?—It makes all the difference in the world. If I have to value my own property, I value it to suit myself.

Do you think it is a good thing for the Reserve Bank to put in £1,000,000 and get nothing for it, and for the £500,000 of shareholder's capital to bear interest ?—That is not good legislation, but it is generally the way.

Your idea, so I gather from your statement, is that the job is for the Government to do ?—And for no one else. " Render unto Cæsar the things that are Cæsar's."

In other words, they are the only authority clothed with the pre-emptive power to do it, and if they delegate that power to other people, they use it for their own ends ?—They are trustees for the people.

There has been a good deal of talk of gold, what gives gold its value ?—It was a value fixed.

By what ?—By the State.

By law ?—Yes, something like £4 per ounce—something less.

Fixed by Act of Parliament ?—Yes.

That value was not there from an ordinary utility point of view ? If it was based on a reasonable commodity value what would be the value of gold ?—Practically nothing. It has no use value at all except for ornaments.

So that gold getting its value from Act of Parliament—anything would do ? It would not matter what they had, provided it had the same legal authority ?—I know a country where its currency is six thousand to the pound, and in that country there is less unemployment than in any other country in the world, and that is Portuguese East Africa, the biggest gold-producing country in the world. All round it is poverty, the bigger gold-producing countries carrying millions of ounces of gold all the time.

They cannot eat the gold ?—As you say, they cannot eat it.

Where does the money originate from ? Milk originates from a farm, wool from a farm, wheat from a farm, butter originates from a butter-factory, cheese from a cheese-factory. Where does money originate from ?—It originates because of a desire for facility.

But what has the right of issuing money ? Who has the right ?—I believe we all could have the right, every individual.

Oh, no ; suppose you printed some notes, what would happen if you started to make some money ?—What do they do to the banks ? I would be put in jail.

Who can issue notes without being put in jail ?—Banks.

Well, money originates from the banks then ?—It seems as if it does.

The bank is a money-factory ?—That is just what it is. I want to say that I believe that money-lending and banking are two separate institutions, or they should be.

What is the cause, then, for the continual violent fluctuation in prices ? Why are prices up one month and down another ?—Because there is a plentiful supply when it suits those who make it, and a scarcity when it suits them.

A plentiful supply of money and prices rise, and then if prices rise the relationship between goods and money ; goods have more value and money less value. If prices fall you get the reverse ; money becomes more valuable in relationship and goods less valuable ?—Yes.

Money in itself, does it possess some magical power that it can balloon itself out and make itself plentiful, or can it make itself scarce ?—No, anything that is acceptable will perform the function of money.

Do you think money to-day is manipulated by persons ?—Yes, I am sure of it.

Then it can only be manipulated by those people who create it ?—I think so. It should be seemingly manipulated by some other agent, but in the finality it comes from the source.

If a bank wishes to put money in short supply, what is the usual method of doing it, calling in overdrafts ?—Calling in overdrafts and refusing advances for wages, and so on, so that it will not be distributed.

That means that people have got to sell things on a falling market to translate them into money, and when a man takes this money from the sale of goods and pays it back to the bank he reduces the overdraft. Does that cancel out the money ?—Not necessarily.

It means that money, then, is only vital, active, when it is outside a bank and not inside ?—Yes, when it is in circulation ; locked up in the bank it is dead.

If banks want to buy gold, what do they buy gold with ?—Our goods, bits of paper, promises, &c.

What do the notes cost the bank ?—Practically nothing.

Therefore they can buy the gold by the utilization of the power that has been conferred upon them by the law of the country ?—Yes, by the Government.

You do not blame the bankers for using it ?—I do not blame the bankers at all. Any person would do the same if he got the privileges, and, I say, special privileges for the nation.

But to safeguard that, the only means is by having absolute control—making it a monopoly by the State for the people ? You think that is the only safeguard ?—Yes, I would not call it a monopoly, it is a right.

You mean you monopolize a monopoly ?—It is a right from the State. It does not give them a privilege at all ; it is just their right.

To come to your single-tax proposal ?—It is no tax, it is a resumption of what is due.

Do you not think that this may happen : We will assume that you are a property-owner and the valuation is based upon the difference between the values that have been placed upon that land by the owner or occupier of it and the additional value that has been given by the community to it. That is the economic rent. We will assume that the owners of property do not monetize in the form of rent that community created value ; what would happen then ? Suppose you have a farm or shop property, and we will say that the value of it in buildings is £5,000 and the unimproved value of it (the accretion owing to wharves and trams and other facilities) is £10,000 ; that makes the total £15,000. The rent you get only brings you in rent on £5,000 instead of £15,000 ; where is your community created value ?—The rent will be taken from what it produces ; rent is not what you have to pay in cash.

You do not get my meaning. We say to-day that the unimproved value of all the lands in New Zealand is £300,000,000. That has been given to this land by the general activities of the people. The reason that it is worth that price is that some one is paying to some one else in the community the monetary value. Suppose the owner of the land says, I am not going to collect taxes, I am going to be satisfied with less revenue, and will only take the revenue on my own assets, where is the economic rent ? Does it not disappear ?—No.

Where does it come from ? The economic rent ? First the owner's interest is not there at all ; he is appropriating what belongs to the State if he is taking interest from the economic rent.

You are not getting my point ?—If the produce is due to labour ; if it is not, it is due to something else.

I quoted a case a little while ago where a person had £5,000 which represented his actual improvements placed there. If he got a rent on that which you say would be 5 per cent. (which is a capitalistic value) he would get £250 a year. If the State came along and valued that at £15,000, he is only getting £250 a year. Who is going to get it ?—The value is not there. The State cannot put on any value which it likes ; it must be according to what it produces.

That source of value which you give to the State automatically would disappear by doing that ?—Under your argument, it would in that respect, but I do not think that sort of illustration would exist. It would not work that way, because with the pressure of population the demand for land would get more and more. To be clear on this you err not knowing the Scriptures or natural law, or the law of rent. To take the economic rent cannot destroy any real value, only the speculative value or fictitious value.

I mean to say that if the people have only to collect taxes off other members of the community and hand that tax on to the State and they say, " Well, we will not do that. We are not going to be bothered and therefore we will charge less rent, and we will reduce our rent till it only gives us a return on our wealth, on our improvements," then the source of revenue to the State would disappear at that point. You do not think that ?—No, I do not think so. Rent will always prevail economically.

There is one other thing I would like to ask. The determining factor, as we know to-day, of all values is the price factor, is it not ?—Yes, under existing conditions.

I might mention here that the ability to finance is determined by the possession of assets and securities ?—To-day, yes.

But the value of assets and securities are determined by the price factor ?—Under existing conditions that is the routine.

With butter at 2s. a pound and butter at 1s. a pound, that farm would be worth twice as much at 2s. a pound as it would be at 1s. a pound, but the price factor is determined by the amount of money and credit in circulation in London ?—That is so.

And you think that if we were to fix our price basis, our monetary factor, on the real goods and services that are necessary to exchange between one person and another, that that is a permanent foundation for a money system ?—It is a foundation, whereas we have got no foundation under existing conditions. That foundation is better than none.

It has been mentioned that the purchasing-power of the people depends almost entirely on world prices, but we only export 40 per cent. of our total wealth and that affected the other 60 per cent. ?—No, it should not.

And seeing that we pay in London for goods in English money we only pay for anything in New Zealand in New Zealand money, and we can adjust our prices to any quantity we wish to. Is it competent to do that ?—Absolutely. The State has the power.

You think it has been due to bad legislation ?—Yes.

Do you think that the sales-tax was good legislation ?—No. It is very bad legislation.

Do you think the exchange-rate was bad legislation ?—Absolutely.

Do you think that increased Customs duties is good legislation ?—Absolutely bad.

Do you think the abolition of the graduated land-tax was bad legislation ?—I would rather have done away with all the little taxes and made one tax.

Do you think the wages-tax is good legislation ?—Absolutely one of the worst.

Do you think that the reduction of the pensions and all that was good legislation ?—A disgrace to the country.

Mr. J. N. Massey.] I want to ask you, if all these acts which have been placed upon the statute-book during recent years are all bad, how are we going to provide the social services. We all object to taxation, but how are we going to provide the social services ?—By paying to the State the due. Take for the community that which belongs to the community and leave to the individual what belongs to the individual. Taking from the individual is thieving.

But I want to know what belongs to the State ?—The revenue from land (economic rent).

Good. I presume that you are simply putting forward the doctrine of single tax. Is that correct ?—I believe in the single tax as it is called, only I do not believe in it as a tax. It is not a tax. It is payment of a due. You can conceive that when society starts there is no other source ; all other sources are invented.

And you would practically collect all your taxation direct from the land ?—Absolutely.

And you would encourage production ?—I would encourage production.

By taxation ?—No, not by taxation, but by paying your due and cancelling all the rest of the taxes. You reckon up all the other taxes and then reckon on 5 per cent. of your land-values and see where the benefit will be.

How do you arrive at your land-values ?—It is a value that will always exist.

What creates it ?—The presence of the population and the industry of the people.

Of New Zealand ?—Of New Zealand.

But seeing that we are an exporting country do you not consider that the world's price-level has a direct effect ?—It should affect the other countries, but your country should affect your country, not another country.

But we cannot live as a self-contained country can we ?—You do not know what you can do if you start from nature. Start from the beginning and go right. It is because you went wrong at the beginning that the position is as it is.

You say you are a farmer ?—Yes.

What effect has the world's price-level had on the farming community of New Zealand ?—At present it means bankruptcy.

Exactly ?—And better for them to go bankrupt and start again. Get back to the beginning.

We want to know the cure. That is what we are here for ?—Well, I say that is certain.

But how ?—What do you mean ?

What is the cure ?—The cure is to take the natural remedy. Natural law is the remedy.

Is your cure bankruptcy for a start ?—Well, it is that already only we do not recognize it. And that is what the present system has done for us. Keep on as we are going to-day, where is it going to lead to ? Worse than what you call bankruptcy. It is something that will eventually come.

You say that the present banking system has brought about our present troubles ?—The present banking system has aggravated it at any rate.

Have the banks got the monopoly of credit in this country ?—I think they have, only it is not on the surface. I know several finance companies that are supposed to be private companies lending money, but they are lending the bank's money, and it is costing this country 2 per cent. or 3 per cent. more than it would even from the banks.

How do we get our money in New Zealand ?—From the banks. They know more about it than I do.

But I am asking you. How do we get it ?—I suppose that any I have got has been through labour.

Tell me, what is money ?—Money is a measure of value.

A measure of value ?—A medium of exchange, if you like.

In reply to Mr. Langstone you left the impression that all that is required is to give power to banks to create paper money. Is that correct ?—It seems to be the case.

Well, the paper must have a backing ?—It is supposed to have something to back it, but in lots of cases it has not. If it is issued without a backing then it is a wrong system.

But you left the impression when you were discussing the question with Mr. Langstone that you did not require a backing at all when you were issuing paper money ?—That is because of the powers that have been given by the State, and they just create money without anything practically.

Do you say that they create money without a backing ?—Well they might put something opposite to balance it.

But do you firmly believe that all that is required for a bank to start operations is a bottle of ink and a pen and a piece of paper ?—Well I understand that many banks have started that way with practically nothing.

But not in New Zealand ?—But in other countries not very far from New Zealand.

I am only referring to New Zealand at the moment.—I am not behind the scenes in New Zealand. I am close to it, but I am not behind the scenes.

Mr. Murdoch.] You have been farming some time have you ?—Yes. A good many years.

On your farm did you work on overdraft ?—For a time I did, but not very much.

You said that you had lost your money or your land through the action of the banks. I take it from that that you were working on advances from the banks or some institution ?—Some institution if you like.

I should say from your statement that you are a dairy-farmer ?—I was.

You said just now that practically the whole of the country here was bankrupt. Would you say that applied to-day to the sheep-farmers and the others ?—They were, but they seem to have got over it a bit.

During your long experience I have no doubt you have had times when the dairy commodity was a paying commodity and during that time you probably built up areas of land, did you ?—A little.

And then when the hard times came you slipped and lost it ?—Yes. I had to keep things going by cutting out.

Supposing the butter price was raised to-morrow to 1s. a pound, would you still consider it was necessary to alter the monetary system ?—Yes.

Do you think that the price of our commodity at Home has anything whatever to do with the present position in New Zealand ?—Yes.

Did you agree with the rise in the exchange ?—No.

Would you suggest that if we increase the exchange it would put any extra value in the hands of the farming community ?—It seems to me it may have put a penny in and taken out twopence.

How do you suggest that ? I did not mean the townsman. Speaking of the farming community ?—The farming community has to deal with the townspeople too. The farming community receive it, but what for ? To buy goods, and when they go to buy the goods they have lost it, and a little bit more.

Can you answer this ? Did the farming community as a whole urge the Government to increase the exchange ?—The farming community urged the Government not to increase the exchange.

When was that ? After it had been tried ?—No. Before. I was secretary of the Farmers' Union, and we advised the Government not to raise the exchange. That is what the farmers did.

That was your branch ?—Not our branch alone.

How do you account for the fact that so many requisitions were sent in from the Farmers' Unions ?—Representatives of finance corporations, and so on, lobbied the Government.

Yes, the Farmers' Unions ?—No, not the Farmers' Unions. Some of them, but not the majority of them.

You are suggesting here that the whole trouble was due to Governments. Now, how far back would you go. Would you not have to go right back to the early Governments of Britain ?—No. Some of them were good Governments, but strange to say the best time the people had was somewhere about the thirteenth century. Never was there a better time. It has gradually been getting worse.

Is not our system here modelled on the system of England ?—It may be.

And that has carried on for a good many years ?—Yes, but there could have been a better one.

Would you suggest to-day in England that England should alter her system ?—Yes.

Taking note of the fact that England is getting out of her financial difficulty ?—We are told so, but there are many poor people in Britain to-day—ten times more than there should be. The world is producing enough that there should be no poverty. The people cannot get it.

Cannot get what ?—The wealth is not distributed. After all, it is wealth we want. It is not money. It is wealth, and we want a distribution of wealth.

How do you specify wealth ?—The needs of the people, first of all.

You have the needs to-day, have not you ?—No. The standard of living has been lowered in one sense.

I thought you had the needs. As far as that goes it is a question of actual money that is short ?—What do we want money for ? To buy. We have not got what money will buy, and we cannot buy it because of the shortage. I know hundreds of men that cannot even get a day's work except from the State as a dole. And I know this : That men have been spending State money for private individuals, increasing the value of bank's property—using unemployment funds for that. I know what I am talking about.

What about the farmer's property ?—It is not any Jack, Tom, or Harry's property, but it is the mortgagee's. They are also talking to-day of cutting out the local rates. What for ? To increase the securities of the banks.

You do not suggest that the banks have all the mortgages surely ?—No, not all of them, but they are the ones who are going to get the benefit of it.

Your suggestion previously was that the land should carry a tax, and that should be the sole tax. If that is so you would not have rates, would you ?—You would have nothing else but just one due or one rate. Call it a tax if you like.

The Chairman.] The time has arrived for the adjournment. I have a number of questions here, but I will just ask you two. The question of the Reserve Bank has been raised this morning. Did you approve of the action of the Government taking the gold over at £3 17s. 10½d. an ounce ?—What to do with it ? That is the point. To put it in the vault again.

It does not matter what we are doing with it ?—I do not approve of it at all.

You think they should have paid the higher rate ?—No, they should not have bought it at all. It is useless.

They should not have bought it at all ? They should not have taken it over ?—No, they should not have taken it over.

Just one other question. You referred to your farming operations. How many farms have you ?—I had two.

How long ago ?—Not very long ago.

How long ?—Two years ago.

Were you holding that property when the Mortgagors Relief Act came in ?—No. The Relief Act was no use.

Never mind whether it was of any use. Were you holding property when that Act came in ?—Yes.

Did you apply for relief ?—Yes.

Did you get it ?—No.

Why did you not get it ? What was the reason ?—I was told they were sorry they could not give me relief.

By whom ?—By the Magistrate. By the Relief Court.

There must have been circumstances surrounding it to cause the Magistrate to tell you that ?—Yes.

Probably there is a lot more than what you have told us. You have merely made a statement that you lost your land. I say probably there is a lot more in it than you have told the Committee ?—I could tell you a long story, but I did not consider this the place to tell it.

I do not want you to pursue it. You know that there are hundreds of people in New Zealand who have sought relief under the Mortgagors Relief Act and you know that they have had it, and they are on their farms to-day, notwithstanding the position ?—The Act was altered the year after I went off.

That may be ?—It was too late to benefit me.

There have been amendments to the Act, but you know that hundreds have had relief ?—I believe there have been.

And you know that it has been a good thing ?—I believe that if it had not been they would all have been off.

In reply to Mr. Langstone you condemned everything that he mentioned that the Government had done. Do you condemn that too ?—No. I believe that was a good thing.

You think that was one good thing the Government did ?—Yes. I think the Relief Act, as it is to-day, has saved many a farmer.

We could probably suggest a good many things, too, that you would be of the same opinion ?—Oh, yes, no doubt.

All I want to know is that you are not one-sided ?—I am not condemning the Government or any section of the Government holus-bolus.

But you did condemn them ?—I believe there is a lot of truth in what I did say.

That may be, from your point of view, but I am glad to get the admission from you that the Government have done some good things ?—Oh, yes. They have done some good things. I want to be quite fair.

WELLINGTON, TUESDAY, 24TH APRIL, 1934.

Witness: Mr. W. D. LYSNAR.

Mr. Lysnar: The root cause of the present difficulties we are in, financially and otherwise, is want of stabilization of the price that the producers get for their produce, and that is brought about by two causes—first, by want of credit through our present banking system, and second, because of a loose system in marketing operations; and the trust combinations get in and take too big a share of the proceeds of realization when it comes to the producers. Now, this process is going on. It forces down the price to the producer and puts up the price to the consumer, with the result that the finances and the commerce all the world over are controlled by a comparatively few capitalists to the detriment of the general mass. The question is, Who is to be nursed and protected? Is it the few capitalists or is it the many producers and consumers? Up to the present I have not the slightest hesitation in saying, the powers that be have protected the few. It is recognized and admitted by the leaders in politics that at the present time the Dominion is suffering from a shortage of £20,000,000 to £30,000,000 in the value of its products. How long is that to be allowed to continue? By taking steps to cut down wages, provide unemployment dole, and other necessary expedients—that are necessary, I acknowledge, because of the conditions brought about by the cause—these are only palliative measures, and are not dealing with the root cause at all; and unless you realize what is the cause and remedy it will go on and on, and matters will get worse and worse. I would like just shortly to refer you to an address that was given to the Royal Empire Society by Viscount D'Abernon, who is a very able man. He was asked to give an address in London on the subject of "Currency and the Economic Crisis." I strongly recommend you to read it. No doubt some of you will have read it, but I recommend you to read it before you come to your final decision. It is a very fine and able discussion.

The Chairman: What is the date of that ?—June, 1931.

Did the Macmillan Committee have it before them ?—The Macmillan Committee sat just before that or about that time. I propose to refer you to the Macmillan Committee's report. In the *Journal of the Royal Empire Society of London*, Volume 22, No. 6, it is reported on page 317. He says, "Every month evidence accumulates showing that the main cause of the trouble is of a monetary nature, and that the remedy can only be found in a measure of monetary reform." And then he goes on to deal with the question as to what is the cause. Is it overproduction? And he deals with overproduction, and he takes silver, wheat, cotton, and several other articles of general use, and he shows clearly that it is not by overproduction. You are faced with a difficulty in the dairy industry at the moment and a lot of talk is going on that it is overproduction. It is not overproduction at all, and I would ask the Committee and those dealing with that question to get that right out of their minds. It is the want of proper marketing arrangements resulting in making the article so dear that the people cannot buy it and have no credit to buy it. Viscount D'Abernon says, "In the long-run you cannot curtail the productive capacity of the world. Once mankind has discovered means to increase the efficiency of its labour, the world has to adjust itself to deal with the increased production to the best of its ability. You cannot maim workers or put them indefinitely on the unemployment list. Should you attempt to do so, you merely give proof of the failure of your economic system. It is essential to find means to deal with increased production when it occurs, in such a manner as to avoid a violent dislocation of prices." You see he says it goes back to the question of prices, and I say it is the prices that are the cause of the trouble. "There is only one effective way of doing this. Adjust the means

of payment to the volume and quantity of the commodities to be dealt with. That is where we have failed." Further he says: "We are all alike concerned with the maintenance of stability in prices. This stability has been allowed to disappear, and you see the disastrous result. Creditor nations like the United States, England, and France have special interests and special responsibilities. They have a vital concern in the maintenance of such stability in the price level as will permit debtors to meet their obligations. To achieve this, debtors must be able to sell their produce at a reasonable stable price."

Hon. Mr. Downie Stewart.] If you put your marketing right, then your prices would come right?—What should be done is to stabilize the minimum prices for produce, and that must represent the productive value of that product.

I thought you meant methods of transport?—No. That is a big element, but to me it is a small item compared with control of the marketing, and when I use the words "control of marketing" I mean the control of the minimum price that that article is to be sold at so as to protect the producer. Then, on page 321, he says, "Let me summarize my views: I hold that the deplorable conditions are due in the main, though not entirely, to the fall in the price of staple commodities. This fall has been brought about by scarcity of means of payment." I do not agree with him entirely on that last statement. It has been brought about by the scarcity of payment very largely, but also by the operations of these combines. When I went through the Dominion about 1917 and stated the position, I said then, there were some two hundred or three hundred buyers of meat in New Zealand. I said the time would come when there would be only one or two. To-day we practically only have one, because they co-operate.

Mr. Langstone: What combines are you referring to?—I am referring to meat.

Not the Meat Board?—No.

The Chairman.] Do you not think they are playing a very important part in it?—They are playing a very important part to the capitalists and the trusts and combines, but a very poor part to the producer.

Do you think that is owing to the constitution?—Yes. They have got the full power, both the Meat Board and the Dairy Board. I think the Dairy Board has failed wholly. I know what I am talking about, because I ran a dairy-factory for over twenty-five years.

But you did not maintain that view a year or two ago?—I have said that over and over again.

About the dairy control?—Yes. About the dairy control. I stated before the Dairy Board did what they did in connection with the marketing, it meant a loss of millions to the producers in New Zealand.

That was the fixation of prices?—Yes. In the manner they were doing it.

If the Board were reconstituted do you think they could work on different lines to what they are doing now?—I will undertake to say that if the Meat Board was reconstituted to-morrow and the Dairy Board, on the same lines, and a proper Board elected, eliminating the commercial element, that we would start to restore the prosperity of this Dominion in three months and you would have to co-operate with Australia, with the Argentine, and with the British producers, and I make this statement with a full knowledge of the prices that were obtainable a short time ago. If that Meat Board did its proper duty you could cut down the retail price of meat to the English consumer by 50 per cent. You could increase the return to the producer in New Zealand by 100 per cent., and then leave a fair margin of marketing value to the person who sold it at Home.

And cut it down by 50 per cent. at Home? The wholesale price?—No, the retail price.

Mr. Langstone.] Is there an agreed disparity between retail and wholesale prices?—I will not say there is that margin in dairy-produce, but there is a margin. I will say this is largely the result of the good work of Mr. Goodfellow's company and his organization in England, and he has been carrying the dairy-farmers of this Dominion on his back for some years, and has not been properly supported.

The Chairman.] They are carrying him. Would you not put it that way?—No.

Mr. Langstone.] He has got better marketing methods has he not?—Yes. As long as he is honest in his marketing matters it is his marketing that I am looking at and I say that Mr. Goodfellow's marketing system is a right system.

Do you think he should be on the Meat Board?—He would be a good one on the Dairy Board.

The Chairman.] He was on the Dairy Board?—Yes. And he retired from it, unfortunately. What about Lord Macmillan's report. I have got Lord Macmillan's report to deal with, but that will come up later. The kernel of Lord Macmillan's report will come out in a quotation of a letter I gave to the Prime Minister which I am going to read, so I will not delay you with that at present. Now, I want to quote you a statement made by the Prime Minister of England, Mr. Ramsay MacDonald, and he in effect agrees with the statement of Viscount D'Abernon that it is not overproduction that is the trouble. That is a bogy being put up to the people at the present time about that overproduction. It is only because the cost has been made so high to the people at Home that they cannot buy it for want of credit. "Referring to the general outlook," he said, "the present problem was not one of production which was more efficient than ever before. There was no problem in consumption. People were prepared to consume more than they ever consumed before. Where the fault lay was that between production and consumption something came in and prices got dislocated."

Mr. Langstone.] Do you not think Mr. MacDonald should deal with the combines at Home. He has legislative power to do it?—He could get it.

He has not done it?—I grant you that, but the statement he is making is a correct statement. Politics there are no doubt as bad as our politics here. I might state that all authorities emphasize the importance of stabilizing prices. I think all the witnesses that you have had have indicated that. Then why not do it? What is the good of acknowledging a thing to be wrong, and say what is necessary and not do it?

The Chairman.] But you must not try to influence the Committee in that way. We have not come to our decision yet ?—I am hoping that you will see through the spectacles I use and that the decision will bear fruit.

Captain Rushworth.] Do you think that if the Committee did report that way that the Government would do it ?—As long as the Committee can give cogent reasons for that finding and that decision, I will say that no Government could refuse at this juncture. They have been able to in the past, but no Government can refuse without very serious risk to themselves.

You are a man of faith ?—I am. I have had faith in the past and I have failed, I admit, but I say it has got to come, and if one Government will not do it I say the people of the Dominion will so realize the position that they will find another Government that will do it.

The Chairman.] Do you think the banks are not liberal enough at the present time ?—I would suggest that the Committee might look at it in this way : That the banks have done their best to meet the position, but their best is not sufficient. In other words, I would say the present system has been tried and found wanting, and it is necessary to make some change.

Mr. Langstone.] Would you advocate a State Bank ?—That would be an alternative. I would put something better than a State Bank, but if nothing else could be got that would be an alternative. In this Douglas Credit concern there are two main elements ; every witness that has come before you has emphasized to the Committee the necessity of stabilization of prices and extended credit.

The Chairman.] What is your opinion of the present bank rate of interest ?—It is too high ; it should be reduced ; there is no doubt about it. I might say a good deal on some individual banks, but on the banks as a whole I think the Committee should regard them as having done the best they could under the circumstances, but to recognize that their best is not sufficient.

More is wanted ?—Yes, it is absolutely necessary.

Mr. Schramm.] Why not take over all the banks altogether ?—According to Major Douglas there is a sound proposition there ; that could be done in a reasonable way. I am not here to advocate any special banking reform ; I think it is up to the Committee to try and sieve out what is best of that. I can only express myself that the present conditions are unsatisfactory ; something must be done.

Do you not think the fault is inherent in the present banking system ?—Yes, because they become saturated with the conditions and no amount of talk will make them think otherwise than that they have done the right thing in the past and will do it in the future. Something must be done ; it may indirectly hurt the banks in the making of their profits.

Mr. Langstone.] Have you discussed this with the banks at all ?—No, I have not. I must say I do not like the associated banks ; I think that is very detrimental. I think that they are all working in conjunction and when one bank turns a thing down it is turned down altogether.

The Chairman.] You really believe that ? You mean an individual application for a loan ?—I have enough knowledge to believe in human nature. The human element comes into the question.

Mr. Langstone.] You think they put their heads together ?—In my opinion, yes. The whole of the trouble the world is in to-day is through central control of some sort ; everything that tends to monopoly should be discarded, and I think if there is one thing that should be stopped it is the associated banks. Let them stand on their own ; competition is the life of trade ; directly you get them all as one, there is no competition. I myself think that the Committee will be well advised to seriously consider the Douglas Credit system. There are two elements in that that seem to me very good—that is, where you have a separate Statistical Board to fix the stable market value of products.

Mr. Langstone.] Do you think we ought to have an Export Board to control marketing ?—That is another subject. I am dealing with this question of banking. The crux of the position is that an independent Board established by the Government to fix the price, that fixes what credit can be given ; if the produce is not there at a value you cannot give the credit.

But that is all in price, is it not ?—Yes. I say that is a safety-valve. The greatest fear that can be suggested to that scheme is that too much credit will be given, but when there is a reliable Statistical Board to fix that, that to my mind helps the position very substantially. I understand there are two Boards in that scheme—one to run the bank part of it and the other to run the statistical value, and that is where its safety is. I notice, just as a layman, when I saw through the press that the banks had lent the Government £23,000,000 during the last two years and three months, I said to myself, that is the best argument I have seen in favour of the Douglas Credit system, because we know as they stand they had not got the £23,000,000 so far as we can understand banks and it is only by utilizing the Government's security and writing that up through the books it is done. When you have the evidence given by Mr. Fussell, representing the banks, on a question put by one of you to him, he says that the banks could issue £10,000,000 of notes, and that the only danger in that would be that it might cause an agitation to issue £100,000,000 notes. At another place he says the banks could lend the Government, if they require it, £100,000,000. If the banks can do that, why cannot it be done under the Douglas Credit system ? It is the best evidence I have seen to the arguments of the Douglas Credit system, and those two points have removed the very grave difficulty that I had in my mind whether it was right or wrong.

Mr. Clinkard.] That does not say it is a wise thing ?—But there is nothing physically wrong with it.

Mr. Langstone.] Do you think there is an understanding between Vestey's Meat Co. and the banks to keep prices down ?—The result is there, and I say you have got to alter that. You are also faced with this : It is credibly stated that Japan has partially adopted this Douglas system ; that is so. I have made independent inquiries and as far as I can tell, it is so, and they have taken a substantial part of Major Douglas's system. I do not say that is all the case, but it is one of the elements aiding Japan, and to stop them undermining your trade you have got to put your house in order. It is there and if they can get an advantage out of it, it is up to this Committee to recom-

mend it to the Government. I wanted to drive home one or two simple things, but it is absolutely necessary for you to understand and appreciate and know the cause of our trouble and it has got to be cured. I have the account sales of some wool-sales in London for June, 1932. On the first page there are eighty-nine bales of slipe wool, the best Christchurch slipe wool, because it is marked "super" and we know it is better than North Island; the highest price is 3½d. Every freezing-works from one end of New Zealand to the other charges 2¾d. for sliping wool. The freight charge on slipe wool is 1d., plus one-tenth, so, without the one-tenth and without the port and other selling charges it is 3¾d. With the London charges, which you could not put at less than ¼d., there is a clean loss on the highest price of ½d. and on the lowest price 1½d. Now, the farmers who own that wool have to pay ½d. to 1½d. for the privilege of sending it Home and selling it. Is that right?

The Chairman.] Is that all it is bringing at the present time?—No, I have in this catalogue some of my own slipe wool. I am giving my wool away and paying for doing so. Can any country carry on like that. Is it legitimate commercial business? Not at all.

You know that wool has not always brought that price; you have your average of years?—I am quoting 1932.

Did you not get 2s.-odd at the time of the commandeer?—After the commandeer. I have two lists in my hand, one is a retail price of New Zealand meat in London by one of the leading retail vendors of meat there, the Civil Service Supply Association, and the other is Fitter and Co.'s wholesale price of meat in London on the Smithfield Market. Fitter's price on 23rd April, 1929, the list price for New Zealand beef, was: Lowest, 4¼d.; the highest, 6¼d.—that is, wholesale carcasses in Smithfield Market. The Civil Service Supply Association's price on the 25th April, 1929, was for the lowest cut 1s. 3d. and the highest 1s. 9d.—that is, retail. That is for New Zealand beef.

That is where you were suggesting the price could be reduced by 50 per cent?—Yes. You could cut it down to the consumer at Home by 50 per cent., increase the price to the producer 100 per cent., and still leave a reasonable margin to work upon. It was officially stated and acknowledged in London that the meat-packers of America acknowledged that the by-products of the carcasses of the animal killed were sufficient to pay all freezing, transport, and marketing charges, and that the producer should get the retail price that is charged to the people.

Have the Meat Board not been looking after this?—They have not; that is the trouble.

Dr. Sutch.] You gave retail prices in 1929; what were the wholesale prices?—4¼d. for the lowest, and 6¼d. for the highest.

I have a different set of figures here, and it gives the beef prices at 3¼d. wholesale for New Zealand hindquarters—that is this year?—Do you notice how it has gone down? Out of that the farmer has to pay charges of 2¼d. There is little left. Your Dominion cannot prosper on that. You have only to deal with one person in the meat industry, Borthwick and Son, and Vestey, working in conjunction; whatever one does the other does. To all intents and purposes they have absolutely eliminated all other competitors of any consequence. There is only one up in our district, Mr. Richmond, and they have put him in such a position that he has now got to follow them.

Were not Borthwicks offering higher prices?—No; they have a margin of ¼d. When that meat gets Home, a boat arrives with 10,000 carcasses by, say, Mr. Armstrong. They say we must put Mr. Armstrong out of this dealing with New Zealand meat, and they will break the market down and then they will buy his meat in. Some time ago I was talking to three leading Smithfield gentlemen and I said, give me a thousand carcasses and I will undertake to break down your Smithfield price in twenty-four hours by 1d. a pound, and they finally agreed I could do it.

And the Meat Board knows this is going on?—We will leave them out of it. It could be done to-day and could have been done many years ago. How can any body of reasonable-thinking men say that the wholesale price to the farmer, after taking the charges off, is satisfactory?

The Chairman.] Speaking of the Meat Board itself, have not those gentlemen been very successful as a Board? There has never been any disturbance since they started, has there?—No, because they have been "swimming with the stream," and to the benefit of the big interests and to the detriment of the farmers.

If you ask a farmer if he is satisfied with the Meat Board, he will generally say, Yes, they are doing very well?—You must take that "with a grain of salt." The farmer, in my opinion, is the most miserable-minded man on the face of the earth to try and get reform, and if he can see his way to get an advantage of one-eighth penny a pound over his neighbours, he will do it.

Captain Rushworth.] Is that not common to others besides farmers?—I think the farmer "takes the cake" in that respect. Another mistake the farmers make, is that they rush to their bankers or merchants. I say you should take a lesson out of Denmark's method of marketing, and that is all I ever suggested in New Zealand.

The Chairman.] You think their method at the present time of disposing of their cows by shooting them, is right?—That is not the marketing question. I must read to you the correspondence I had with the Prime Minister in 1931:—

DEAR MR. FORBES.—Before your inter-party Committee concludes its deliberations, I desire to emphasize what in my opinion is most essential to assist in restoring a living and prosperous basis.

(1) To take stronger and more efficient control of the marketing of our primary products so as to stabilize its value to at least its cost of production. This, it must be admitted, is the main weakness of our present difficulties.

(2) To provide more finance to assist the farming producers (this is for all practical purposes non-existent to-day).

(3) To bring in legislation to stop ruthless profiteering, and to stop undercutting, the latter being as dangerous as the former.

(4) To make some temporary arrangements to suspend all arbitration awards affecting the employment of labour, say, for twelve months.

To carry out No. 1 it requires Boards established to represent the producers and eliminate all commercial interests. It is being freely alleged that it is impossible to control our marketing abroad, but I entirely disagree with this. If the position is approached in a practical and common-sense way, and an effort made to co-operate with both the Governments and producers of other countries who are marketing similar products through the same market.

In Lord Macmillan's report published in the *New Zealand Press* of 15th July last, dealing with this phase, he states that "the Committee recommends an attempt to increase the power of deliberate control over the price-level, which it believes is not inherently impracticable, with the gradual growth of knowledge and experience and the further development of suitable machinery for regular international co-operation. It is a task which must be attempted and experience gained by practice.

Regarding No. 2, it is essential that some better system of finance is provided to assist the farmers of this Dominion by, *inter alia*, establishing an association or bank with power to raise and lend money upon long-term mortgages upon the agricultural banking principle with provision for amortization, and each borrower to take up shares to the extent of 5 per cent. of its mortgage, that is to be available to protect all mortgages, the debentures of such an association to have a limited guarantee of the Government to say £5,000,000, to be spread at the rate of, say, 12½ per cent. on all debentures first issued up to £40,000,000.

It would be necessary that any such organization should have the power to issue bank-notes on the same terms and conditions as the banks can do to-day, and also that there should be no limit to the amount that the association can deal with. In the report of the Committee that went abroad some few years back, to gain experience on various systems of lending money to farmers, it will be found that it very strongly recommends this system, and it is stated that there has never been a failure.

Regarding No. 3, I prefer the Canadian principle of establishing a special Court which is vested with complete and absolute power to deal effectively with all trading abuses by its own decree, and if that decree is disregarded, to impose penalties and, if necessary, imprisonment.

While I fully recognize the question of balancing the Budget is an important, difficult, and troublesome matter, it seems to me that it is secondary to the above questions, which deal with the root cause of our trouble, and which must be combated and dealt with if the difficulty of balancing the Budget is not to be aggravated. Therefore I have not attempted to deal with the balancing of the Budget, which is to me of secondary importance, and I am afraid that in the efforts to find experience to balance the Budget these efforts may detract attention from the more dangerous matters that go to the root cause of the trouble.

I am, &c.,
W. Douglas Lysnar.

I propose to read also a short extract of what I stated to the Meat Commission in 1925: Towards the conclusion of my five and a half days' address to the Royal Commission in 1925 *re* sale of freezing-works to Vestey Bros., in Volume 6, page 2124, the following official record was made of part of my address:—

have said to the country and to the meetings I have addressed, and I repeat it to the Commission, that this fact has to be recognized. And unless it is recognized, the whole control of the sheep-farming industry as a whole will be taken out of the hands of the people carrying it on; and the whole body of producers will sink to no higher position than that of the shepherds and tenderers of flocks and herds. And the whole effect of the policy of this country for closer settlement will be destroyed, and that policy, instead of promoting the growth of a hardy, independent race of free-holders and free men, will promote only the growth of a class subservient to, and dependent upon, European financial interests. Holding these views, and believing, as I do, that the first principle of the policy of this country should be to obtain and retain financial freedom, I regard with horror the attitude that has been taken up by the Minister of Agriculture, and the Chairman of the Meat Board, in allowing these Trusts not only to gain a footing in the country, but to so increase their holdings that their operations have become so extensive that already clear evidence has been given before this Commission that their methods and competition are beginning to oust the farmers' control. I have devoted my time and my efforts to this Commission not for my own ends, but to advance the principles which I consider vital to the progress and welfare of this country. I say that, wittingly or not, the Minister and the Chairman of the Meat Board have sunk the principle that should have guided them in preserving the interests of this country in the manner they were intended to by the legislation which placed in them the power to safeguard the interests of producers. I say, further, that none of the excuses put forward by them is a sufficient justification to excuse them in the eyes of the country, or before this Commission, for what has been a dereliction of duty and departure from principle.

What I said then is true to-day, only, as Viscount D'Abernon says, the position is getting worse and worse. I am going to quote to you what will be found in *Hansard* at the bottom of page 304, Volume 227. [Mr. Lysnar then quoted extracts from his speech as reported in *Hansard*, Vol. 227, page 304.] I would also like to quote from the last speech made by the Right Hon. R. J. Seddon, just before he died in Australia, because it is relevant to the position. He said,—

Both here and in New Zealand, monopolies, combines, and trusts were rearing their heads threatening to dominate not only commerce and trade, but also the political sphere (Cheers). The result of any such domination must be disaster to the country (Cheers). He did not hesitate to say that the only power which could counteract their influence and annul their efforts was the power of Parliament itself (Cheers). He could speak of his own colony and of America too, and his view, confirmed by President Roosevelt himself, was that litigation and law-courts were powerless against this evil. They must strike at the root, and when men sought the ruin of their fellows, carrying degrading conditions far and wide, the offence must be met by maintaining the offenders in a Government institution at the public expense. (Cheers).

If Mr. Seddon had lived I do not think we would have this slump in its aggravated form. Now, I am associated with and am director of a bacon company in this country and I arranged for a British letter of credit to be established for us to purchase pigs there and asked our banker, the National Bank of New Zealand, to allow us to utilize this credit and we got a blank refusal.

Captain Rushworth.] Was that a credit to buy pigs in England?—No. Buy pigs here and ship Home. So I instructed the secretary to write this letter to the bank:—

So that there is no room for misunderstanding regarding your bank's refusal to allow us to operate under a letter of credit on a Glasgow firm for the buying and shipping of pigs from this district to England, I would be glad if you would confirm your bank's refusal in writing.

The credit, of course, contains the usual "red letter clause" to cover each sale and to protect advances against store warrants pending shipment. As was explained to you, we asked for nothing more than the usual advances against store warrants pending shipment.

That was written on the 9th March, 1934. We waited some time and there was no response, so on the 13th March I instructed this letter to be sent:—

We should be glad if you would reply to our letter of the 9th instant without further delay, as Mr. Lysnar intends bringing before the Parliamentary Monetary Committee now sitting the matter of your bank's refusal to allow us to operate under a British letter of credit. He claims that it discloses a grave wrong in

our banking system, stopping good business in which the bank takes not a particle of risk, and considers it is against the public interest for a bank to prevent business of this nature.

Consequently, he is communicating with the Committee to fix a time to have his evidence taken, and for that purpose he desires to have your bank's refusal in writing so that there is no room for any misunderstanding in the matter.

Captain Rushworth.] Did you get the reply in writing?—No. We have got nothing in writing. We have asked for it and they have verbally refused to give it in writing. In fairness to the bank, I must say that after the second letter was sent the local manager rang up the secretary of the company and said that they had better get the credit established and then apply for it to be used, and it might be that the bank would consider it. He was asked if he would put that in writing and he said no, so I told the secretary to send a telegram and tell them to establish the credit, and it was done, and we had a shipment of stuff ready and it was put aboard immediately, and they did it on that shipment, but that does not say they will do it on the next.

Did you deposit that credit with the bank?—Yes, afterwards. Now, if you think that is business, I can only say I cannot agree with you.

The letter of credit was for a definite sum, I presume?—Yes. A limited sum to be utilized at the rate of so-much per pound of what was put in, and the store warrant of the freezing-works had to be handed to them. Just the usual practice.

There was nothing peculiar in the particular case?—No.

Can you suggest any reason why the bank should take that peculiar attitude in this one case?—Again, in fairness to the position, you should be told that I am fighting that same bank on other matters. I went to a bank and asked for £300 to help a farmer along and said £2,000 worth of security would be deposited for it.

What sort of security?—Land Transfer certificates or titles.

Subject to mortgage?—No; free.

It comes to a question whether one bank can prevent you dealing with other banks?—No. They cannot prevent you. If you go and open a credit account, as I have done, they cannot stop you. They would lose their charter; but if you want any advance they will not give it.

But you remember that the point was relating to this particular letter of credit. Owing to the fact that you found it difficult or impossible to deal with one particular bank, you suggest that it was not possible for you to take that letter of credit and do business with another bank?—No. I tried it, and they said, "Because you have got a debenture in favour of the National Bank we cannot deal with you." That debenture had nothing to do with the letter of credit.

Mr. Schramm.] Is that what the bank said?—Yes; another bank.

The Chairman.] Did you say you had a debenture with the National Bank in connection with your business?—Yes. But that did not affect the store warrant.

What does the debenture cover? Does it cover stock?—Stock in the works. This is not in the works. This is in the freezing-works.

But if you had a debenture covering everything to the National Bank, I think it is reasonable that another bank would not have anything to do with it.

Mr. Schramm.] Is there not some legal difficulty? If the debenture covered everything, where would the other bank come in?—The debenture is over the stock, machinery, and that sort of thing, but where you give the letter of credit in the ordinary course of business and the produce and it is not in the same buildings, it is in an independent freezing-works, you might as well have it in Wellington, and you get a store warrant from the Wellington store and hand it to any bank.

Let me understand you clearly. You say this letter of credit was for pigs and concerned this bacon company, and because you, personally, had a debenture over your stock, they would not deal with it?—No; the company had the debenture with the bank.

The Chairman.] Well, that opens up a question. What we understand is this: You had a British letter of credit and you had a debenture with the National Bank which covered everything as far as the bacon company was concerned. Then you went to another bank. Well, I think it is quite reasonable that the other bank would say at once, "You have got a debenture over your stock and everything else. We are not going to be mixed up in anything of this sort." Quite a reasonable thing for them to say. That is the way I should look at it?—The express provisions of the debenture itself made the position clear and beyond any doubt, for it expressly provides that the company "can sell or otherwise dispose of any merchandise in the ordinary course of business."

Mr. Schramm.] What if you were solicitor for the bank and you had to advise them?—The debenture does not affect the position, the produce is not in the premises of the company at all. They are in somebody else's works.

But that does not matter. It is the company's property. The advance is made in terms of the store warrant.

Captain Rushworth.] May we clear it up this way. Supposing you personally, in view of the trouble you had with one particular bank, were to take Imperial war bonds for a sum, and offer that as collateral security to another bank. Would they do business with you?—They would not do any different to the case I told you of, where a person offered £2,000 worth of security for £300 and they turned it down, because the party was banking with another bank.

Mr. Schramm.] Would they do it just for that reason, because a bank is a commercial institution looking after their shareholders, and if they get a good investment surely they would not turn it down just for that?—There you have an element of human nature again.

That is what I am considering?—No amount of personal right or pecuniary gain to one or the other will weigh with them.

Would you let the banks go on as they are at present, as private institutions for money-making purposes?—No. I say the time has come when you have got to make some other arrangements.

What would be your remedy?—I would very carefully weigh up the suggestions put before you by Mr. Field and the Douglas Credit system.

Take over those banks ?—Yes. Failing that being practical, make your State Bank as quickly as you can. I put the State Bank as an alternative, and also, as you press me for reasons, I put the position shortly: (1) That a proper and practical means of controlling the marketing be set up; (2) better finances and banking facilities (*a*) by Government controlling the note-issue, (*b*) by some better banking system, (*c*) by establishing long-term mortgages with limited Government guarantee on amortization principle; (3) legislation to restrict any organization or trust that operates against public interest. I say you should have a tribunal to look after the public interest.

Mr. Langstone.] You contend that the Meat Board is not doing it duty in not handling the particular phase of the problem you raise ?—They are certainly not doing so.

AUCKLAND, TUESDAY, 20TH MARCH, 1934.

Witness: Mr. HAROLD SCHMIDT.

The Chairman: The Committee has received a circular letter from you, pointing out what has been done by the Producers' and Workers' Association and also the coupons which you sell and the reasons for them. I do not know that they have any great bearing upon the work that we have before us at the present time, but I am sure the Committee will be glad to hear a little from you. We will be glad to hear something from you in support of what you have put before us, but, at the same time, it is hardly a scheme that comes into the category of those dealing with the financial system.

Mr. Schmidt: I thank you for the opportunity you have given me to speak, and I have no flow of oratory to let loose. I really came down here to be catechized in the matter of a scheme that has been working in Auckland with enormous profit. You can well understand, if you place yourself in the position of a destitute person who is out of work and wants to get work, what it means to be able to buy goods with no money. That is precisely the object of this little society in which I have the pleasure of being interested. It is both an amusement and I must also say a profitable amusement for all those who enter into it. People come in and buy their requirements by simply signing a note and paying for it. Those notes are treated as cash, and they get their goods. What is easier to do than that ? Why make people get bank-notes if you are not absolutely sure you need them. Look at the enormous amount of business a man is losing if he has customers who are unable to pay. This scheme that I have been carrying out is a very simple scheme, and I know you have practised it in your own boyhood, when you were playing marbles at school. You will remember that there were some boys who could afford to buy marbles, but there were numbers who could not afford to buy marbles, so those that could not afford to buy them got some clay, rounded them off, and put them in the oven and went back to school. Every one played marbles; if they could not buy them they made them, and when a boy lost his marbles he went home and made some more. That is all we are doing in our little scheme. As soon as a man is down and out he says, "I have no work, there is no sale for it, I will utilize it and take the notes for it" and what does he get ? He gets double the ordinary rates of pay. I have tried to demonstrate that a Pal's note is better than a currency note; that they get better value for it. I have given you a sample of what I bought with a Pal's note this morning. The person that issued that Pal's note got good value, but the bank or the money business of the country did not enter into it. Our Pal system is already practised by the City Council. They have, as you know, accepted work in lieu of rates. They do what I do. If a man is not able to pay his rates they must get something, so they get work which is just as good value. I had hoped that I would be catechized over this scheme, but after being in operation for five years it is going just as well as ever. I suppose it has a vulnerable spot and I would like to be catechized and explain it. I am doing a terrible lot of work that the average citizen has no conception of whatever.

The Chairman: Is it going all right ?—Quite satisfactorily.

Then why worry ?—I am looking for Government support. You know I have started a bank and am doing better than the ordinary banks on my outlay. Why cannot the Government start one and why cannot the Government do the same thing ? If I can do it they can do it a million times more successfully. If you want to know the system of that bank you have only to come and try it. The P.A.L.S. system enables the unemployed to employ each other. Consequently unemployment cannot exist.

What does it cost ?—Nothing.

If I wanted one of those notes, would I have to pay for it ?—Only the price of the paper. A man comes in to me and says, "Your society's bank is wanting some money," as it does the same as other banks. He says he is able to honour these notes and we ask him his credentials and he replies that he is a dentist, or whatever he might be. That is sufficient for us to issue £10 worth of empty forms, and we award him 2½ per cent. interest to pay for the handling of the forms.

What does he do with them ?—He simply signs his name at the bottom for what he wants, and if he wants a pair of glasses he signs his name to the note and I give him his glasses.

You sell the glasses ?—Yes, and I have the money he has given me.

He has only given you a form; he has not paid the £10 ?—But he has to pay that, but not in money. He has to pay it in services.

Do you supply the goods from your business ?—All the goods I produce. This is a Producers' and Workers' Association, so these men that are out of work and have no incomes offer their services and that is all we want. I have never turned a man down yet that wanted anything. The big object is that if I give another man a job I am ensuring that I am getting one for myself. It is mutual. You might argue and say I have to pay for those glasses. I have not, I make them. It is true that I have to pay for the frame, but I can stand that. Supposing a dentist is using these notes and comes and says he wants a pair of glasses. He hands me the notes for the glasses which cost £10.

Suppose he never pays the £10, where is your profit ?—I always get in first.

You are the head of the bank, is that not what the bankers do ? Suppose he did not pay ?—He cannot avoid it. Let me tell you this : Two days ago a man came to me with a request for some glasses and signed a form. I gave him a receipt and said his glasses would be ready later. I asked him his occupation and he replied that he was a plasterer. I asked him to proceed to work the next day and he did that work. I took care that he did that work before I gave him the glasses.

Mr. Schramm : What happens if you cannot give the man work ?—I can find work for any one.

The Chairman.] You make the man do the work before you give him the article ?—If I do not know him, but not if he has been an honourable member of our society for some time. I have notes in my possession now which I have had for six months ; I have not used them yet. A shipowner came into my shop one day and he read the notes. He said, " That seems good to me, have you any painters in your society ? " I replied in the affirmative. He said, " Well, I will become a member. I run a boat for fishing excursions, but times are so hard that I cannot get my boat painted. I will join your society and get your painters to do the work and I will pay them in your currency." The painting was duly carried out and when he came in to see me he said, " That was a fine idea, I got my boat painted for nothing." I said, " How do you make that out ? " He replied, " Well, I am designed to carry fifty passengers, I never carry more than twenty, so those men made no difference to my outlay."

Were they paid for the painting ?—They got Pal's notes for the painting, and spent them in excursion fares.

How did the men live in the meantime—if they were only taking excursions ?—They went their fishing excursion, and got the fish. That is quite true ; I am only giving you facts. A man came to me the other day and said he wished to buy some teeth and he had been trying to get them for the past five years. He asked if there was a dentist in the society, and I replied in the affirmative. He decided to get a set of teeth costing £8. That man could not have got those teeth otherwise, unless he went to charity. We have professional men of the highest standing in our society. In another case a man came to me and he was in trouble over his wife ; it was a maternity case. They were living in one room in a flat and he said she could not go to St. Helen's Hospital. I explained the case to one of the doctors, who said he would take the case for nothing, but he would accept Pal's notes and he went out and did the nurse's work and everything in the one room. He did his work before the other man had done his, with the result, as you suggested a while ago, that the man slipped him up. But that is one of our mistakes, and we have profited by them. We do not make those mistakes now. Unless a man has a reputation to protect, he gets no credit. If a man comes to me I make him give me the credit.

You said you wanted to be catechized, so I suggest you now give the Committee the opportunity of asking you questions ?—I should like the members to question me.

Mr. Lye.] This is an entirely new scheme to me, and I would like a very simple explanation of how final payment is made. You are not a labour exchange ?—No.

Could you give us a brief outline of the working of the scheme from start to finish in as few words as possible because I am asking for information ?—Say you wanted to go and buy a product of mine, but you have no trade, no money, but you are willing to work. You come into my shop and say, " I want to be tested for glasses." You do not mention Pal's notes and you ask me the price and I give you the price. Then you say, " I have no money." I say, " Have you any spare time ; you must have spare time." And you say, " Yes." I say, " All right, pay for the glasses with your time ; I will take your note, please sign it." The next thing I do is to give you unskilled work or set some one else to give it to you, and I have no difficulty in doing that. As soon as that unskilled work at 2s. Pals an hour is completed I tell you your glasses are ready, but you have to be paid now, so you come into my shop and I give you your own money back in payment of the work you have done for me.

If I have plenty of time and no money, does the responsibility rest upon you to find me work ?—Yes, or some of my associates.

And although the unemployed men are finding it difficult to get work you are able to find employment for men against the notes issued ?—Yes, because by giving you work I have the incentive that I am getting work myself. I therefore am in a position to pay you for your work.

As a result of experience do you find these notes are acceptable amongst business people in the city ?—Yes. I can pass my notes anywhere. I have no trouble anywhere.

We want to get the whole facts. Where does your rake-off, to use a common expression, come in ? Where does your margin of profit come in over and above what you have given in exchange for notes ?—There is no rake-off. I have a staff working. They are capable of doing twenty commodities a day, but in the present depression they are only getting orders for ten. My upkeep is exactly the same for twenty as for ten, and I merely pass the work on. It enables the person to get my goods by buying his idle time—I am keen to do this because by buying his idle time I am selling my own. It has cost relatively nothing. I could not have sold that work.

Supposing I do eight hours' work. Am I only paid 2s. an hour or am I paid eight half-crowns ?—You get a £1 for your eight hours' work if you are a skilled craftsman ; if you are unskilled you will get 2s., which is a good deal above what they are getting now. That is what we reckon is a minimum rate of wages for a man to live on.

You do not allow me a 2s. Pal's note for every unskilled hour I work and 2s. 6d. for every hour of the skilled work ?—We do not charge anything for the notes ; we give you your note. Then you sign it for the amount of your goods. The big incentive is this : That I get a lot of work done that I could not afford to do otherwise, because I have the exchange to do it. Time that I cannot sell I use as payment. I can show you a tennis-court worth £200 done by those notes. That is what all businesses are suffering from to-day, lack of exchange. People cannot buy things, cannot live in luxury, because they cannot afford to buy the other man's services.

If I had a bundle of these notes and went into the Waverley Hotel for lunch and handed them a note for 2s. 6d., would they give me 1s. change ?—They would in one of the places endorsed by the society.

Am I to take it that the notes are not readily negotiable, except with those who are members of the society ?—Yes. It costs nothing to join the society.

And do you find, as a result of actual practice, that an increasing number of business people are looking you up to become members ?—No. The craftsmen do, but I am disappointed with the man who has a little capital behind him to assist, but most people do not understand it. I have had men come into my shop for their notes and they have said they do not understand where I come in in the matter. It is so hard to make them understand it, and it is really so simple in its operations. It is exactly as I said before, like we used to do when we played marbles.

Captain Rushworth.] This is not the only experiment in local money in the world, is it ? You probably know of quite a number ? They all develop to a certain point and then something happens. The Legislature seems to step in and prevent them going any further ?—Quite so. Mr. Shaw wrote and told me that that was what was going to happen, but I do not think this society can be stamped out by any form of law. I have been assured of that by one of the bankers here, who said that if they legislated against the system we are running they would have to cripple all other forms of exchange to get at it. Our society wants to go quietly and not push ourselves too much. I do not ask any one to come in. I say any one can come in, but you do not need to use the society unless you want to, but from my experience it is a wonderful thing and if it was only universal I would be delighted. It is a wonderful thing that I can buy a thing if I have a good name and can work, and I can always buy my goods by working for them. There is no question of doubt about a man who is going to get benefit by giving another person a benefit. He is interested and from my experience I find I am willing to give any one employment in my place ; even if he can only knit a pair of stockings I will give him a job and regulate it.

I have watched your experiment with a great deal of interest and know it has been running well. It is a common-sense view of the function of money and a common-sense application of it, but the difficulty lies in the fact that you have two forms of money, legal money and your own common-sense money. Even if it enabled every one to buy fish, dentures, or spectacles, it is worth while, is it not ?—Well, it *does*, now.

Quite obviously you cannot use your money for the payment of debt to the banks or for payment of rents, mortgage interest, and suchlike things, so that under the present law you would have to use two forms of money. They are incompatible one with the other ?—I do not find them incompatible ; when a person has the cash he uses it, when he has no cash, he uses the Pal's notes, so does not loaf or suffer privation.

What you want really is for the Government to institute a money system that will enable your money to become ordinary legal tender ?—That is what is behind my mind in coming here, and the Government might say they will watch my society and see if it is running on right lines. That is what we want. We want to be checked, so that people will say we cannot go wrong because we are checked by the Government.

The main thing in your system is that you do not have to go to one of the banks to borrow those pieces of paper ?—*Yes. Any one can make them so long as he has an honourable name.* If the people who ridicule it would only look into it, they would see that to me it is a gold-mine—it enables the unemployed to buy and employ each other.

Mr. Schramm.] I suppose you have done pretty well out of it ?—I have done well, others have done better.

If you wanted to buy bread how would you do it with those notes ?—For me it is easy to buy bread with them. For one year I have had my bread altogether with Pal's notes and more than I wanted, too.

Have you a baker in the society ?—There was a baker in at that time. He joined because he wanted to join. He found that by utilizing one of the members of the society he was giving himself work. He was active while it lasted.

You would not be able to get the bread unless there was a baker in the society ?—Yes.

How about clothes, are they in the same category ?—I suppose any honourable man can get them too. The suit I have on I paid for yesterday in Pal's notes. It is very satisfactory for me.

Do you sell your services to any one you do not know ?—I sell to any one. If I do not know them their goods are held up.

There is no chance of them clearing out with the goods without them being paid for ?—I never finish my job before the other man's job is done.

All others in the society do the same ?—Yes, I warn them beforehand, and if I do not know a member I tell them to see that their finance is sound first.

How long has this been carried on ?—I have notes here nearly five years old. They have passed through many hands and they only came to me recently. I have here a note that was issued on 29th October, 1930, and it was only presented for settlement on 5th February of this year, 1934. Most men like to help their fellowmen, provided it cost them nothing. Some men like to help their fellowmen, even if it costs them something. Every man is *eager* to help his fellowmen when by so doing he helps himself. This is the spirit of the Pals : Instead of labour and products depending on money available, Pals exchange depends upon labour and products available. Hence, with every one working our country will become the wealthiest ever known. After five years' trial I find the system working well. [Holding up a Pal's note of 1930.] Now, that man was idle when he went in for this, and he said, "I have nothing to do this week. I will make a credit." And the big advantage is that he gets no interest. He says, "Well, I must get rid of it. I am getting nothing on it." But in this case he did not. He kept it and he presented it as you see. I have several notes in exactly the same condition. I have

other notes here. I get them even from journalists and all descriptions of men. I get these notes and if I get them drawn on me I sell them.

Mr. Schramm.] How would a journalist come into it? What would he do?—He could write a preface for that Pal's booklet. You see, every man to his job. It is a case of specializing, and you are not going to do it when you can get a specialist to do it. I would not start concreting my paths now. I can afford to pay a man to do it.

Are you the head of this?—Yes. I have been the head because I have no opposition.

You are the banker?—I run the banking. I have a committee, but they leave it all to me, practically, the management of it, except when they want something doing, then they come and do it.

Mr. Lye.] If I got a bundle of them and wanted to cash them, could I come along to you and get them cashed at a discount?—Yes. I do not always produce the money to cash them with. I put them for the public gaze and put them for discount, and I have a music-teacher there now; he said, "I will take a 25-per-cent. discount." He is willing to do it. He is welcome to do it if he wishes to. He is a music-teacher and he wants the money badly. I can buy them up to 25 per cent. and perhaps sell them later at 10 per cent. if I wish to. But it is just the same as any other monetary system I have got there. I am making money out of these things. The average man will not believe it, but it is there all right.

WELLINGTON, WEDNESDAY, 28TH FEBRUARY, 1934.

Witness: Mr. S. W. FITZHERBERT.

Mr. Fitzherbert: The first thing to understand in regard to my plan is that it is based upon a scientific theory which grows out of the science of measurement. In all forms of measurement things are measured by their opposites. Probably the most convenient illustration is to illustrate a pound of butter. We put 1 lb. of butter on one side of the scale and put a pound weight on the other side of the scale, and the two things balance. They balance because the mechanism brings them into opposition. The law of gravity tends to draw both to the earth, and thus we get a perfect balance. We get a measure because we know what our pound weight is. It is part of a scale of measurement, and, as we know that, we are able to discover the weight of the pound of butter, but we only succeed in doing that because the two things are in opposition to each other. That principle applies to all forms of measurement and applies also to economics. In economics what is wrong is that we have taken a part of the thing that we are measuring and have made that the basis of our measurement. We have taken gold from all the commodities which we measure and we are making that the foundation of our system of measurement. The result is that we immediately get a false equation. If we leave that abstraction and come down to realities it will be realized that the gold of the world, being a commodity becomes possessed by individuals, and hence this means that these individuals through the control of the gold of the world, control the whole of the financial mechanism of the world. Briefly, that is my theory, and I believe that to be an original theory, and it has not yet been criticized by competent economists. That is the foundation of my theory. Now, you are aware of the distinction between gold and currency, and you are all aware of the old idea of the desirability that paper currency should be convertible into gold. In my theory of economics I develop an extension of the mechanism of money and instead of using the words "convertible" and "gold" I use the words "monetary basis" and "monetary circuit." In a currency such as gold or silver, where those things are circulating freely as money we are in the position that a monetary basis is actually attached to the item of currency. The sovereign with the King's head upon it is issued by the Mint. It is, first of all, bullion in the sense of a commodity, but in so far as its quality has been assessed and passed by an authorized person and in so far as its quality has been tested and it is stamped as a coin it is also current money. Nowadays, of course, the bullion is kept in the banks and in place of the circulation of bullion we have a promissory note which functions as currency. Now, throughout the civilized world or, at any rate, throughout that part which is covered by western civilization, a certain number of grains of gold represent a unit of account, and I want particularly to emphasize this point here: That every sum of money if it is to be valid, every form of currency if it is to be valid, has to have something behind it. It has to represent something and something absolutely tangible. I make that point here, because there are many people who think I am advocating the flooding of the world with currency which has no base. What I propose to do is this: I propose that we shall change the basis of our currency, of our money, from a commodity like gold to total national wealth. That means, of course, that every sovereign State, such as New Zealand, Australia, South Africa, England—every sovereign State will establish its own monetary system, and its monetary system will be based fundamentally on total national wealth. That means that the basis of our monetary system, instead of being one commodity—gold—selected from all other commodities, will be the total national wealth. Say that in New Zealand we take the total national wealth as our basis. The moment we are confronted with such a statement we immediately say, "How are you going to divide such a vague idea as total national wealth into fractions?" That is a problem, and it is a problem that I have endeavoured to solve. In that I have been aided by suggestions made by an American economist, named Atkins. Atkins does not work out a system, but is concerned with endeavouring to ascertain what is the scientific method of measurement. In order to develop my system completely, I have been obliged to inquire into two opposites; the two opposites that exist in economic life which, by being brought into the right relation will give us a system of measurement. I decided that the two things in opposition were human desire and human effort. That may be put in another way, as work on one side and pleasure or enjoyment on the other. Having satisfied myself that those were the two fundamental things that had to be brought into relation and measured, I then had to work out a unit of account and I came to

the conclusion that the right unit of account was a unit based upon the multiplication of population and time. That would seem to be a vague idea, but look at it from this point of view: Consider that every man, woman, and child in this country needs food, clothing, and shelter; it does not matter whether adequately or inadequately, you must admit they need it from day to day, week to week, month to month; they need it throughout time, and there being 1,500,000 people in New Zealand and 365 days in the year, excluding leap-year, we get by multiplying the population of New Zealand by the number of days in the year a division of the total national wealth of New Zealand into fractions and those fractions will represent a unit of account which on the whole represents the demand of the average man in New Zealand per day throughout the year. You thus get a unit of account which can be converted into a monetary system. Now, people have asked me and suggested to me that this unit of account was a labour or a work unit, but when you recollect this, that in the population of New Zealand there are a great number of people who are too old to work, a great many children too young to work, a great many women who are not in a fit condition to work, and a great number of invalids who have to be supported, and all the institutions that have to be created to deal with people suffering from disabilities, you will realize that the total number of shares required by the whole community must be greater than the adult working population, and it is for that reason that my scheme of monetary measurement is based upon the total population, which includes the invalids, the aged, and every one like that, because it is to be big enough to embrace the whole community. But the point is: That if we have that as a unit of account we have, first of all, a method by which we can divide up our total national wealth into equal units and we have also a monetary system which expands as our population expands and is always adequate for every person, man, woman, or child in the country. As new immigrants arrive, as new children are born into the world, we would have a monetary unit ready for them. That is the mathematical scheme that underlies my theory. But that is not enough: mathematics are not enough. We have to validate that by tying that up to total national wealth and the way I propose to do that is this: First of all, if I may divert for a moment, I want to show what I mean by the promissory nature of money. Nowadays if you pick up a pound-note you see that it is a promise to pay so many shillings or pounds sterling. That means that as a last resort it is a promise to pay a commodity and that promise, because it is a promise, because it is backed by institutions of sound standing and sound credit, is accepted by everybody and passes from hand to hand for the purpose of bringing about exchanges. Conceive, if you can, a promissory note issued by all the farmers or issued by all the landowners of New Zealand, but endorsed by a State Bank so that it has the same validity as a mortgage of land which is guaranteed by the State. That means that this promissory note falls into a complete scale of monetary values so that an actuary, at any moment or time, in charge of the State books can tell you exactly how many monetary units there are in New Zealand and exactly how they are moving, and where they are moving, and why they are moving. The whole thing can be completed and worked in a scientific manner. Just to illustrate the sort of way in which this money would move I am going to give you an illustration. I am going to take the case of a country where everything was owned by the State, excepting goods that were consumable—the usual idea underlying State Socialism. I use this illustration to get rid of irrelevancies and to pave the way of the understanding of more complex social arrangements, not because I am advocating State Socialism. My plan is this: That all the landowners of the country should enter into a contract with the Government. They have already entered into a contract with the banks and insurance companies and private individuals, and so forth, and they should enter into a contract with the Government, separate individual contracts, under which they pledge their properties to the State and the State in return would underwrite them. The State would issue currency to them. That currency would fundamentally be promissory notes issued by the farmers and the men who own the land in this country; they would be guaranteed, underwritten by the State. They would be underwritten by the State in much the same way as the banks issue credit at the present time. A Government officer would value the property or if we succeed in getting the co-operation of the banks, he could be an officer of the bank who would be specially trained for the purpose of valuing the property, estimating its possibilities and so forth, and every particular farmer would receive credit based upon population and time. By that I mean that, supposing he has a large area of land, rich land, and he employs a great number of people, he would, of course, get a larger credit. Then, supposing it is a manufacturing group which owns a city-site and has a big factory. It would be financed according to the number of people it employed and according to the needs of the employer himself, much in the same way as it is financed at the present time; but, instead of gold being the basis, the whole of the productive energies of New Zealand would be the basis, divided, however, into the fractions as I suggest. That, briefly, is the idea, and if the idea was in complete working-order it would mean that every landowner—by that I mean every one, even if he owns a section—would have an overdraft on the books of the State, and that overdraft would be commensurate with his economic power in the community; and the whole system would, as I say, be clinched together by being mathematically fitted into a complete mathematical scheme. That is a brief idea. When carried out in its completeness the whole of the interests that are in private pockets, rents, dividends, &c., would automatically flow into the coffers of the State, and that would mean that the coffers of the community, the State, would be increased by possibly £40,000,000 or £50,000,000. I use the word "pounds" instead of "man-days." You would thus have a capital fund for building new roads, bridges, electrical undertakings, irrigation, and so on, for the purpose of lending to individuals for building houses, and so forth. We would practically take the interest fund and use it for communal purposes. I cannot trespass on your valuable time to explain why the interest fund belongs to the community, that, again, rests upon a theory of mine which I have never expounded completely, and that theory is that the money-lender—that is, the person who is considered to be the owner of capital—I use the term "money-lender," because a man may own capital, and not money—is the one person in the world

who checks progress. The old idea is this: That the money-lender is the man who supplies money and invests money and is the person who makes progress possible. My theory is just the opposite. I say the money-lender is the one person who checks progress. He holds up the monetary system, and the payment of interest, rent, &c., is little more than the bribe we have to pay him to induce him to let that money go back into circulation. We have a system that works in reverse gear; if we can put it forward into advance gear so that it is always moving we would have a prosperity such as the world has never seen and a prosperity almost beyond belief, but to do that you have to do what I have been telling you. Those who are interested in history, especially the Hon. Mr. Downie Stewart and the lawyers who are present, will know that the issues which are now just beginning to arise in western civilization had already been discussed and were being discussed four hundred years ago. Lord Burleigh, Queen Elizabeth's great statesman, was himself concerned, and the whole of the Middle Ages was concerned, with this problem—that is, the difficulty of preventing money-lending, because in the Middle Ages money-lending was not allowed at all. It was regarded as a crime against the penal and canon law, and was only carried on surreptitiously. It was not until the overthrow of the Church by Henry VIII that the possibility of money-lending and of getting control of the wealth became possible. Throughout the reign of Elizabeth the statesmen were trying to protect a commonwealth based upon a principle of moral order, something that we are only beginning to think of. They were engaged in protecting the English commonwealth when nearly every man owned land; he may have been a serf or a villein, but he had control of land and could never starve; he was able always to provide himself with food. That old civilization was greatly disturbed four hundred years ago when this particular problem came to the front. During the seventeenth, eighteenth, and nineteenth centuries the money-lender and the money-lending party altered all the laws relating to the pledging of land. Four hundred years ago a farmer could not mortgage his land; he was not permitted to do so; it could only be brought about by some kind of trick worked out by a lawyer, and even then liable to be torn to pieces by the Judges. Through the last three hundred years, insensibly, bit by bit, it has crept in and organized until we have got this vast network of pawnbroking in which everything is enmeshed, the Government, municipalities, and private individuals. Everybody is enmeshed in the toils of this vast money-lending system. We have not merely, in shaping a new system, to go ahead; we have to put an end to the old system, and that is the problem we have to face. For instance, the company laws of the world were made on the basis of one lot of men doing the work and another lot who are idle shareholders; these laws have grown out of pawnbroking, and are simply a money-making device. You all know the ordinary law of mortgagor and mortgagee—that is another money-lending device. Also the modern laws relating to landlord and tenant; there is little in the modern form between landlord and tenant existing in the feudal system. The laws then had certain moral qualities about them which distinguished them from the present oppressive and cruel system, under which a man draws rent from another man or woman, and turns him and his out if he is unable to pay. The most difficult thing the world has to face is to put an end to, and transform, the present monetary system. I propose that all the mortgagees, the shareholders in companies, and the landlords should be paid off by the new currency. I do not propose to give to a man who has a mortgage of £10,000 the whole of his money in a form that he can spend it. He might go and spend it in such a way as to make things harder, but I propose to give him credit and tell him that if he likes he can go and buy land with it and become a worker, or if he decides not to do that we will let him have a share or percentage of his capital—perhaps £300 or £400 or £500 a year, and at the end of that time, when he has exhausted his capital, we will give him a pension. I propose to pay him off in the new currency. As an illustration of how that would work in the case of a farmer: Take a farmer who has about 2,000 acres, mortgaged, we will say, for £20,000. The mortgages, like so many mortgages, consist of a first mortgage of £5,000, a second mortgage of £5,000, a third mortgage of £5,000, and a fourth mortgage of £5,000. This man would go to the State Bank and will be advanced at first £20,000 to enable him to convert. Each one of his mortgagees will receive £5,000, but they will not be permitted to invest that money on interest or in companies; they will be permitted to buy land with it. Why I insist upon buying land is because it is on land that all work is done, and we want to get all these people who now live on interest, rent, and dividends who are capable and able-bodied, back into production. Consider the problem that would face such a man—a man with 2,000 acres and mortgages for £20,000 which have been paid off. There would be only one thing for him to do—to go to his former mortgagee and make a bargain with him. What will happen in most cases will be: The landowner will say, "I have a burden of £20,000 which I owe the State. I will split up my farm and sell it to this former mortgagee; he will give me his money and I will pay off the State." By that process all the mortgages on farm lands would be converted and wiped out. You would get a multiplication of producers, land and assets would be divided, and it would, moreover, place each one of these men on scratch in the new group system. Having split up their properties, and got rid of their mortgages, the farmers will then be advanced money by the State for the further development of their property. It would carry them over every period of objective activity and would provide all new farmers coming in with the credit to enable them to build houses, wool-sheds, and so forth. The same idea can be applied to the banks and companies, and the shareholders (if they are able-bodied) would be able to become landowners and work. We would be able to provide for their finance out of the new financial regime. I myself have had a man working for me on my small farm, a man only thirty years old, who lived partly on the interest of his mortgages. He started to farm at perhaps twenty years of age, and sold to advantage. There are these men, able and capable, living in idleness; men of that kind would be told to get work to do, and do something useful for the community. If this principle is to be carried out, it is to apply to every one.

To come to the banks, I approve of the Reserve Bank which has been established in New Zealand; it is a step in the right direction. We have got to have that whatever happens, and although I may

be optimistic in thinking that my plan will be carried out in my lifetime (and I do think so) that Reserve Bank is necessary. To give you an illustration of what I would do: I would not invite subscriptions to the Reserve Bank. The only reason why we have invited subscriptions is because we want to get control of some gold for our basis, therefore we invite monied people to subscribe. If I was running the Reserve Bank and was in charge of the Government of this country, the Reserve Bank would have as its shareholders every man, woman, and child in this country; it would be their bank; it would belong to them and they would share in its profits. We would pay off all the shareholders of the Bank of New Zealand; we would decree that the outside banks such as the Bank of New South Wales and the Commercial Bank of Australia, so far as New Zealand was concerned, would go into liquidation. It would have to become a New Zealand concern. That, of course, would apply to all companies. We would not allow any outside company to exploit our people. Every external and foreign company would have to be reorganized. So far as the banks are concerned, the Government would buy out all the shareholders of the Bank of New Zealand, which is a New Zealand Bank, and would put the other banks into liquidation and would reorganize them on the basis that the community was to be the shareholder of the banks. That would be the way in which we treat the banks; and that principle would apply not merely to the banks but to all larger companies and insurance companies. It would mean that in the case of meat-works the employees would purchase the works and the Government would advance the money. The shareholders would receive their money and would not be permitted to invest it at interest. They could get land and become useful citizens instead of being — what they are at the present time—merely parasites.

Some people will say this is a very wild and extreme idea; it is nothing of the kind. If the statesmen who served Henry VIII and Elizabeth could be brought alive at the present time, they would approve of what I am advocating here. I am not advocating something opposed to human nature, something that is really progress in the usual sense. I am merely trying to get the world back from an immoral to a moral basis—the moral basis which underlay the feudal system and the moral basis which underlay the old Christian civilization that is being destroyed by usury. In this short address it is impossible for me to treat adequately the whole subject. All I can do is to give you a stimulation, and I shall be very pleased to give you more if you wish it.

Mr. Clinkard.] You say that you would proceed to buy out the shareholders of all the banks, &c. How would you pay them?—You pay them in the new currency; in the last resort it would be financed by the land of the country.

You say you would limit the use of that currency; is that not equivalent to taking away their present rights?—Oh, yes, we take away a lot of their present rights.

How do you suggest (assuming that this Committee decide to recommend something along your lines) that your proposals should first be put into operation?—First of all, I would go on with the Reserve Bank. I would get a group of mathematicians there who would work out the complete scheme, then pass a law that on a certain date to be decided by Order in Council no person was to lend money on interest, and that no future companies were to be created on the basis of the old company laws. Then I would provide, as I have stated in my booklet, by Act of Parliament, of course, that the actuaries or mathematicians should build their scheme upon the idea of man-days. I should declare that that was to be the monetary system and on a certain day gold was to be declared no longer legal tender and bank-notes likewise, and that the new currency was to become legal tender. Within two or three days I would give notice, particularly to the farmers of the country, that applications will be received from them for loans on mortgage to enable them to get out of the trouble they are in at the present time. Then I should immediately set to work to set public works going again, go on with roads and bridges, railways, &c. One of the things I have not discussed as yet is this: In order to make this thing strictly balanced some measure of land-taxation will be required. I do not think that need trouble us. The measure of the value of land is largely the number of people who are employed on it; take a factory where five hundred people are at work (most likely in the town), that land is probably pretty valuable, but the land which is far away, where perhaps only one or two men are working, would be of very small value. If you make an advance to the people who are employing five hundred or a thousand people, they will pay proportionately in revenue to the State a greater amount than an employer of only one or two men.

All wealth naturally gravitates to the hands of the people; how do you establish that?—I do not say wealth does; the control of the monetary system does; it always has done so, even in the Middle Ages. The same thing happens to-day.

But so far as gold and its use to-day is concerned, is not that rather the foot-rule by which we value services against coin?—Quite so.

You are trying to establish some form of measurement to take the place of that gold, and I understand your proposal is practically to go back to what was suggested many years ago in the form of labour unions?—I cannot say that.

To my knowledge it was taken up forty years ago, when the labour unions suggested something on the same lines?—My idea is a demand scale to be based upon the total demand of the community. The labourer or the worker is paid according to time.

If you base the value of your unit on, we will say, a man's labour per day, and we will say you make that equivalent to what to-day we know as £1, will you not be fixing the rate of pay for all time by fixing the value for all time?—I propose so far as the monetary unit is concerned that it will be invariable from generation to generation, because if it is based on population and time it must be invariable. But when it comes to the payment of a man on a time basis, if you mean that I advocate that every man should be paid exactly the same rate, that is a question of policy, I say. It may be that you have two men; one is idle and will not work and the other is capable and does work; I do not advocate that the man who will not work should receive the same pay as the man who does work.

What becomes of your unit of value?—Some one else gets the share.

That is in the disposal of it. I am referring to the measurement of it. The trouble when this labour unit was discussed many years ago was that you could not get those units of equal value, and consequently could not use them for measurement purposes ?—I am not making labour the basis. I am taking first of all a scale which represents population and time—the whole of the population of the country. A great many of these people will receive their share without working at all, invalids, old men and women, and children. The man who works will have his work assessed on the basis of time. That is what happens at the present time.

We can leave that for the moment. You give a very good illustration here in connection with the payment of mortgages. You say that a man has 2,000 acres and has mortgages of £5,000 each to four different individuals. These four individuals would receive credit. Would the mortgagor remain in possession of the 2,000 acres of land ?—As long as he is able to, until economic circumstances drive him to make his bargain.

Are you not building your supposition on an unlimited area of land ? It seems to me that if all these interested parties are only allowed to invest in land, the question arises as to where you are going to get all this usable land, as the amount of land is strictly limited ?—I should say the land of this country could be subdivided considerably, and, properly developed by the use of right fertilizers, &c., a small area of land will carry a family who are at present in want.

But if we are to become largely self-contained, will not you have a tremendous overplus in that particular line of development against others ?—The mortgages of the country are all over land ; even the shares of companies really as a last resort represent assets which is in nearly every case land. If you simply take the mortgages of the country, and take the land and divide the land up between the mortgagors and the land-owners, surely there is enough, and if an area of land can support a man and his four mortgagees, an area of 2,000 acres, surely——

But does the area support all those people at the present time ? I hardly think so ?—That is quite true ; but it does not, simply because the financial system is falling to pieces and prices have dropped, but the land could have done so if prices had remained at the 1925 figure. So far as the price goes, if things should turn out as I anticipate, that should be all right ; if the people who receive their money do not go and buy land, we will have to deal with the problem in a different way, but my object in doing it in this way is to leave a margin of choice to the individual as far as possible.

The system of each individual having a separate bank account would entail a vast accounting system would it not ?—It means that every person who owned land would have an account with the bank.

I understand. Every one who owns property ?—Yes. Every one who has property. Well, pretty well all of them do have an account in one bank or another.

We have more in New Zealand than anywhere else ?—If I might point this out. This system would be linked up with the Treasury. The payment of taxes and so forth would all be made through the central Reserve Bank which would be co-ordinated with the Valuation Department and the Land Registration Department. The whole thing would work together. There would be a tremendous saving. Most of the lawyers in the country would be eliminated because their work would not be required, and the land-agents and a whole crowd of people would all have to do useful work.

Mr. Rushworth.] In that formula, G = G plus W, you have gold on both sides of the equation. I presume that you meant that to indicate the intrinsic and the extrinsic value of gold ?—I meant it to indicate the monetary aspect of gold and its commodity aspect, and that I suppose is what you mean, only you are using words that I would have to think over as to whether they really synchronized with my idea. It is much the same idea as mine.

There is the commodity value of the gold. Call that intrinsic value. There is the monetary value of gold, the value given to it by international act ?—Yes, that is what I mean.

I gathered from your book and from what you said this afternoon that your complaint against the present monetary system is that it is based on gold ?—Yes.

Have you any other complaints ?—Well, I should object to it if it was based on silver.

No, I say have you any other complaints ?—I do not know that I understand you, I probably have.

The complaint that you mentioned this afternoon against the present system is that it is based on gold ?—Yes.

Is there any other form of complaint ?—Oh, no.

Is the present monetary system based on gold ?—Yes.

To what extent ?—Because, although England is off the gold standard it is not off the gold basis. You will notice that there is a quotation of the price of gold coming out every day in the papers, and the international balances are still settled by the payment of gold. The only difference is this : That the unit of account at the present time instead of being a definite number of grains of gold is an indefinite number of grains.

I do not want to interrupt you there, but surely you are not suggesting that because the price of gold is quoted from day to day that that is any evidence that the monetary system is based on gold ?—Yes. That is largely because I understand that the Bank of England is one of the largest purchasers of gold and does purchase from time to time.

Yes, but is not tin also quoted from day to day ?—Yes.

And copper ?—Yes.

But you could not say that the monetary systems are based on those commodities ?—No, I did not.

So that it is no evidence that the monetary system here or in Great Britain is based on gold ?—Well, I do not know. Considering that gold is used so much for monetary purposes, primarily for monetary purposes, I would say that it is the interest taken in it, and the fluctuations made are largely because it is used for that purpose. But supposing we leave that and go to the question of the exchanges. The exchange-rate between England and Paris and between London and New York, and so forth, in the last resort can all be brought down to the fact that the world is still on a gold basis.

France is still on the gold basis is it not ?—France is on a gold standard. I distinguish between a gold basis and a gold standard. A gold standard is where you have a definite fixed quantity of gold. For instance, the United States is now back on a gold standard because it says that the gold dollar represents a certain definite number of grains of gold. England is not on the gold standard, but it is on a gold basis.

We are at cross purposes because I do not understand those terms in that way. In my mind the gold standard was where you had 100-per-cent. backing. When you have a gold base you have a percentage less than 100 but nevertheless fixed. But still that is beside the point. I really wanted to get what you had in mind. You referred to the question of measurement, and you indicated the scales and suggested that the only scientific method, or I understood you to say that the only scientific method, was to use the opposites and you indicated that with a pair of scales, putting the pound weight against a certain amount of butter, and so on, but how about measures of length ?—There you have an opposition of a different nature. You bring the yard measure into opposition to the cloth, but you are not measuring power there so you have not got to have a force in opposition. But you have a lineal measure in opposition to the cloth and you bring the one into opposition with the other, and so you get your measurement.

In other words, you are suggesting that a suitable means of measuring means, *ipso facto*, that that is the opposite ?—It depends upon the way in which you use the word "opposite." In the case of the yard measure you have your arms as a mechanical apparatus and you bring the two things into opposition. I use the word "opposition" in the sense that they are brought into contact with each other. In the measurement of weight you have two forces that you are measuring, and in order that the one may measure the other you have got to have one whose weight is definite and therefore is the measure in opposition to the thing that is indefinite. In the measurement of a gas, which passes through a meter, the force of the gas or the volume of the gas will drive the mechanical instrument, which is really opposed to it, as certain resistance of its mechanical parts has to be overcome by the gas moving through it. In the measurement of all kinds of power we have the same thing. We have a mechanical meter or a mechanical instrument of some kind which is brought into relationship with the thing to be measured, and the thing that measures it overcomes its resistance ; and as the thing is on some kind of a clockwork mechanism the opposition of the one to the other enables us to discover what is otherwise unknown. Now I might give you an illustration—an economic illustration. Supposing that I worked five days and received £1 a day, so that I have £5 in hand. I see a watch that somebody has priced in a window and wants to sell for £5. Now, it does not matter what that watch has cost to produce, but if I am prepared to give my £5 for that watch that means that I am prepared to sacrifice five days' work to obtain possession of that watch. Therefore that £5 is the measure of my desire for that watch and the measure of its value for me. But if the man wanted £10 for it, representing the sacrifice of ten days, I might say, "That is too much. I will not give it." Whereas if the sacrifice was less than five days I might only too willingly buy it and buy something else. That is why I say that it is the opposition between desire and effect that is the real measure in economic value. If you take the thing further, further than it is necessary to take it, what you are dealing with in value is a judgment, a judgment that may vent itself in aesthetic appreciation, that is to say, in the perception of beauty, or it may discharge itself in the ethical, in conduct, or from the standpoint of economics simply in the desire to possess.

I only wanted your definition of opposites. Thank you very much. You propose to base your new money system on population multiplied by time ?—Yes.

And your equation there I understand is population multiplied by time equals total national wealth. But supposing the population did nothing for a year. You have 365 times the population equalling the total national wealth, equals nothing ?—Well they could not do nothing. If they did nothing without eating of course they would die. I presume that there would be a food-supply in existence and clothes and houses and all that kind of thing. If they did nothing at all it would mean that they would be living upon past effort.

But they would still have the money ?—Oh, yes. They would still have the money. If they had the goods there is no reason why they should not have the money.

But if you have the population and the time, do you necessarily have the goods ?—No ; and that is why I provide that a large part of my money will only go into circulation against effort, in order to induce the adult population to produce goods.

Is not there another factor ? Population multiplied by time multiplied by something else would give you national wealth ?—No. Because national effort is in opposition to national desire, which is in opposition to value. It is only the measure of value. The effort is the measure, and it is in opposition to the desire or to the goods.

You do not wish to add any other factor ? Your equation stands, does it ?—No ; I do not wish to add any factor. I am aware that some people speak of a monetary system based on goods and services. My view is that in a scientific system services exchange for goods. You simply have the fundamental circuit of money which issues against services and returns against goods. That is the real exchange. The idea that exists amongst orthodox economists that economics is largely an exchange of goods is, to my mind, not sound, and is due to the fact that the old school enters into the study of economics at its centre, instead of coming into it from a different angle.

The thing is not quite clear yet. You are going to issue money against population multiplied by time. That has no relationship to wealth at all ?—Well, I am afraid I have not made myself clear. Let us put it this way. Population multiplied by time is my mathematical basis. It is all inclusive so that not a single person shall exist who has not a monetary unit credited to him or her in some form or another. But so far as old-age pensioners are concerned and children and married women, and so forth, they receive their money without exerting effort. The workers of the country receive their

money in return for the service they render, but the total amount of money issued is simply population multiplied by time.

If you had a nation of cripples under one able-bodied man, would you issue the same amount of money as if you had a nation of able-bodied people ?—Well, if the able-bodied man was able to support them, yes. If they could not I do not know what you would do. Drown them, I suppose.

But you would still issue the same amount of money ?—Yes.

Another point you made was that money created and used to pay back the existing creditors could be used to buy land with provided that the purchaser worked on the land ?—Yes, I remember that.

That is clear, is it ?—Yes.

But supposing the creditor in a case like that did not buy land. He did not want to work, but he bought machinery or a factory instead. What then ? Would not he defeat your objective ?—Well, we do not propose to let him do that. You have got to remember this : That the carrying-out of a scheme like this is almost tantamount to a revolutionary change. The Government that carries it out is going to carry it out with clear sight, realizing that some people will try to circumvent what it is proposed to do ; and with regard to quite a lot of these problems we have got to face this one problem : That some people will try to buy up goods and exploit the people by doing that. Well, we are going to stop that, and that is why I suggest that instead of letting a man have the whole of his money and spend it as he chooses we are going to control the condition under which he is to be allowed to spend it. But whether a man shall be allowed to buy machinery or not is one of the border-line cases. Let us suppose a man says, " I want to buy a group of motor-lorries. I know the Government are going on with the Midland railway and I propose to cater for some of the work down there." I would say, " Go ahead. Take your money and use it in that way." But if we had a suspicion that a man was going to corner some supply of goods that were essential for the welfare of the community, we would not permit it. There would have to be, of course, some kind of Board set up or tribunal to deal with a great many of these cases.

Can we put it this way ? A creditor for £20,000 would be paid off in the new money. He would receive his £20,000 and then he would have to apply for a license or a permit to invest that in some other direction ?—That is so.

He could only buy land provided he worked on it. He could only buy machinery and a factory, presumably, on the same basis ?—Quite true.

On page 36 of your pamphlet you use this illustration : One man may labour eight hours to make bricks, and, although another may labour eight hours to invent a machine capable of making as many bricks in a minute as a brick-maker can make in a day, both make an equal sacrifice. Presumably you mean that both should receive equal payment, so that the man who makes eight bricks would receive the same payment as the man who makes as many bricks a minute ?—No. Probably my illustration is too crude. What I really mean is this : That the man of genius who creates a new machine is not entitled to a larger share of the world's food and clothing than a man who does menial work, because a man who does menial work is doing something that is absolutely essential to the welfare of the community. I maintain that a man who goes into a sewer, who may be despised because he wears dirty clothes, is entitled to as big an income, as good an income, as the Chief Justice. That is my view.

Yes, but the point is that the man who makes eight bricks in a day works for a whole day and is entitled to a one-man day ?—Well, a man who makes eight bricks——I do not quite know whether you mean a man who is idle and does not do his job. Do you mean that, or do you mean a normal man who makes eight bricks ?

I am using your illustration ?—Well, the illustration is not too good I admit.

Well we will call it two hundred bricks if you like. It does not matter ?—That illustration is put forward to illustrate my theory. Because a man has genius or special capacity that does not entitle him from a standpoint of justice to any more than any man who is just doing his ordinary day's work. If you do happen to pay him more it is because his conscience is not as fine as it might be and he is able to say, " I have lots of brains. You cannot get anybody else to do this job. I am going to hold you up."

That is not the point. The point is this : That according to your illustration the man who makes bricks by hand at the end of a day is entitled to that day's pay. Another man who makes bricks by machine, a hundred times as many, is entitled to the same day's pay ?—Oh, yes.

Well, how does the one sell his bricks against the competition of the machine-made bricks ?—He could not do it, and under the plan if he was a capable brick-maker he would come to the community bank and the bank would lend him the money to get a machine that would enable him to compete with the other man.

You have no patent rights ?—Well, I do not know. I have not considered the question of patent rights very much. That is a question largely of future policy. I think probably there should be some kind of patent right, but I have not considered it sufficiently to be able to give you my considered reply. But the point really is this : That it is desirable that every man in the community should have the most efficient machinery to enable him to do his work, and this illustration here which you have read from a standpoint foreign to what I intended it, introduces, of course, quite an interesting point too. That is not intended to illustrate the fact that a man who is working without a machine, producing, we will say, only eight bricks a day, should be remunerated on the same basis as a man who is producing eight hundred bricks. That would be contrary to my idea. My idea is this : That a man who has deliberately allowed himself to be so inefficient should not be allowed to make bricks at all, or that the system would be such that if he was an efficient man and a sufficient number of bricks were required he would be supplied with a machine to enable him to make them.

That is rather beside the point. Coming back to the basis of money, of course you know that money has a variety of forms, that currency is only a very small part of it. The bulk of it is credit instruments

of one kind or another, and the credit instruments or the amount of credit that can be issued is roughly ten to twelve times the amount of cash that is available. So far as New Zealand is concerned the cash is limited under the present law by the amount of gold in coin and bullion and public securities held by the issuing authority. Do you see any fault in that ?—Yes, I see a lot of faults in the whole system. It is difficult to point to a specific fault in such an arrangement as you suggest. I cannot see any possibility of improving the present monetary system as at present based till all these various devices are left. Experience brings up a problem and then we try to meet that problem not by rationalizing, not by thinking the whole thing out from the bottom upwards, but we simply take the next step. For instance, banking itself grew up in that way. The use of all credit as it is used by banks is the clutching at straws, so to speak, to save drowning men. Every stage in the evolution of banking is an attempt to overcome the contradictions and the difficulties arising from money based on gold. The very foundation of banking in the first instance was to overcome the fact that gold was tending to be hoarded and the result was that prices were always falling. They had depressions in the times of the Tudors just as bad as the depressions we have here to-day, for the same reason, money was always hoarded ; so that every banking device is an attempt to overcome an evil, and in overcoming that evil frequently it only introduced another evil.

One more question. Can you say just yes or no to this ? Are you satisfied that the present monetary system is defective ?—Yes.

Mr. Lye.] Do you propose in your scheme first to institute a State bank ?—Yes.

The next step you propose to arrive at is to arrive at an estimate of value, as correct as possible, of the national wealth ?—Yes.

Well, the national wealth of this or any other country being an internal value for the time being but being subject to external influences, oversea influences, it must be of a fluctuating character, must it not ?—If you allow it to depend upon external influences, yes.

How would you prevent the national wealth from being determined by external influences ?—If you make a monetary system based upon your own country's valuation it becomes a self-contained monetary system. So far as external conditions are concerned, you would simply exchange goods for goods. I propose that all the gold at present in the banks, shortly to be in the Reserve Bank, should be sent to London and be used there through a branch of our Reserve Bank for the purpose of banking purposes in England, and I propose that all goods, all New Zealand goods, available for export should be bought by a Marketing Board in the terms of New Zealand currency and then sold in England on the basis of English currency, and the net result would be some adjustment of the exchange-rate. But the exchange of goods between one country and another, apart from the payment of things like interest, which of course have no come-back, no return, are mostly the exchange of goods. We exchange frozen meat for the things we get from England, and if all prices fell it would not affect us. It would affect us if the price of wool, butter, cheese, and frozen meat fell, and the prices of other things did not. But if the prices of everything fell and our own monetary system was watertight we would be just like an inflated ballon floating on the water. It would not affect us internally at all.

Do you see any difficulty that if, under your scheme, in terms of sterling, New Zealand currency was heavily depreciated, and we happened to have an adverse trade balance for the year, and consequently we had to deal with overseas exchange and to meet our obligations in London—would you not then, under those circumstances, with depreciated currency within New Zealand and an adverse trade balance with Great Britain, and we not having the goods to meet our obligations overseas—how would you overcome the difficulty of exchange and of meeting all our obligations in that case ?—You have given me a hypothetical case. I think you have got to remember that every item of our money will represent a mortgage on the total value of New Zealand and as the economic system improves and works together it will be worth more and more instead of less and less. But apart from that, the specific problem that you have asked me to answer is one that I do not think I can answer. I mean to say it is a question of coping with some definite problem that may arise which can only be dealt with in the concrete.

That very probably would arise ?—Yes. From the standpoint of that specific problem, if I had to face it, and if you gave me time to consider it, I might be able to give you a satisfactory answer.

We will leave that for the time being. Is it proposed, when your scheme comes into operation, to provide for State ownership of industries and lands within the Dominion ?—No. What I propose is socialization of finance only. The ownership of land and buildings and everything else would be vested in individuals.

Would you say that your scheme was an attempt, then, to allow of private ownership along with State socialism ?—Really, the proper term is guild socialism. It is an idea that has been worked out in England by Mr. Orage, who was Major Douglas's associate, amongst others, and it is an idea in which the State will be the financier, will be the sleeping partner in every industry, but where the goods, the tools, will be owned by the people who use them.

You say that in the case of lands which were mortgaged the individuals could apply. Would they necessarily have to apply to the State bank for funds to pay off the mortgages, or would it be just a matter of choice with them ?—As soon as the mortgage falls due and the mortgagee requires it redeemed, the mortgagor would have no other avenue.

I think it may be said to-day that many of our farm lands are mortgaged above the market value to-day. Then as those mortgages became due under the operation of your system it must necessarily follow that they would have to apply to the bank for sums of money in excess of the value of the property that they are farming to-day.—No ; for the purpose of conversion I propose that we should take a peak year like 1925 and work out all values and adjustments from that basis.

Supposing there are four mortgages, as you said, and the first two amounts secured by the first and second mortgages represent the true market value of the land to-day, there are two subsequent

mortgages, third and fourth mortgages, and as far as the market value to-day is concerned they are worthless. When those four mortgages became due would you pay to the mortgagees or would the State bank issue a credit and pay these two mortgagees the amount of the face value of the mortgage? Or would they only pay the market value or the estimated or ascertained value of the land at the time that the mortgage fell due?—The land would be valued on a peak year so that there would be an equity left for the mortgagor.

A peak year. What do you mean by that? Do you mean when we had a peak of prices for the sale of our produce?—Yes. The whole scheme would be worked out on that basis. We would take some year where everything could be converted without injury either to the mortgagor or mortgagee.

But if you take the peak year as far as the value of produce is concerned the position would be very much worse. For instance, to-day if your scheme was suddenly put into operation many of the lands are mortgaged over and above the market value and the value of their present-day production as compared with the production of 1925, which was really our peak year as far as values for our exports were concerned, so that if these mortgages all suddenly fell due and an application was made to your State bank to pay off these mortgages you would have to find credits far in excess of to-day's values to pay off the mortgages?—I do not quite follow you there. After all, a mortgage is a mortgage for £5,000, and if you pay off that mortgage you only pay off £5,000. How do you suggest that you would be paying more?

Well say, for instance, in 1925, the peak year, a farm of 200 acres was worth £5,000, and it was mortgaged to the extent of £4,000 to-day. In all probability that farm on the market to-day, having regard to the value of the produce from the farm, would only be worth £3,000. And yet it is mortgaged for £4,000?—Part of the proposal is this: That purchasing-power is immediately issued equal to population multiplied by time and this purchasing-power would, if we adopted the peak year, pass into circulation in such a way that all prices would rise to the prices of the peak year. We would bring everything, prices, land-values, and everything else back to the peak year, because we would be dealing with a controlled system, a system so controlled that there would be a demand for all the goods produced in New Zealand. Although we talk about exporting and being dependent upon exports, we have got to remember that it is the demand of the people in New Zealand in the last resort that pays even for the goods that are exported to England, because it is only the demand of the people of New Zealand for the goods that we import which enables us to export the goods we sell to England, and if we have a complete system for New Zealand, an all-embracing system, with purchasing-power everywhere in the hands of everybody, you can bring your prices up to the exact level you want. The whole thing can be worked out with mathematical accuracy.

Does your scheme provide for doing away with shareholding? Does it take over these institutions which have been using shareholders' capital?—The idea is to take over the functions of financial power. The workers would probably elect the executives, but probably during the stage of transition the State would appoint the executives. Probably when the workers were sufficiently alive to the possibility of controlling the industries they would appoint their own executives, their own managers, and so forth.

They would not run the business?—They would not be so foolish as to try. They would appoint an executive to run the business for them. My ideal would be that the workers would really own the industries, subject to the financial suzerainty of the State.

In the event of a certain amount of capital, which is not invested in manufacturing industries being handed back from the State bank to the people, you indicate that there would be a certain demand for land, that your plan would encourage the settlement and subdivision of land. The demand has a very important bearing on the value or the price asked for the land. Do you anticipate that there would be anything in the nature of a land boom or fictitious values?—This question that you are asking really answers the other question you asked. If you put purchasing-power at a certain definite amount in the hands of the people your price-level will rise to a certain definite amount. There will be a rise in land-values. The rise we will aim at will be the point reached in a peak year, high prices, and we determine upon that year in advance because in this conversion business we desire to avoid any unfairness to any one. I do not want a mortgagor squeezed off his land; I do not want a mortgagee who does not receive his money. I want to be fair to them all.

Would you place any limit on the areas that should be held by any one individual to provide against the case of a person who is in the happy position of not having his land mortgaged and a sudden demand having arisen as a result of capital in manufacturing businesses?—I do not know. I think we should leave those things out in the meantime. If you have a man with a big sheep-station, his difficulties will be to keep his men on his station when this plan comes into operation because of the intense development taking place all over New Zealand, every single man being employed and work being available for every one at good wages. This would tend to draw away his employees from his station, and in many cases the large landowner would be in this position, that he would either have to sell his land or admit his employees to partnership, in order to continue his particular work. I anticipate that in many cases that will happen. Should it happen, by any chance, that some man is able to hold a very large area and manage it himself he will only be able to do so because he is a man of exceptional ability; and under such circumstances I should say, Let him do so.

Believing that the hope of reward is the main incentive to enterprise in the individual, does your scheme of payment take into account the value of skilled as against unskilled labour?—Yes, all those details. I do not propose to make a radical change in the habits of every man and woman in the country; that is beyond me. Where skilled employees are getting one wage, an unskilled man would get a lower wage. We will carry on just as we do now, although I think that finally, when we find that there is enough wealth for every one we will get over this acquisitive age and we will not be so grasping in that respect. I am not suggesting that we should make any special changes there. It is not a necessary part of the plan. So far as the idea of the population employed by time—my idea

of equality—is concerned, I would quote the case of an engineer who works out basic strains when putting up steel work. In some cases he loads his base. He starts from a base and loads it to withstand strain. If we say that a base for the monetary system is to be population employed by time, we may have to load our base. We may say, "Here is a group of men who are skilled and we think it is necessary to give them more than the unskilled man." That would be loading the base. But, if we do that, we know what we are doing. We load the base and give one man a larger share than another and in doing that we have to deprive one and give to the other, but those questions are moral questions largely, I think, and will only be settled by moral development.

Say a parent has educated his child and spent £1,000, £1,500, or £2,000 in sending him to the best medical colleges in the world, and he turns out to be a man who is in every way adapted for that work, and, apart from his day's work, he pursues a line of study and is able to bring about a cure for cancer or consumption which is of great service to the community, are you going to pay that doctor, whose education costs £2,000, who has been burning midnight oil for many years, are you going to pay him according to your scheme of payment ?—Before I answer that question I would like to ask you a question : Who supports that man while he is studying ? Who gives him his food and so forth ? The rest of the community ?

Exactly ?—Then I should say that if he is supported while he is preparing himself for his profession, then, if anything, if you are going to put the thing on a moral basis, you might even ask him to accept less when he is working himself.

Does your scheme discourage any one from taking any real live interest in things or affairs of the day, so that he is encouraged to give unskilled labour as against expert labour which he might have to work hard for and which, through Providence, he is naturally adapted for ? You do not take those circumstances into account and give him any additional reward ?—Personally, I would not mind. I consider that if a man has exceptional gifts he should use those gifts for the good of the community, and every one should be satisfied with a fair income, clothing, food, a fair amount of leisure, a holiday occasionally, and decent surroundings and so forth, and he ought not to expect more.

What you believe in is the basis of time factor ?—Really the sacrifice of every one in giving up their lives to the community is the only real basis.

I want to frankly say I have not read the whole of your booklet, but I have read quite a portion of it. There is nothing in your scheme to provide for the establishment of anything in the nature of free payments to any one, is there—free credits without security, without any return I mean ?—No, nothing.

Your scheme aims at ultimately providing credits for the people free of interest ?—No, I do not. You see, you take five hundred men working in one group, every adult man who works is not only working to support himself, he is working to support the community.

In your booklet it says that every married woman shall get a man-day scale of payment ?—That is my own idea. I think every woman should receive an income for supporting her husband. That is because I consider that it is unjust that a married man should receive no more than a single man and if you are going to provide for a married man because he is married, then the money should be paid to his wife, not to him.

You provide in the first instance for the married man and then you provide the man-day salary for the woman also ?—She might not receive so much.

Mr. Langstone.] Broadly speaking, your plan is to bring about social justice ?—That is it.

That, as a married woman is looking after the economy of the home, in a national sense she is just as much a wealth-producer to the nation as the man on the land or anywhere else ?—Quite true.

And she is entitled to it ?—Quite true.

When you spoke about the pound and the yard. There is a step before that, is there not ? I mean to say you have to fix some point or thing that is a pound or is a yard before you can determine your pound or your yard. Now what is your point ? Let me explain it this way. In fixing our imperial pound weight there is a distinct special set of conditions created and it is the attraction of the earth's centre of a certain amount of platinum under those special conditions that determines our pound—that is, making it as non-variable as possible, and it is a pound of 16 oz. everywhere where the pound weight is used. So we first adopt an artificial base or fix a base, and then we adapt our pound to it. With regard to the yard-stick, we do exactly the same thing. We take a certain length of metal between two gold studs at a certain definite temperature and that becomes our yard measurement everywhere. It is as non-variable as possible. When you are going to deal with an economic problem such as you are dealing with, then you must have some definite thing that is going to fix your measurement, and I want to know what is that thing ?—There is only one thing that can fix it; that is human desire per unit of time measured by human effort per unit of time—time being the factor common to both sides of the equation as gravity is the factor common to both in the measurement of weight. You see, if you take New Zealand as a whole for a year and the people of New Zealand as a whole for a year, then the total realized value for that year can be only the satisfied desires of the total population of New Zealand. If, therefore, you divided that into fractions you get a unit of measurement which represents an exact fraction of total desire of the people in New Zealand.

I want to individualize it. If I desire a piano and you desire a chair, are those desires of equal value ?—I should say then that if you are prepared to pay the same amount for the chair the desires would be of equal value.

I want to know what your unit of value is going to be. You have told us about the pound weight and that you must have two opposites. I want to know what goes before that, the same as we fix our pound ?—The unit is labour-time. That is the best way to put it.

In other words, you say that the amount of human energy socially necessary or crystallized in an article determines its value, plus the consumption of it ?—It is the measure.

It is no good producing a thing if no one wants it ?—Quite so.

It is the production in that sense, plus the consumption of it ?—Yes.

Therefore you must have a price ?—Yes, of course. You must have a price, but it is not necessary to prefix your price. Supposing there is something you want and I also want that same thing. If I am prepared to give more for it, then I would probably get it.

The price factor is the determining factor of all values. You get that by going back to 1929; the bigger the amount of money in circulation the higher prices rise ?—Yes.

If you throw a little more money into circulation, any form of money you like, unless you fix the price just the same as we do with weights and measures, your prices are going to rise ?—Under this plan of mine prices will rise the first few years and prices will then gradually drop.

If the price of one article rises in greater ratio than the other, then you are going to have the same discrepancy as is in the capitalist system. Let us take your watch theory. You say five man-days equals one watch. That would be true if the same amount of labour was embodied in the watch as employed in the units that this man has to spend for the watch, but assume that there are only two days, five to two, one person would get or appropriate to himself three days labour time—man-days as you call them. He is only giving two for five. Is there not exploitation there ?—That is one case where exploitation would arise in a badly regulated system, but under a properly regulated system it is only an adjustment that might really in the long-run be beneficial. Let us suppose that some producers of hats provide for a hot summer and produce a great number of lovely hats for the ladies. Other people think that it is going to be a wet summer, but not so many of them, and produce a different kind of hat for wet weather and the summer turns out to be wet and no one wants to buy the summer hats and all the ladies want the hats which were made for wet weather, if the price of those hats did not go up the distribution of the hats would probably be unfair. Some people might get more hats than others, whereas if the price goes up the distribution is more readily regulated. At first glance there seems an element of profiteering, until you reflect that all the hats that were produced for the purposes of a hot summer are worthless, and the stores which buy these hats have to adjust these values. They may make no profit on one lot of hats, but make up for that on the other line of hats, but I do admit that a social system that was based on the idea that people should always make a profit, such as you suggest, would be an improper one, but there must always be a margin allowed for the adjustment of prices in order to do justice.

The question I asked was in regard to a man giving two man-day certificates, giving two units and getting five in exchange. He is three to the good. You cannot regulate a community on fashions because most people do not determine fashions; it is determined for them by people in England and Paris and they adopt them. If it is decided in England or Paris that long skirts shall be worn one year and short skirts the next year, the people here just follow that lead. We could not run a community on that basis ?—Let me put it this way: You are submitting that I would be so foolish as to go and pay five man-days for a watch which was only worth two. If I was obliged to do that owing to the fact that the watchmakers were so cunning, that would be improper.

You said in your evidence that it was just a matter of desire, that so long as you had the desire and the money to satisfy that desire you would buy the watch and that led me to infer that it did not matter what the value of the watch was so long as you had the desire and the money to back up the price ?—If you knew me better you would know that I would go around all the watchmakers and make certain I was making a good bargain.

Getting back to this gold standard, having a commodity value as well as a currency value. If the commodity value exceeded the currency value, the tendency would be for gold, which is currency, to restrict the basis of our financial system ?—Yes.

There is less money to produce the goods that are for sale and consequently prices fall and assets and securities become frozen ?—That is so.

If the commodity value falls below the currency value the tendency is for gold to go into currency, therefore more money is in circulation and prices rise in the opposite direction. It is fraudulent and always has been, and the same thing applies to the banks having the power to create money and destroy money, destroy credit. That has the same fraudulent effect upon the community as gold has ?—That is quite so, it is fraudulent.

Mr. Clinkard: What is the question you are asking, Mr. Langstone ?

Mr. Langstone.] I am asking if the operation of the present financial system is fraudulent ?—The operation of the whole financial system is fraudulent, but the trouble is that we do not know it, therefore we cannot accuse people of being fraudulent when they are being fraudulent unknowingly. There is no doubt about it being unfair, and it would be dishonest if we were aware of it, but the trouble is that we have grown up into it, and people are just beginning to discover that it is unfair and dishonest, and when we all realize that we will put an end to it.

Under your scheme you would not need a great amount of money, because most people would have cheque-books I presume ?—Yes.

Therefore if they write out a cheque it would cancel out the same as it does now, and every time a transaction takes place the amount of credit that was given for the satisfaction and desire of a person cancels out ?—Yes. There would probably be less currency in circulation than at the present time.

Therefore there would not need to be anything like the amount of book-keeping that there is to-day ?—Book-keeping amongst traders ?

Yes ?—Probably not, because the book-keeping would be done by the national bank.

Now, if you are going to have a national bank and the other banks go into liquidation it would not be a central bank at all, it would be only one bank ?—When I use the words "go into liquidation" I mean the internal reorganization of the banking businesses. There are companies in liquidation here to-day who are still carrying on business. They will go into liquidation and reorganize.

All the present banks in New Zealand will become co-ordinated with the central banking system. The State will buy out the shareholders and the State will become the shareholder *par excellence* of every bank in New Zealand, but we will require the services of all the bank officials to carry on as at the present time, but they will all be co-related with the central banking system and will practically all be Civil servants instead of being individual concerns.

And in the last analysis you consider, then, that where there is no profiteering and no profit can be made the demand for goods and services will expand and that will lead to co-operation on the guild principal and will organize to supply those goods and services for the well-being of the community ?—Precisely. Co-partnership will become the only way in which business can be carried on.

Hon. Mr. Downie Stewart.] Your plan is based on the idea that the labour time involved in work is a better basis of valuation than our monetary system. Have you ever looked up a scheme started by a man named Robert Owen ?—I have read a little bit of it.

I have sent for the *Labour Exchange*, and exactly what you say is what he tried to do. The *Labour Exchange* says :—

> Their fundamental principle was the doctrine that labour is the source of all wealth, and the labour-cost the true measure of value : the operation of this principle was considered to be interfered with and distorted by the intervention of money, a monopolized and limited commodity, as a medium and essential of exchange. . . . But the labour-value theory and the conventional rating of all labour at 6d. an hour for purposes of valuation in exchange, or for labour-notes, defeated these efforts. The valuation of the price of materials was also a constant difficulty. Sharp tradesmen took labour-notes in their shops, and picked out the goods in the exchanges that were saleable at a profit on their "labour value." This process accelerated the accumulation of stocks, so that no one cared to take at the price of 6d. per hour for the time of their makers ; the "labour-note" became depreciated *pari passu* with this depreciation of the security on which it rested ; its depreciation enabled traders who took it to skim the deposits still closer, until the goods in stock, and the labour-note, had fallen to a commercial value below that which the workman of average skill could earn in the ordinary labour market in the time represented by their price, and the exchanges one by one collapsed, after furnishing a very interesting illustration to the history of theories of value.

You have not considered the actual working of that scheme ?—No, Sir ; I do not think it matters. For one thing they were simply experiments produced into a capitalist system where they had money based on gold ; the whole thing worked from the basis of gold. It could not be worked, because the monetary system already in existence destroyed it. It is a different thing entirely to a plan which determines its own monetary system. The difference between what you have just been reading and my plan is this : That I am not saying that the whole monetary scheme is based upon labour and time. I say that labour and time are two of the main things on which the adult population is remunerated. The adult population is remunerated on the basis of work done per unit of time, but, as I explained to Mr. Lye, I propose to remunerate the skilled labourer at a higher rate than the unskilled labourer. The present monetary system does that, and it is really the same thing ; people are remunerated according to the time they work, plus skill. What I propose to do is to eliminate this unbalancing unit, this item that makes and creates false equations and results in the whole of our economic system failing to balance. The kind of social order that may evolve under it is one that—I do not know whether I am better not to explain what it is ; my views are not quite orthodox. But I want to say I am rather inclined to think that the kind of society which will be created and based upon my idea is something more akin to the feudal system than anything else. To my mind the feudal system was an appropriation of surplus wealth for community purposes, and was the greatest and most perfect social structure for the crude and rough times of its creation, that the world has ever known. Herbert Spencer always complained that Socialism was the new Feudalism.

Mr. Holland.] Did I understand you to say that all men were to receive the same remuneration for a day's work ?—No, that was to be the basis ; just as an engineer in working out the structure of a building will take a certain base-line and modify that base according to circumstances, so the basis of remuneration would be the man-day, that is, a share equal to the payment of an average man or woman for a share of total wealth ; but it is not a part of my plan that every one should be remunerated equally ; it is no necessary part of it.

I thought that illustration to Captain Rushworth meant that all were to receive the same pay, the illustration in regard to the brickmaker and the man of genius ?—Well, perhaps I have not made myself quite clear. There are two ways of looking at the thing : one is the ideal of a highly moral civilization, and the other is the idea that we are emerging from a very sordid commercial civilization, and we can only make one step in advance at a time. If I were to tell you of the way I thought the world ought to be run, I would be only speaking two or three hundred years ahead of my time. Some of the questions printed refer to a highly moral civilization, and our civilization is not highly moral. I am trying to stick to what the average man will consent to do within the next ten or twelve years, and to leave out the kind of civilization that a Christian would evolve. We do not live in a Christian civilization ; we live in a thoroughly sordid civilization whereby every one grabs for himself. All I am asking is a plan one step ahead of the kind of life we have all been accustomed to. When Captain Rushworth asked me a question about remuneration of a man of genius and a brickmaker, I expressed the opinion that there was no reason why the man of genius should receive anything more than a brickmaker. I will give you an illustration of what one of the philosophers of the Middle Ages had to say : St. Thomas Aquinas, one of the great thinkers of all time, speaking about the remuneration of a man who does great service for his country, said it could not be remunerated by money and that this was the justification for the creation of honours. You bestow an honour because a man's service is so great that it would be a degradation to reward him with money. That was the conception of some of the people of the Middle Ages, but we are inclined to think they were of a lower civilization than our own. This answer is not so much from the standpoint of practical politics, but from the standpoint of St. Thomas Aquinas.

Captain Rushworth.] My question was directed to the two men producing the same article; one producing a much smaller number than the other who was working with the aid of a machine?—I realize that, but the answer I gave you had the idea in it that I have just given to Mr. Holland.

Mr. Holland.] Would you suggest under your scheme that an aged, one-eyed man sweeping a side channel should receive the same remuneration as the General Manager of Railways, say, or the Manager of the Bank of New Zealand?—I should give him a jolly good pension and not ask him to work at all.

You suggest that no man should be allowed to lend money at interest; how would it be lent at all or how borrowed?—So far as borrowing for legitimate purposes is concerned, that would be lent by the Central Bank and the banks co-ordinated with it. All finance would be vested in the State, and if any one wanted to lend money he would lend it as he would to a friend, and not accept interest.

You suggest that all the mortgages are to be paid off; how and with what?—They are to be paid off with a credit—with a money—which, instead of being based upon an item of gold, would represent a claim against the total national wealth of New Zealand, and which could be converted by the holder into land.

You have, I suppose, heard the story where, in the time of our Saviour, they tried this experiment, and had a good sale, and some kept back part of the profits?—I have.

Do you think human nature has improved very much since then?—No, I think you would still have persons of that kind to deal with.

Mr. Schramm.] Do you think there is any chance of this plan of yours being brought into effect, and the taking of the control of money and finance by the State absolutely, without the powers-that-be striving to prevent it by physical force?—I should say that the one country of the world that has a chance, and probably the only country, is New Zealand, where we are so situated that we can do it without interference.

You think this is the best place?—Not only do I think so, but some of these ideas were developed by a colleague of mine in San Francisco, and he expressed the opinion that this would be the first place in the world to adopt it.

You know there is a tendency in some parts of the world where the radical part of the country is gaining ground and forming Fascist groups, whereby the control is taken out of the hands of the people; you do not think the same thing applies here?—I do not see any signs of it.

As regards the holders of the shares in the Bank of New Zealand, you would buy them out?—Yes.

The State would own the thing absolutely and completely?—Yes.

Mr. J. N. Massey.] In reply to a previous question you stated that you would lift all price-levels in New Zealand to the 1929 price-level?—No, the 1925 level.

At what rate of exchange would you have to fix your money?—Between here and London?

Yes.—I think the exchange-rate would be very high at first.

Yes, but what rate?—I should leave the rate to be ascertained or adjust itself.

In all probability, instead of being 125, it would be 225?—It might. I would not be afraid whatever it went to.

I am not going to detain you, but I was particularly struck with one question, or rather you mentioned taking over mortgages, the State providing the money. You gave as an illustration a farm of 2,000 acres, with £20,000 mortgages and four mortgagees. Actually you propose to turn a bad mortgage into a good one, is that so?—Yes.

Mr. Murdoch.] One question bearing on the question which Mr. Massey has just put: For instance, you say that all landowners entering into contract with the Government are financed by the State; you say nothing about the charge of interest. What amount of interest would you propose to charge when you take over the mortgage?—The interest would be ascertained in this way: You will have certain charges to meet; you will have your old-age pensioners, and if you adopt the whole of my plan, the married women's allowance, education, police, all kinds of administrative charges, and public works. You would have, therefore, possibly 200,000, 300,000, 400,000, or 500,000 people to provide for. You will spread that charge over the whole of the landowners *pro rata* according to the number of men employed. So that the burden of supporting and creating capital (when I use the word "capital" I mean building our new railways, &c.) would be spread conveniently over all the adult population engaged in purchasing the necessaries of life. If we had a group of men controlling, we will say, a certain area of land, possibly one thousand men, they would have to pay more than a group of five hundred men, and the difference would be exactly *pro rata*, and would be ascertained by the number of population that had to be supported by the adult population who are purchasing the necessities of life. It would be a purely mathematical thing that could be quite simply worked out by actuaries. The amount that would be contributed by each particular trade or industry would be made to equal "interest" if you like, or, if you will, it would be "revenue."

That would be based on a percentage?—Yes.

Assuming that you have a percentage basis, and you find that your values overseas for your produce increase, how are these people who make that money go round going to work the machine?—Does not that factor come into it?—It certainly does, but I do not appreciate the bearing of your question.

I am trying to get you out of your difficulty; there are two men on the same basis; certainly one produces more bricks than the other; the one must be supported by a machine and perhaps several machines, and the other must have the help of several men.

WELLINGTON, 8TH MARCH, 1934.

Charts submitted by Mr. L. C. WALKER.

The following charts were submitted by Mr. Walker:—

CHART 1.—CURRENCY ISSUE FUND.

Existing Bank Currency which in Future must have a Note Backing.	£	New Issue for Present Needs. £
Free deposits—		
1925	27,000,000	
1931	16,500,000	
1933	18,500,000	
		28,000,000
Margin between advances and advance limits ..	(Not known)	8,000,000
Notes in circulation originals to be withdrawn—		
1925	7,000,000	
1931	6,250,000	
1933	6,125,000	
		8,000,000
		£44,000,000

The above £44,000,000 to be forced into circulation right away by loaning £24,000,000 to the investment banks so that they could transfer existing free deposits plus the extra amount of loan clients with advance limits would need.

The balance, £20,000,000, to be used as a loan fund for the new unemployed fund and immigrant State.

CHART 2.—STATE CURRENCY ACCOUNTING CONTROL.

To be the nation's book-keeper—neither borrows nor lends, *converting only.*
Holding full note cover for current accounts.
State to forgo stamp duty on cheques.
In favour currency control revenues.
Runs for "money" to be met in full.
Cheque system to be extended such as paying salaries direct into workers' accounts.
Deposit hours to be lengthened.
Motor-vans for deposits to travel country districts and city suburbs on prearranged days with above.
Inflation and deflation are kept within measurable control.

CHART 3.—EXISTING BANKS.

To become *Investment and Foreign Exchange Banks*, with the title over and rights to the currency account at the State Currency Accounting Control of their borrowers.

Thus they will take over *all overdrafts and fixed deposits* to enable the banks to transfer their clients' free deposits to the State Currency Accounting Control.

A loan of notes will be made to the banks, amounting to—£24,000,000, 1934; reducing to £20,000,000, 1935; £16,000,000, 1936; £12,000,000, 1937; £8,000,000, 1938; £4,000,000, 1939; £0, 1940.

The above loans to be free of interest!

CHART 4.—UNEMPLOYED AND IMMIGRANT STATE.

Location: Stewart Island and West Southland.

100,000 New-Zealanders, 400,000 immigrants = 500,000 in eight years.

Funds for land-purchase, direction, travel, raw materials, stock, machinery, &c.: 1934, loan of £20,000,000; 1935, £4,000,000; 1936, £4,000,000; 1937, £4,000,000; 1938, £4,000,000; 1939, £4,000,000; 1940, £4,000,000: total, £44,000,000.

Principle.—As outlined in ten issues *Christchurch Times*, January, 1933.

After a decade, loan would be repaid in yearly instalments.

New State would share its portion of national debt and taxation.

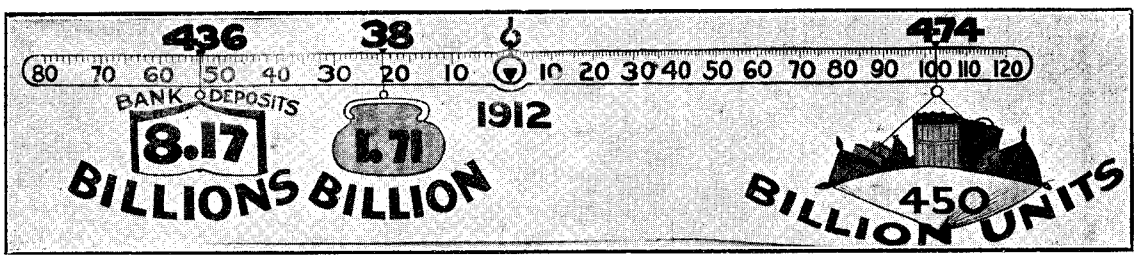
CHART 5.—PLANNING PRODUCTION FOR NEW STATE.

Would be largely based upon workers' free spendings, such as was issued in the 1931 Year-Book by Government Statistician.

Analyses: 318 Workers' Budgets.

Average Wage, £5 6s.	Family, £5 19s. N.Z. Farmers' Share.	Number per Family, 4·33. Turnover for 43,300—that is, 10,000 Families.
	Per Cent.	Per Cent.	£
Bread	3·23	1·4	99,900
Flour	0·87	0·6	26,900
Meat	5·62	2·8	173,900
Bacon and Ham	0·9	0·5	27,800
Milk	3·57	1·8	110,400
Butter	3·57	2·8	110,400
Sugar	1·14	..	35,300
Tea and cocoa	1·33	..	41,200
Vegetable and fruits ..	3·45	1·25	106,700
Other foods	5·84	2·5	180,700
	29·52	13·65	
Housing	21·93	..	678,500
Clothing and drapery ..	9·77	0·4	302,300
Boots and shoes	2·84	0·3	87,900
Fuel and light	6·17	..	190,900
Insurance	3·78	..	117,000
Fares	3·46	..	107,100
Superannuation	2·4	..	74,300
Medical expenses	2·38	..	73,600
Sports and amusements ..	2·2	..	68,100
Papers, books, and postage ..	1·62	..	50,100
Furnishings	1·55	..	48,000
Tobacco	1·3	..	40,200
Household cleaning ..	1·09	0·1	33,700
Other	9·99	..	309,100
	100	14·45	£3,094,000

CHART 6.



The money scales or equation of exchange by Irving Fisher, representing all United States of America trade, 1912, from data given by banks :—

Cash	1·71 × turnover	22	times =	38	= Goods and services	450 × 105·3 Index of price
Cheques	8·17 × turnover	53·4	times =	436		
Total				474		= 474

Ideal for New Zealand to increase goods and services while keeping index (100)—*i.e.*, prices level.

Witness : Mr. L. C. WALKER.

Mr. Walker : When I made up my mind to come here I thought it was wise to go to a little trouble to get these charts, as I have found that in speaking to people on currency matters it is easy to confuse them, no matter how well up in business they are. My contribution is that I think our banking system is completely out of date. I do not come with any idea of blaming the banks. I have no blame for them. As a mechanism banking must be altered. If I give you mechanical illustrations, it seems to me the present system is like a lumbering reciprocating-engine at the present time, for the banks create money as they lend it, and destroy it on the other side of the reciprocating stroke. Cover banking, which I advocate, could be demonstrated to an audience very simply by the present Daimler motor-car. This motor-car has the ordinary form of motor which generates power delivering same to a pump. That pump converts the power and delivers it to the wheels. My currency that I am outlining here is merely a converter of power from one form to another. But just as the Daimler motor-car has in its pump a fixed amount of oil, under my system there is more or less a fixed currency. It can be altered, but there is more or less a fixed sum. Just as the Daimler motor-car has a very great range of flexibility with that fixed amount of oil in the pump, so would this system have a great deal of flexibility in operation. You cannot get away from one thing, and that is common-sense. In all things there must be common-sense. What I am advocating is not a fool-proof mechanism. I am not so stupid to suggest such a thing. I would go so far as to say that my system with the mechanism used to wrong ends could land us on the rocks again. I have taken the liberty of coming here not only with a suggestion for reorganizing the banking system, but I would go further and say that I believe that it is impossible with our present system of banking to put the unemployed back to proper work with the proper methods. And I believe that no Committee that is handling these currency matters is worth its salt unless it at the same time considers a banking system which has within its power the putting-back to work of the people who have been disorganized by the late disasters. As I traverse the field I hope to show what I believe to be a bank that is necessary to achieve that end. I do not think there is any economist I know that would question the chart of Irving Fisher, one of the greatest living economists. Despite the importance of what I will term the book-keeping or money side on the equation of exchange, I believe that the "commodity" side is always the more important side. Commodities and relations of commodity, I believe, are always more important than the book-keeping side. Here we come to a difficulty as far as commodity is concerned. I add a number of economists among my friends. Some of them have made fair reputations, but there is no man in the world who knows economics completely because he would have to know all about each commodity as well as their interrelations, which, of course, is quite impossible. Nobody is more friendly towards farmers than I am. Taking pigs, for instance, it is so easy to produce them that if you were to give an abundance of credit to the production of pigs, instead of putting up the price, you would bring prices down. Pigs would be produced in such abundance that you could not get a market for them. In some commodities it works the other way, but you have to be wary on the whole of generalizations. Each commodity has its own laws. As far as the general position of commodities is concerned in this country and as far as the farmers are concerned, I believe we have to be wary about issuing an abundance of credit. So that if we seek to improve the position of the farmer I believe it can be done, but it can only be done in a very roundabout way, and it is no use saying it can be done in a simple way, if the real way is more difficult. If I may allude again to the commodity side, I believe the general slump has been caused on the commodity side more than the monetary side, despite the discrepancy or the difficulties on the money side, and I believe the cancer in the world to a great extent is represented by a surplus number of farmers in the United States of America, and if any of you gentlemen have read Mr. Wallis Domham's book on "Business Adrift" (and Mr. Wallis Domham is a very eminent man, the head of the Business College at Harvard), and he wrote his book before the slump, you will see in that book where he suggested then that it would pay the United States to more or less get out of foreign trade, because the amount of farm-produce she was exporting she was not in a position to take goods in return, and while she thrusts that unwanted amount of farm-produce into the world's markets she is disorganizing the world's markets and turning world affairs into chaos. Now, as far as the United States is concerned, I believe there are at least seven million people there that should be taken off the farms.

The Chairman.] Do you say that he advocated going out of foreign trade?—Yes. I take it Dr. Sutch knows the book. It was mainly because the United States was not prepared to take goods back for her farm-products. Now a thing may be valuable and it may be worth nothing economically. For instance, the air we breathe is absolutely necessary to life, but you cannot sell it. Why? Because it is plentiful. Farm-produce will only be valuable when in relation to other things it is relatively scarce. And I believe one of the most urgent things in New Zealand is to take a number of the marginal farmers right off the land. As I finish up on the other side I will deal with the way in which I believe the farmers could be helped other than that when I deal with the question of unemployment. But I believe, instead of trying to save many of the farmers, it would be better to ruin them. Now, I will state that, instead of trying to save many of the farmers, the marginal farmers, it would be better to ruin them once and for all. But if they go off their farm, you have then got to get your brains to work to see what you can do for those men who have been ruined. Now, I do not advocate ruin for ruin's sake, but we cannot get away from this fact, that the competitive capitalistic system is regulated by one thing, and that is ruin. It is regulated by ruin. In the City of Christchurch there are eleven hundred shops selling food. We have got crowds of unemployed. Why do they not open up more shops to sell food? Because they know there would be ruin. If they have a few savings they know they would lose those savings. I was a commercial traveller nearly thirty years ago through the greater part of the South Island, and over a period of thirty years it is amazing the number of firms that go out of business, that in the conflict of business are ruined. Now, I believe that as far as New Zealand is concerned, with the traditional capitalistic system, it is very difficult to alter that.

Hon. Mr. Downie Stewart.] Does this all bear on your scheme?—Yes. I am merely stating from the goods side. Despite the fact that a number of people are going to be out of work they have still to be provided for, and I will take it step by step and show how I believe it can be done. I say that it is a commonplace thing in the ordinary business sphere. It has not been a commonplace thing in farming, but I think that with the development and organization of farms with tractors and more elaborate equipment, that we will probably see more farmers go the way of unsuccessful business men. Once upon a time the farmer provided his own transport, horse and trap, and more or less everything was home-produced. Now he does not, and there will probably be a greater tendency for men to be displaced and here is my point: If you develop your monetary system merely to keep the farmer on the land, I think we will be prolonging the days of our trouble. My suggested change is this: That the currency of New Zealand, the mechanical part of that currency, should be run by the State. The existing banks would carry on as investment banks. Momentum to the new cover banking would be through a Treasury note-issue. This would be merely a book-keeping institution, keeping the credit accounts. It neither borrows nor lends, converting only, just the same as I showed you when illustrating the principle of the fluid fly-wheel in the Daimler car. It merely is a converter of the power. The State is to forgo stamp duty on cheques in favour of currency-controlled revenues. Now it is going to take a large revenue to run this system and the cost should be allocated in fair proportions to the people who are the users. Runs for money could be met in full. The pound-note would be a portable form of book-keeping, just a transfer note or a converter if you like to use that term; if you had £1,000 in the bank it would be there in the form of State notes. It would be held there till you withdrew it or till, by the issue of cheques, it is transferred to other accounts.

Mr. Langstone.] Like Professor Soddy?—Yes. Professor Soddy, of Oxford, is an advocate of cover banking. Mine may in points differ, but it is the Soddy system. At the present time the State is getting 2d. a cheque stamp duty. That should be done away with. The State should get no revenue at all from this.

Twopence a cheque?—No. I think the State should forgo all revenue, because this trading-account control would require its own revenues and probably we could get cheques with one 1d. stamp or even less, so that the various firms could pay their wages and other accounts that are at present not paid with cheques. In other words, the service of this form of bank could be extended to the convenience of the people of New Zealand. Here is another thing: The deposit hours could be lengthened. I have had a number of shops under my control at different times, and it may not sound much to you, but I have had the unpleasantness of having my shop burgled. At present you can only bank at three o'clock. Now, most shop people in business would willingly pay extra for the privilege of banking at a later hour. An important fact in this, that the peak load of banking would be spread and the cost of bank premises and so forth would be lowered throughout the country. In other words the cost of that banking could be reduced. Now again, a greater service could be done to the country districts. It is impossible to have banks in every country town and probably many banks in country towns at the present time do not pay. I believe that motor-banks could travel the country and so add to the convenience of the country people. Under cover banking inflation and deflation are kept within measurable level. I am not going to say that it is going to run completely smoothly, because, as I mentioned before, on the goods side, and springing from the goods side alone, there are many subtle factors that will always be at work, and I do not believe any banking system can work by itself alone, that actually the sovereign power will have to regulate things from time to time, so that the desirable end of keeping money or commodity prices relatively level will ultimately come back on the State. You might wonder what we are going to do with the existing banks. The existing banks are to become investment and foreign exchange banks, taking over all overdrafts and fixed deposits. In other words, I believe that, in order to bring about the desirable, it is undesirable to alter the present practice more than can be helped. It is wise, I think, to follow in the traditional lines as far as is possible, and I do not see that there is any reason why, if the banks lend to a client, they should not have a lien over his current account just in the same way that when you mortgage a house the man who has the first mortgage holds the title, and he sees that you pay the insurance and so on. At any rate, I think it would help to facilitate even the borrowers, by the fact that the bank could take a duplicate copy of their daily transactions. It would

tend to put their credit in better order. Thus they will take over all overdrafts and fixed deposits. The State would have nothing to do with the existing overdrafts or the fixed deposits. Fixed deposits are not currency. Fixed deposits, in fact, are one of the big evils of the present system. Under cover banking there is a fixed sum in what we will call the converter, the State currency accounting control. Our present difficulties I do not blame on the banks so much as the private people in this country. The private people have gone panicky, and, instead of using their money, they have fixed the deposits, thereby cutting down the available currency in this country in a most disastrous manner. Under cover banking it would not be possible to do that. If people had currency and they were panicky and wanted it invested safely in some form they would either have to buy shares or lend to the investment bank, or buy some other form of property. The fact of the matter is now that our visible currency—that is, if you take free deposits and add notes—is down by one-third in volume to what it was just a few years ago. How do you expect the affairs of the country to go on if the currency is down by that huge amount? To enable the banks to transfer their clients' free deposits to the State currency control it would be necessary to make a loan to the existing banks. Without making a loan to the existing banks they could not transfer same. At present there is £18,500,000 of free deposits. To transfer that sum I believe it would be necessary to loan to the banks the sum of £24,000,000 because not only have we free deposits to consider, but, also, the margin between advances and advance limits as well. Banking is quite different here to what it is in England. Suppose a firm has £1,500 overdraft and they have already spent £1,000. That means they are shown as advances at £1,000, but currency to them is the margin between advances and advance limits. Thus the firm that has got a limit of £1,500, and has used £1,000, the balance £500 is to them cash in the bank. The amount of loan to the banks is only a temporary measure during the period of conversion. It would reduce to £20,000,000 in 1935, and would be wiped off in 1940, because, in the meantime, with a larger volume of non-interest-bearing currency operating in New Zealand the tendency would be for a huge offering of currency to the new investment banks on fixed deposit. I want to emphasize that the State merely takes over the mechanical part, the sovereign part, of currency book-keeping. I think it is about a hundred years ago since Joblin brought in the cheque, but in that hundred years, as far as English-speaking countries are concerned, the banks have been keeping the books of the country by tradition. I mean to say the alterations have generally been made in times of disaster and stress, but we have never altered the books of the banks. To control the cheque system it is necessary, I believe, to alter the whole book-keeping system of the banks. It was not thought, when cheques were brought in, that the relative turnover for the year's trade would give banks credits twelve times the importance of cash. That has been a gradual development. Cover banking, therefore, is necessary to bring all forms of currency under State control. How will the State benefit under this system? Take the free deposits: In 1925 they were £27,000,000, in 1931 £16,500,000, in 1933 £18,500,000. Those free deposits have been over £30,000,000 within recent years, so that we will issue a sum of £28,000,000 to cover them, £8,000,000 for margin between advances and advance limits, £8,000,000 to cover new circulating notes. In the issue of these notes the State gains a purchasing-power of £44,000,000 without interest. The currency is absolutely limited to this note fund in cover banking, whereas in present banking methods £1,000,000 issued by the State as cash can sustain roughly a turnover of £12,000,000 per annum in bank credits. Both inflation or deflation become a geometric aftermath of what is in reality a small sum of money used in the first instance. What are we to do with that £44,000,000? I suggest we lend £24,000,000 to the investment banks to help them through their period of conversion to investment banking. Then the remaining £20,000,000 could go to a new State I will speak of afterwards to help the farmers and unemployed that I have talked about. When there is a difficulty you may as well face it. I know many of the farmers' positions in detail. I have handled hundreds. It has been my business to be in touch with them in the markets. I know them intimately, many of them. I noticed a very peculiar thing in the statement of the banks. There was an analysis there showing how the banks lent their money in New Zealand. Looking at that carefully one wonders how on earth the industries other than farming have grown in New Zealand. Apparently the policy of the present banks is not to help other industries. I do not know whether you gentlemen are aware of the investment banks in Germany, but the investment banks in Germany have done a tremendous amount to build up the industries of Germany and when you alter your banking system it may be necessary to give the existing banks, whose powers are transferred, a different charter, because in Germany the investment banks there have the right to put some of their staff on the directorate of companies, and we find the big industrial companies and the companies that build up the vital industries of Germany have mainly been built up through the investment banks. In fact, in Germany a number of the banks join together and find the capital for companies which are quasi-monopolies, and as a result huge industries have been built up, and on the staff of the investment banks of Germany we find some of the best technicians in the world. Now, it is not peculiar to the banks in New Zealand to have technicians. I was in the meat line and I know it is not common for the banks to have security technicians. We all remember the amount of money that was lent out to build freezing-works. The result of that was that the last few freezing-works that were built detracted from the assets of all the others. There was a flood of freezing-works built with bank aid because the banks themselves do not think in meat technology. Now in this change over to investment banking the existing banks would be relieved of all costs of current account banking. They would only require a security staff. Actually they would be in a very profitable way for the first year or two. Now, granted that the existing banks can manufacture "money" for nothing, which most authorities are agreed on, despite the fact that they can manufacture "money" for nothing, on the other side they have given services for almost nothing. If you work out the costs of the 3,300 men in the banks, plus the rents, plus all the other charges, really, the banks themselves if they were rightly advised, should be here, and not me, advocating a change like this, because the banks have got more to lose through carrying on a system where they are running the currency which calls upon them to have so much in liquid funds to meet the daily emer-

gencies. Why, you find the banks between them have only deposits equal to the Government Savings-bank, whereas if they were free from that currency section with its terrible devastating dangers, I believe the amount of fixed deposits that they would get would pile up in such a manner that probably they would control at least double their existing deposits. Now, the officials they would need would be in the main, security officials. They would not need great premises. The very premises they have throughout New Zealand could be sold. Their security officials would travel about more, while the State currency accounting control would provide the daily record of the borrowing industries. The farmer would get a local market for the produce from his farm with an industrial growth financed by investment banks. Do you know that New Zealand is the largest consumer of rubber goods in the world that has not a factory of its own? That is just one industry that comes to my mind. But I believe the position of to-day is so disastrous that we must have the machinery to finance a general overhaul. You gentlemen may take to-day's conditions in a very placid way. Well, I do not.

Mr. Langstone.] We do not either?—Recently I just built a village of workers' houses, and I know the workers have had a hard time as a result of that what happened in recent years. They smashed up the Arbitration Court. What happened as a result of that? The workers in my houses were so affected that they have repudiated on me. Where I kept thirty men working I cannot keep one going now. In fact, I am not ashamed to say it, I walked out of my settlement the other day without one pennypiece, after earning my living for thirty-six years. For the last twenty years I have been an employer. Some of my late tenants are butchers at Islington and their earnings have recently been so low that they have not been drawing the amount that the unemployed men are drawing. While we pay deference to authorities it is well to remember that no economist knows economics who does not know the economics of engineering. No economist knows economics who does not know the economics of industrial chemistry. It is a much more complicated world and I believe we have had a disaster of the first order in breaking up the Arbitration Court, and I am not speaking with a grievance. I think the people have done it with the best intentions, but I know as far as I personally am concerned it has cost me thousands of pounds, because I had streets of houses in which workers were living and I have never turned a worker out of his house, but I find, through the economic crash, I was turned out myself. It is going to be a most difficult thing to put the unemployed to work by propping up this industry or that industry. I believe it can only be done by a very roundabout method. I suggest that before we consider industrial rehabilitation you look at the workers' spending-table. It is a very eloquent table, and it is not mine. It is the Government's table that was in the 1931 *Year-Book.*

Dr. Sutch.] I am sorry but I have not gripped your financial system yet. You have come to it have you not? I got as far as your £44,000,000 on the bottom of that chart, and since then I have been trying to follow it up?—Well, that £44,000,000 is the total issue fund of which £24,000,000 is loaned temporarily to the existing banks.

In notes?—Yes; £24,000,000 is paid into the Currency Account so that the bank can transfer free deposits and put their clients' accounts in credit at the Currency Control. Have you got that?

Yes. But who is issuing the notes?—I will call it a currency issue fund. The Government. By the way, I want to keep the new Reserve Bank out of the discussion, because it would unnecessarily complicate matters. Many of these things I have brought up for simpleness of illustration, but I would like to get this clear. That £24,000,000 is put into credit at the State Currency Accounting Control on behalf of the existing banks, so as they can transfer free deposits. Have you got that clear?

Yes?—Over some £20,000,000 right away are going to finance the new State, which I have not described yet, because I want to talk about the banking tables first.

I see. That is part of the thing that was puzzling me. There is just one other point. This £24,000,000 that you have changed over to the banks, their funds have been given to the State Currency Accounting Control, and is that the Board to whom you apply when you want credit?—That £24,000,000 is placed in credit at the State Currency Accounting Control, so that you can issue cheques. This other table is very important because it is the basis by which I planned to take the unemployed. I am dealing with the problem of unemployed and immigration in one. I believe that the problem of settling unemployed and immigration is one and the same. The farmer is not all-important; you will see by this table he only produces one-sixth of what the average worker requires. If you got thirty or forty thousands of the unemployed, even if they are dull and stupid men, if you brought them all together they are a market for these commodities [Chart 5]. If they are put to work to produce their own commodities they will work out more or less into these industries.

Captain Rushworth.] Would they produce tea?—They would have to sell some goods overseas to pay for such lines as tea. You will notice that housing costs are much greater than all the New Zealand farm-produce put together. The number of men employed in New Zealand in the housing industry is about three-fourths of that employed in the farming industry, and if you take in some of the allied building trades the number of men employed in the housing industry is as great as that of those in the farming industry, nevertheless, the men of the housing industry have not the political voice that the farmers have. We are not going to get out of this slump unless that housing position is righted. The raw material of housing has been so incapacitated in New Zealand that anybody that has been in the industry knows there is no great potential market for years to come. It is young married people who normally bought homes, and it was wonderful how they saved every penny and strived to pay them off; but now as far as building is concerned in New Zealand the conditions are abnormal, and they will not be righted unless something such as I am going to suggest is done to cope with this state of affairs. Despite the poverty of the young workers, there were 1,200 marriages last year in Christchurch and other cities. Put up marriage records. I know for a fact in Christchurch that as many as three young couples live in one house. It is a fairly common thing. Many of them are getting married merely to get the unemployment money, and if you think the building industry is going to prosper in years

to come with this state of affairs you are making a great mistake, because the people who should buy have not the necessary money to put out for a house. Therefore you must meet an abnormal situation by abnormal methods. You have got to get capable technicians in New Zealand to work out the solvent of these problems.

Now, if you take the industries outlined there [referring to Chart 5] and issue that £20,000,000 I have mentioned, you have got there money absolutely free which could be lent free of interest, and that money would be redistributed throughout New Zealand. I have set out very fully on the leader page in the *Christchurch Times* in January of 1933 ten articles on the whole problem of a planned State.

WELLINGTON, FRIDAY, 9TH MARCH, 1934.

Mr. Walker: I will continue my evidence, and if the members of the Committee wish to ask any questions as I proceed I shall be only too pleased to answer them.

Dr. Sutch: For my benefit would you go through the financial part of it again. I know you went on to some things yesterday that did not come within our Order of Reference, but the financial part I am not quite sure about.

Mr. Walker: At the outset I should like to say what I would like. It is for you gentlemen in your wisdom to say whether anything can be done along these lines. If I am leaving any influence with you gentlemen I would like to be able, with the help of a technical man—and if I was to nominate him I would have one of the college economists and a highly qualified accountant—to traverse my field and put it down in book form. You will find as I go on that I will cover a very wide field and it is reasonable to suppose that no human mind can follow me in all aspects, but I can assure you that I have had the assistance of some very highly qualified men who have checked parts of this material. I will say things that may be somewhat difficult to grasp, and no mind can grasp even a simple thing if it is strange and unusual. As I narrate my story I do not for one moment think that you will see it all clearly, that would be impossible. The chances are that I am leaving New Zealand soon and may be going to England and Germany. However, if you think any of my ideas are worth while I would be quite prepared to co-operate with technical men to elaborate the ideas set forth in greater detail. Even if the Government or the parties in power do not take all, there may be some matter that comes to light that would be of use. You will find right through that I do not adopt the attitude of making fun of any one or blaming any one. I think you will appreciate the fact that I see the question is not simple, and just as at all times all economists agree that even the gold was managed by some one—we know that gold was managed by somebody—nobody has yet invented a fool-proof currency. My suggested system is more or less framed to suit New Zealand in a time of difficulty. I have worked the monetary system here so that it will take the strain by putting many of the young people to work and so that, if necessary, you can manipulate, probably in a roundabout way, a method by which the position of the dairy-farmers can be improved right away. I am going to go over the currency points again smoothly and quietly, and then lead on to the goods side; but I believe, as I have put the charts on the wall to show, that all those factors act and react, and it is no use saying because a considered solvent is simple a simple remedy is going to put our troubles right. I do not think our financial troubles are simple, but, on the other hand, I do not think the difficulties are so tremendous. Now, take the farming position. We have to face this fact: That the scientist is always at war with the farmer on the economic side. Sir William Crookes predicted in 1931 that there would be a wheat shortage, but as a result of that prediction the chemists got to work and we had such a development in manures that, instead of the farmer getting huge prices for wheat, the wheat, owing to the application of industrial chemistry and other modifying factors, is redundant in the world to-day. Indigo was a farming industry in India until the scientists made a discovery in regard to dyes which are now in competition. The tropics are at war with the farmer all the time. We find that the hydrogenation of whale-oil alone is even affecting the price of butter.

Mr. Clinkard: Very materially, too.

Mr. Walker: The hydrogenation of whale-oil has affected the price of butter, and there is no end to it. You gentlemen probably have not had the experience I have had in the tropics. I have lived in the tropics for some time and farming there is carried on on a scale that you can have no conception of. In Cuba it is nothing to spend £7,000 for a single Giant tractor, a tractor such as you have never seen in New Zealand. That is only one piece of machinery. Some farms have a railway system on them. The tropics are in active competition with you all the time. On of the latest things from the tropics that is going to compete against our butter, and we must take cognizance of all tendencies, is the new bacteria method by which they can take the fat from the coconut in a form of purity that they have not been able to do hitherto. We have to face the fact that all along there is a constant war between science and the farmer. As I go further, especially with my suggested group settlement, I am going to show that it is possible, using the monetary base, to help the farmer immediately.

Captain Rushworth.] Do you suggest that that war is between science and the farmer exclusively?—No.

Is not the war between science and the harnessing of power with all industries?—Yes, I will grant that. The fact of it is, when it comes down to foodstuffs, that the human stomach is more or less limited. It is unlimited the amount of travel we can undertake, the number of pianos we can buy, the size of the home and other things like that; but as we become more developed and more refined, instead of eating more food we require less.

Mr. Langstone.] More leisure and more comfort?—Yes, and, in regard to that, we have also to remember this: That the greater part of the world population is represented by farmers. If you travel the world, you will find that the farmers are generally the poor in every country.

Dr. Sutch.] The farmers and the unemployed ?—Yes ; and there is a tendency that we let the peasant mind dominate us, as opposed to that of the intellectual concept, which is more difficult of comprehension.

Is that not because there is some one else farming the farmers ?—There is a good deal of that. Now, I want to draw your attention to this fact that if we had a land mass between here and our consuming market, England, and you had to send your produce home by railway it would require thirteen times at least as much for freight. You would not be exporting much produce to England then. It would be more or less economically impossible. Transport conditions therefore are of such importance that anything that improves on the present transport between here and England will react to the benefit of the New Zealand farmer. Overseas shipping I suggest as one of the dominating industries in my suggested State, we will see what is possible in this regard later on. We hear a lot about patriotism, but if you view the trade between England and New Zealand in the last decade New Zealand has put up a very poor record. This is what happened. If you take the ten years between 1922 and 1931 we exported to the United Kingdom £382,000,000 worth of goods. We imported only £210,000,000.

Mr. Clinkard.] How much did we send to pay interest ?—I am coming to that. I am allowing for invisible items £100,000,000, so if you add on to the £210,000,000 the £100,000,000 for interest &c., you get a total of £310,000,000, and that means that there was a balance of £72,000,000, and to that extent England was to the bad. But during that period England lent us £48,000,000, so that in ten years we used the sum of £120,000,000 to buy goods in other countries, which if we paid for goods with goods should have gone to Britain.

Captain Rushworth.] Did she send the money here ?—No. I am only speaking colloquially ; sometimes we speak as the man in the street. Technically I was wrong in that statement. I suggest that is one of the things that helped to break the gold standard.

The reason I asked that question is because an official record is being taken of your evidence and that remark might be misunderstood ?—I quite appreciate that interjection. You were quite right in that. I submit that as far as the balance of goods was concerned it was not a fair balance.

Mr. Langstone.] There would be balances somewhere else ?—Yes.

And trade is not just between one country and another ; it may be triangular ?—We understand that, but what happened was that we had trade that did not balance ; it broke down and that is one of the things that helped.

It must balance ?—Yes, it balances by loans, not necessarily goods.

Loans reflected in goods ?—Loans only ultimately reflect themselves in goods. There is not a doubt about that. I believe that it was the matter of this want of balance in trade that helped to crash the interchange of goods. That is a long story, and if you want to go into it in detail it will take a couple of hours to go through the data. Another thing I want to suggest is this, that no man can talk accurately on these matters. The whole of the Ottawa Conference was conducted on wrong figures. As far as I read, all the Ottawa Conference discussion was more or less on visible trade, and we know that you must take the invisible items as well as the visible ones.

The Chairman.] Suppose our exports were not sufficient to meet imports, there was not sufficient money to pay interest in England, what would happen then ?—If our exports were not sufficient——

Would not the British Government lend us the money by way of loan ?—That is the custom, but, as it happens, we have to export at least £10,000,000 more than what we import to balance, but if we take the United States and Canadian trade we find over that period we have been buying from them to about a like amount that we have not been buying from the United Kingdom.

Mr. Langstone.] Only in the reverse way ?—That is quite right. My point is that you will see right through that our monetary policy has to be so worked that we can negotiate with the United Kingdom on a basis that we can give them a *quid pro quo* so that they can help our farmers, and I will draw your attention to this fact that I think it is probably a great pity that when the late Labour Government was in power in Britain, when they offered to take our goods on a bulk sale purchase, that we did not go on with those negotiations, because every one admits that had we done so the farmer in New Zealand would have been in a better position to-day. That is my honest opinion, and what I am stating is that I believe that we have probably to come to this position, that we have yet to negotiate bulk sale with England. I am coming now to a point that all you gentlemen, I am sure, know as well as I do, and that is the position of the trade between Denmark and England. If you take the figures of the trade between Denmark and England you will find this : That for £1 worth of goods that England sends to Denmark, Denmark sends £5 to England.

Mr. Clinkard.] But then you want to couple with that the balance between Great Britain, Germany, and Denmark ?—Even then, if you will follow that out, you will find the difference, but I am now thinking, and sometimes we have to think, in a fairly narrow sense. If you go into this further, you will find that Denmark sends £25,000,000 worth of bacon to England. However you work your monetary system, you have to look at the question of bacon closely in this country. You have to help the dairy-farmer, and to be in a position to go to England to save our dairy-farmers we want to force a sale of £6,000,000 of bacon per annum to England. I am speaking as a technical man ; I was in the bacon business for some years until my factory was burned down. I was one of the first to speak in New Zealand on the export of bacon to England. It is impossible to export bacon from New Zealand on an economic basis until the whole question of shipping is reviewed. The only way you can export the equivalent of bacon to England at the present time is to have your pigs frozen.

The Chairman.] But does not quality come into it ?—We can turn out the quality all right. Mr Morgan Williams has turned out a class of pigs that we could soon have turned out throughout New Zealand in great numbers that will equal anything turned out in Denmark.

Others may send an inferior quality ?—I grant that, but at the present time it is impossible for the farmer to turn out the quantity. Here, again, one is talking on a fairly big question, but I must

suggest that until shipping is reviewed it would be impossible to work up a big trade. England does not import pork to a great extent; bacon is the big import, and the only way to send it economically from New Zealand is to have it cured in New Zealand or treated on the voyage and have the product washed smoked, and packed for market in England.

Mr. Langstone.] Does not the feeding make a good deal of difference?—As it happens, on the dairy-farms in New Zealand, so long as feeding is supplemented with a certain amount of grain, we can turn out an excellent pig here. If you set out to export, say, a matter of millions, it would have to be organized under thoroughly expert advice. The Railway Department would have to organize with express pig transport from the farm to pork-killing centres, each pig would have to have its own brand on its ear, or a tattoo on its shoulder. That is absolutely necessary. My point is that organization is needed from top to toe. The pigs would have to be of good quality; poor quality is not sufficient for export.

Captain Rushworth.] That is developing; the Pig Marketing Association see that all pigs are earmarked, and when they go to the killing-place they are identified; they are credited to the owner and a month later the distribution is made?—It only shows that the whole tendency is in process of development. A matter of £5,000,000 or £6,000,000 worth of bacon would be comparatively simple to turn out in the North Island. It would be a by-product, which would help the dairy-farmer, but behind it you have to have some financial organization, and the nature has to be worked out. If we wish to build up the bacon export business, the improvement of our shipping service between New Zealand and Britain is absolutely essential. The new State I have in mind could help if it made British–New Zealand shipping one of its dominant industries.

Mr. Langstone.] With regard to the pig-production, is not the production of pigs so prolific that you would very soon glut the market?—Pigs are known in England as copper and gold, because they can be so easily produced. If you have not an assured market in England years ahead at an assured price, you are never going to get export.

Dr. Sutch.] How would you get an assured market?—New Zealand can offer to take a big migration from England.

Mr. Langstone.] Would you exchange people for pigs?—Quite so. My point is that there is a good deal of forethought and planning required, and I am glad again for my friend's interjections. The only way we could do it would be to do it on the basis of a guaranteed bulk sale for a period of years. That will give you a sort of gist of what I am driving at, because I know the tendency with a lot would be to say it has nothing to do with monetary control. It is all vital. The goods side is just as much a part of monetary practice as the other side of the scale.

The Chairman.] It should be?—We cannot ignore the goods side. We have to be well-informed on the goods side and it is complicated and difficult and it is useless to baulk that fact.

Mr. Langstone.] By that you mean that no amount of money could distribute what you do not possess, but the lack of money can stop the distribution of what we have?—Not only that; with money you must have judgment to a high degree. It is not fair to ask one economist to be an authority on everything. It is quite evidently impossible. Probably I did not mention the new cental bank. The ideal central bank, to my mind, would be something like the Supreme Court of Finance in New Zealand; it would have a group of judges who would be economists, University trained, but probably about twelve specialists trained.

Dr. Sutch.] They would not be lawyers?—No, as far as the legal side of life, it only deals with the negative side of life, the "Thou shalt not's"; the financial side deals with the "Thou shalt's."

Mr. Langstone.] Will you have competitive banking; if you had the bank under one control, you could not have a central bank?

Captain Rushworth.] You were really making a parellel between the money system and the legal system in the same way as Parliament makes the laws and the Judges administer the laws free of interference. The money should be made by Parliament and administered by the central bank?—The people who administer that should be of the standing of Supreme Court Judges.

Mr. Langstone.] On that point, we have on our directorates of banks people who are, through various things, interested in other property?—No man who holds a judicial position. As a commercial traveller, I have noticed things, and one of the things I have noticed is that I never seen a Supreme Court Judge in an hotel dining-room. A Judge considered it was part of his tradition to keep apart from hotel guests and have his meals in a private room. That was part of his etiquette. They were free and above men to hold the scales of justice firm, and I hope the same conception will take place in monetary affairs.

Mr. Langstone: Sir Otto Niemeyer advocated that when he came to New Zealand with regard to the New Zealand banks.

Captain Rushworth: Sir Montagu Norman observes that, I think.

The Chairman: Why should a man make himself a being apart?

Dr. Sutch.] One thing about banking: Are you going to have the stock and station agents also taken over in this way? They are deposit firms the same as banks?—They do not inject money into the country in the same way as the ordinary bank.

Captain Rushworth.] The banks have to be chartered by Parliament, but the stock and station agents do not have to be chartered; that rather constitutes a difference?—I differ from Dr. Sutch; stock and station people keep contra accounts for their clients, but in the final count the currency used is of and from the banks, apart from the small fund of State note-circulating.

Dr. Sutch.] A farmer can borrow gold from a bank as from a stock and station agent?—I have loaned thousands of pounds for houses, but that does not constitute me a currency banker, and I never injected money into the currency.

Your money would have been used and injected into the currency by some other institution?—I have known many economists and have friends among them and among accountants, and I doubt if

there is an economist in New Zealand who is also an accountant. We want to deal with everything in a fair way. I have never met an economist who is an accountant.

There are some ?—I know Dr. Copland and Dr. Condliffe fairly well, and Professor Tocker and Mr. Lawn and Dr. Hight; no one would pretend that any one of these gentlemen is an accountant. You cannot expect a man to have all the professions; there are some points which are accountancy points and they are different again from the economic points. I differ from my friend that stock and station agents can inject into the currency, whereas most authorities are agreed that banks can. The bankers try to dodge the issue in its crude rawness, but they cannot prove it. Those few words are merely in addition, and merely to ask your sympathy in allowing me to explain over my currency field, because in the end it is designed to help the unemployed and finance a greater population through immigration. It is worked out to help our farmers immediately, because relative to other sections of the people the farmers must continue to take a smaller and smaller part in New Zealand. Before I have finished I want to make this assertion: I do not think the economic future of New Zealand will be one of farming dominance.

Mr. Langstone.] You mean that to-day we have a surfeit of primary products, in New Zealand particularly, and we have to balance up our own population here by multiplying the people to enable the farmer to get a *quid pro quo* ?—We could send forty times our production to China, but no one has suggested how China is going to return commodities in payment in a way which would satisfy us.

Talking of the world's exchange, there is this point: New Zealand exports just on 40 per cent. of its total production; therefore to that extent we are depending on overseas prices. All of our exports belong to the primary producer, therefore it benefits the farmer. In America about 8 per cent. of their total production is exported, therefore the question of an overseas price-level does not affect America the same as here ?—You have hit the big difficulty. In normal years I think about one-third of our total figures—generally £150,000,000 for the total of New Zealand, and, roughly, £50,000,000 exported. Some people reckon New Zealand exports more than other countries. Malay has an export per head much greater than New Zealand, and the greater part of the population were pauperized Natives.

Dr. Sutch.] I would like to make this point: You say that 6 or 8 per cent. of the American products is exported, but the fact that it is exported, which means a good deal to American economy, depends on overseas prices, and a much greater production depends on the fact that export must be carried on ?—I will even grant that. There is Russia, which is now the second biggest industrial country in the world. Russia has got a very small export trade and is developing at a tremendous rate, as the organization has been built up tremendously. In the United States, although that 6 per cent. is small in relation, it somehow disorganizes the whole issue.

Mr. Langstone.] Speaking of Malay, in a country where labour is very cheap and the conditions of the people very poor, the production power of your community is low in comparison with countries where they have a much higher standard of living and the price of labour higher because they use better methods ?—I have been among Hindus, and where you would use a mower, I have seen them with long straight knives cutting grass, with an overseer looking on.

Cheap labour does not mean cheap production ?—If a man has small capital it frequently pays him to pay the very best wages, and you find that your unit costs are frequently lower. My system comes nearer to that of Professor Soddy of Oxford, a well-known authority.

Dr. Sutch.] What kind of authority ?—Professor Soddy is certainly a chemist, but he is one of the world's chemists. He is a Nobel Prize Winner, and Professor Soddy's name ranks with some of the first in the world. Of necessity he wrote his book for England and our position in New Zealand as a debtor country is totally different from that of England. My authority is Professor Soddy of Oxford, but, as far as this matter is concerned, I have had the advice of some of the best accountants in New Zealand, and I make the statement that sound accountancy in these things is sometimes worth more than probably economic opinion, but in regard to the mechanical book-keeping side, I have a complete illustration in the fluid fly-wheel of the Daimler car, the motor driving the pump and the pump converting the energy and finally driving the wheels of the car. It is merely a converter of energy. First you get farmers or others producing; their goods and services are sold for currency or converters. The converters are then spent or exchanged for consumable goods or investments as required. It is merely a system of converting, but like that fluid fly-wheel where the fluid is in the pump all the time, so the money in the main is in the bank all the time. If you have £1,000 in the bank, it is there as a mere deposit on paper. It certainly differs in this respect, that if you want to take your full money out and hoard it, you can do so. The thing is designed that the simplest and crudest person in the country can understand it. They take these notes and put them into the State Currency Accounting Control and have the right to draw cheques as you have at present with the trading banks, or depositors have the right to take the whole of their "money" out. Our present monetary system is too nervous; our whole banking system is too nervous. The banks are no more responsible for their system than any one else; it has evolved through hundreds of years. It is not a proper national book-keeping system, and I hold that even the banks would be better off if the State took over the currency portion of their business. The State Currency Accounting Control would be merely the mechanical book-keeper of the nation, in like manner to the Post Office, which is like a mechanical letter-deliverer, and no one suggests that the Post Office be made a private concern. It carries out what is more or less a mechanical function; so would this carry out the simple function of book-keeping, and you would have a more or less fixed currency, but if you needed more or you had to withdraw, you would have an issue department which could control, because, after all, all monetary practice must ultimately come back to this conception, that as far as possible the total of prices be kept as near constant as possible.

Captain Rushworth.] Does that mean that your parliamentary authority would issue currency in accordance with the demand; they would manufacture and issue the currency in accordance with the demand and would restrict the supply if the price-level rose, and increase the supply if it fell ?—I am

with you in the main. I think in New Zealand under our peculiar difficulties with large farm exports we have to go a little further than that. I am suggesting a development policy to re-align our trade and make us more self-sufficient. One difficulty is that if you operate on a price-level like that you are always behind the market; the price-level would move upwards or downwards an appreciable period before it became demonstrated, and you would have a series of small fluctuations going on all the time; would not that be the case? Going back to Mr. Langstone's remark that owing to the tremendous part of our trade that is exported, we have no chance of making a complete stabilization in prices for years to come, we simply have to carry the farmer as best we can, and we have so many peculiar features that we have to have a body or a group to administer the policy for years. I do not say we can obtain complete control in prices. The peculiar difficulty in this country is that it is so dependent upon English prices; I am not going to claim the impossible.

But the English price is not the New Zealand price?—It has reactions and repercussions. They have a bearing. I do not want to be caught in a complete statement or state a thing that cannot be carried out in practice. Before we can run, we must walk; we have to have the alteration made to the existing banks.

Dr. Sutch.] You said that if prices rose, you would issue more currency?—I did not state that. If prices were rising too fast, it is possible you may have to reduce. If I did state that, that would be a mistake.

Mr. Clinkard.] So that to preserve the balance you would have to have a minor scale of inflation and deflation?—Probably after ten years we may get to a perfect level of prices, but I am not going to state that in ten years it can be done. The valuable part in instituting cover banking is that the State would get the equivalent of £44,000,000 new capital interest-free besides throttling the dangers of redundant inflation.

Mr. Ashwin.] The State only gets £20,000,000 of it?—But it gets the other £24,000,000 back from the banks in a few years time.

But the State cannot use it, it is too light when it comes back?—No; I will work it out on the blackboard and demonstrate the principle. New Zealand has about £6,000,000 in note currency. I will show you how to get £6,000,000 immediate purchasing-power from the notes without adding another note to the total circulation.

Mr. Clinkard.] Could you say briefly, in the issue of that currency, what would the State's advantage be. In what way would they be utilizing it to the State's benefit?—I am going over that in a minute. It is going to take me a fair time to explain it. I think that if you do not mind we will try and work out this principle. At the present time you have £6,000,000 in notes in circulation. Now, assume you do not want another note in circulation but yet want £6,000,000 capital from them at once. Now, the banks are paying 4½ per cent., and I noticed the other day, plus practically another 8s. 9d.; we will say almost 5 per cent.

Mr. Ashwin.] Tax?—Yes. That is a tax. Now the point is, as the banks issue those notes it is a liability of the bank and the bank pays interest on same to the State. Now, it makes those notes as if the Government was the mortgagee collecting interest on that amount. Now, if you owned a mortgage of, say, £400 on a house and you wanted that money, you would sell the mortgage would you not, and get the £400?

Yes, if you could?—Well, it is possible for the State to sell the notes, and this is how they do it. As the notes come back to the bank the State could notify the banks that they are to be withdrawn. As they are withdrawn the banks cease to pay any interest on them. And before I go a step further, assume that the £6,000,000 in notes came back in one day and they were withdrawn. You would then have no notes in existence.

But you have to give the people something in place of them?—No. Assume these notes came back. Now if the Government wants to inject notes into the currency system she will pay out, say, £6,000,000 on works to employ the unemployed in the form of a new issue of notes. If you know the unemployed as I know them, they would have them paid out within a day or two, because they owe so much, so the money would go to somebody else, who would redeposit it in the bank. But the difference would be that the State would not have an annual income of roughly 5 per cent. In other words, she would capitalize the Note Fund. She would get that "money" right away, but she would forgo the interest on it.

That position will arise when the Reserve Bank takes over?—Well, you will admit that it can be done.

Yes. Because in this case you are going to issue Reserve Bank notes in place of the other. And now I gather you are going to issue these State notes in place of the bank-notes?—Yes. Well, then, you admit that it is possible to capitalize the actual benefit of the notes, but by getting it you forgo the interest. Thus it is only another form of issuing your notes. You can see that can be done.

Mr. Langstone.] Could not it take the place of all taxation. Why the taxation if they have the right to issue?—When you come to currency it is just the same as getting back to our motor-car. You could not have that motor-car running if it was all fluid fly-wheel. There is a definite currency relation, and if you get above that definite relation you are only going to have a muck-up job.

You are only talking about the benzine that drives the motor-car. It is the currency which is the benzine in our industrial and commercial procedure?—No, I differ from you. I would call you and your friends the benzine. You and your fellow workers are the energy.

No, we are the engine?—Yes. The engine and its fuel.

No, not the fuel?—But my method of capitalizing those notes is followed up by capitalizing the credit forms of currency.

Mr. Ashwin.] Then, all the existing bank-notes are withdrawn and in place of them we have State notes?—You see here that all existing notes are withdrawn. Now we get into a difficulty. We wan

to take over the ordinary banks' current accounts, ultimately we want them transferred to the State Currency Accounting Control and to be covered by notes. Have you got that ?

Yes ?—You see this is the ordinary free deposits. You gentlemen between you must have a lot of them. Well, you can imagine the difficulty if the fund were taken over and your money was more or less tied up.

But as I follow it through I am not very much affected, because all you are doing is transferring my free deposits from the commercial bank to this State Bank ?—That is so.

So as long as I am satisfied with the State Bank the change does not interest me very much ?—Quite so. But I want to show by the process the State gets the equivalent of £44,000,000 free of interest. You see, I have to look at all of this from the point of view of the Minister of Finance. It is a very valuable thing for him.

That is just the point that I cannot see. I follow you there, that my deposit account, assuming I was lucky enough to have one, is transferred to the State Bank, but I cannot see that the State is going to get any benefit out of that ?—I have had a deal to do with a fair number of businesses and a number of business men, and some of the most successful men I have known in business, and I have one in mind who drew a salary of many thousands a year, a shrewd man, and yet he could not follow the entries of his firms' book-keeping when you come to those higher entries.

The Chairman.] You are suggesting that Mr. Ashwin is unable to follow them ?—I am not saying that. I know a man who was in a bank and one of the best financial men in the country, and I took him stacks of books and it took me years to convince him on a simple point. It is a peculiar thing, if you are brought up in one method it is sometimes very difficult to see a simple point. And it is no reflection on a man. The more he knows one process, sometimes the more difficult it is to see a change.

Mr. Langstone.] But that £44,000,000 that you have in your Currency Fund, that goes out and does all the work of the people, if it is out doing the ordinary business, then the Government cannot have it. I am talking of accounts that are apart from Government expenditure such as public works and that sort of thing ?—The point of it is the Government get the capital benefit in their initial payments. The moment they part with that money it belongs to somebody else. But they do get the benefit of it in the initial count and it should make the nucleus of a permanent free loan fund.

Would they get 5 per cent. for it ?—No. I have a very particular reason why the Government should not get any interest from this fund.

Will they get any revenue from it then ?—They get a very big revenue from it in a roundabout way.

Captain Rushworth.] To assist you may I ask you if it is not like this ? Supposing that the Government want £10,000,000 worth of notes. Under the present system they would have to borrow that £10,000,000 in notes from the bank. They would deposit bonds or their equivalent with the bank as security for those notes, but they would have to pay interest. They would have to borrow that £10,000,000 from the bank and pay interest on it, and they would have to deposit bonds or similar documents with the bank as collateral security. Now what you are suggesting is that they should make those notes themselves instead of borrowing from the bank. Make the notes instead of credit instruments ?—Yes. I hold the State alone should be the creator of currency.

Mr. Clinkard.] My query is this : According to your chart you show there an issue of £44,000,000 paid out at a certain interest. What advantage would the State get from the issue of those notes and handing them over to those various banks ?—A big part of that sum goes to the existing banks to enable them to carry on through the transition years.

Would they get anything for it ?—Yes. I want to be quite fair. I lend £24,000,000 to the banks free of interest for this reason, that it never pays to break completely away from tradition. After all, the banks are not guilty of any crime.

You are trying to retain the advantages of evolution ?—Yes. But the bank has to pay its loan back to the State at £4,000,000 a year over a six-year period. The banks are only lent £24,000,000 for one year, reducing to £20,000,000 the next year and so on. You see they are given a decent transition period. At the end of that time the State has a permanent fund of £44,000,000 which it can lend out coming back to be used again for the needs of the community in later years.

Mr. Langstone.] In the second period where would it go to ? Would it go through that existing bank or would it go straight back into the Currency Fund ?—All of it works back to the Issue Fund. The whole £44,000,000 when once issued would either be in the Currency Control or circulating as notes. I expect about £36,000,000 to be used as cover deposits with £8,000,000 of notes circulating.

What benefit would they get if they give it away and receive no value back for it ? Would the Currency Issue Fund benefit ?—May I answer that by my suggested new State. I am suggesting that £20,000,000 be lent to that new State, and ultimately (I hope you follow me clearly on this) New Zealand gets a very decided benefit, a benefit much greater than any interest by starting this immigrant settlement, lending it money ultimately up to £44,000,000, but, remember, these people have to repay it back ; but in the meantime they would be in a position that they can shoulder their share of the New Zealand public debt and pay a definite amount towards defence, &c.

Dr. Sutch.] Say the depositors want to get their money out ?—That does not matter. Well, of course, they would be foolish if they got it out and burnt their notes. That would be a complete profit to the State.

Mr. Ashwin : Well, to come back to the other point, the only profit the State gets out of it really is arising out of this special scheme.

Mr. Langstone.] Increased production ?—Yes. They get this £44,000,000 which acts as momentum to general wealth development.

Mr. Clinkard.] Assuming the State required funds for public works, would they issue an additional number of notes ?—There is a limit. The State, for public works and many things would still have to borrow. It is not an unlimited fund to work on. Do not get the idea that I am issuing it *ad lib.* I

designed that for this particular development, and I doubt if the State could go past that £44,000,000 unless our population and trade developed. Then she may go up a million or two. But she could not issue on this system to pay for public works. She would have to borrow in the ordinary way.

Mr. Ashwin.] Well, it comes down to this: That apart from the transfer of the free deposits and the existing note-issue to the State bank, and of course the State notes issued against the existing notes would go into circulation, the other notes would simply be there as a backing for your free deposits ?—That is so.

Well, with that part of it squared off, the other £20,000,000 really boils down to an additional issue of this £20,000,000 to finance this development scheme ?—Yes. I am suggesting that would be the wise way to do it. The State may say, "No. We will lend the whole of the money to the farmers who are hard up." To that end I am going to say that probably it would do more damage than anything, because as you lend money so you have to bring a tremendous amount of wisdom to bear on the lending of it.

Dr. Sutch.] So you are creating £20,000,000 extra credit ? That is available somewhere ?—Yes, that is so. Personally I think you are getting it better then I expected. I know it is not simple to follow. Any idea that is completely new is difficult to follow.

Mr. Clinkard.] It occurs to me that your system really amounts to this: That you propose gradually to take over the private banking apart from their manipulation of their cash side and put it into a State concern to be divided into two portions, the first portion controlling the issue and the second portion being the accountancy and keeping the accounts of the so-called interest ?—Any of you gentlemen who are very acutely minded will notice that the existing banks would probably make a great profit for a year or two. There would be much more profit under this system for the existing banks for a year or two, but it may be necessary in the transfer to see that the profits the existing banks made, were properly transferred to reserves, to spread them over the transition period. You had the figures from the banks about the number of clerks they have. The banks would only want a figment of the premises and probably not one-sixth of the clerks, and they would be merely investment banks. Now, I have worked this out with this idea: That it is far better to work out a system in which the banks are going to make as much and be well off, instead of having their position reversed. Ultimately, I believe, if the position was put to the banks they would be on our side and for the change. I mentioned the investment banks of Germany. I believe that if our banking was given a chance to develop on those lines that we would have an industrial growth and a development in this country that would be amazing.

In your State Currency Account Control, say a man had a credit there of £500, would he be able to operate through that account an overdraft account as well ?—No. There are no overdrafts. He gets his overdraft from the investment bank. They lend him currency in the Currency Control, but, for guarantees, he would give them a copy of his Currency Control Account.

Instead if their issuing it on his cheques they would give him a title to it directly ?—That is so, and it that way would follow the English system rather than the New Zealand system. No economist in New Zealand knows what we have in the currency, because a very valuable part of that is that part I mentioned, that large part between advances and advance limits that is not known.

Dr. Sutch.] What Hawtrey calls the unspent margin. He is in the British Treasury ?—Well, I think it is positively dangerous in New Zealand, because we should have all currency movements visible. The banks may have reduced limits and yet we have no evidence to show they have reduced them. They may have extended them too far, and we have yet no visible evidence.

Why not buy all the foreign exchange through the Reserve Bank or your central bank ?—Well, I am with you, but we have to admit that when we change the status of the banks, the banks have lent great sums to freezing-works and so on, and they are bound to have a long period when they are holding English and other securities.

Well, you could transfer all that to the central authority, could you not ? Or they could get from the central authorities the foreign exchange necessary ?—Some of these things that I talk to you about in a fraction of time, sometimes have taken me months to think out. Now you have put a question to me that I will not give an answer to now, because I would have to think that out in a long way. I would have to have a lot of evidence, and so I have stated the thing in a simple way. I could not answer you right away. I have been called in to advise on matters of foreign exchange sometimes, and I can tell you they are extremely difficult. You can get remedies that are extremely complicated, but in the meantime there is a carry-over period. Probably ultimately they would not bother about the foreign exchange at all.

It is an important part of our currency system, and would it not be just as well to have it under the supreme control ?—That is my ideal, of course, and, in fact, I think ultimately we will. While we are on that matter, I believe, again, whether we like it or not, we have to learn a lot from Russia, and we have to recognize this fact: That as far as the foreign exchange is concerned Russia has put up a record in the last seventeen years that no other country in the world has put up, and we are very foolish if we do not learn from that. Russia is reducing her foreign indebtedness, and she has her foreign exchange in a form of control that no other country in the world has, and if we could approximate that in New Zealand I think it would be highly desirable.

That is mainly because of her control over the economic structure of the country ?—I grant that.

Mr. Clinkard.] And, moreover, she started by wiping out all her foreign indebtedness ?—I do not want to be drawn into Russia, but you know Russia has offered to pay the whole of her foreign indebtedness.

Mr. Langstone.] But we have a moratorium too ?—Russia offered to pay the whole of her foreign indebtedness if the other powers would pay for the damage that they did in her country. We would only have £20,000,000 for the State in the first year to start with because that £24,000,000 has

to facilitate the bank status change-over. So we now come to this next part of my scheme, which to me is vital. I believe that unless we solve the unemployment problem that our currency, whatever we think we can do, will trouble us for some years.

Mr. Ashwin.] In other words you mean this: That if the State share that £24,000,000 there will be very little gain?—Oh, yes.

Really, the gain is coming out of the additional issue of £20,000,000?—Yes, quite so.

Captain Rushworth.] Do you suggest that the unemployment can be cured by immigration?—No. That is a very good point. I have worked up this immigration idea purely to help the farmer. The population of the world is 2000,000,000 people. I have lived in Australia, in some of the islands of the Pacific, and in New Zealand, and we are so underpopulated that it is a position of danger. Now, I go further. The question of immigration, to my mind, is purely one to help the farmer. I believe that if we went to England with a thought-out scheme and said to England, "Now look." (And by the way, if you go with a scheme there is only one way to go with a scheme and that is to have an exhibition in England, not to talk it. You have to illustrate it with exhibits.) If we went to England and said, "We have got a plan, and we are prepared on the one hand to take a number of immigrants if you on the other hand will help our farmers over a decade." I want to make it quite clear that what I have in mind is mainly a bargaining idea, and it is this: We have a very big debt in this country. Some people have subtle ideas of repudiating that debt. I have gone through a period in which people, through no fault of their own, have repudiated on me. It is all very well if they are on the side when they want to repudiate on others, but I am in this unfortunate position that after working thirty-six years, practically all my savings have been repudiated. Now, in everything I do and say I will fight to the last ditch against repudiating one penny to England. I know a lot of arguments can be made out, but I believe that if we made a deal with England it is possible to say that we not only will bring these people, but in doing so, we can even reduce our debt over a period of years. Remember that those immigrants, if they are settled properly, immediately shoulder their share of our debt burden.

Mr. Clinkard.] That is based on conjecture. The other fellow has to come into the contract?—If you do not make up your mind to a plan and work it out thoroughly you will do nothing.

Captain Rushworth.] Can you tell us how the immigrants would help the farmer?—I will give it to you very clearly, because I am going on to describe the industries and it is when I come to that part that I will show you that there is only one way you can do it. I have to go into that and it is from that end I will show you, but if we had a worked-out scheme in which we could take a number of immigrants from England under decent conditions, the point is that it gives us a negotiating power with which to sell our produce, mainly dairy-produce, over a period of years as a bulk sale, that would put this country in a position of security for a long period ahead.

Mr. Ashwin: You want a *quid pro quo.*

Captain Rushworth.] The suggestion is that we make a bargain. We are going to suggest taking, say, a hundred thousand people from England, or whatever figure it is, and, as a counter-balance to that, England would agree not to put a quota on our butter?—No, I will go further.

Or buy at a fixed price. What are they going to give us exactly?—I believe it is possible to get, for instance, that question of bacon that I have mentioned. There is practically now no export industry from this country, yet I should say at least we should stipulate for £10,000,000 sterling a year for this industry at a fixed price.

That is the form it would take?—Yes. That is from my point of view.

That being the case, do you suggest that England would pick out the one hundred thousand best people they have?—Well, part of the working-up of that scheme would certainly be the question of the type of people. I would draw your attention to a book that was turned out by Professor Leacock. He suggests the best class of immigrants are not necessarily the people who have money. I could bring a class from England who are more or less penniless, yet so long as they are young and vigorous they would be desirable. It is a matter of physical fitness. And there are classes of people in England who have not the opportunity and if they were brought to New Zealand under decent nurture and decent conditions, themselves and their children, I believe they could be brought to a type of citizen that would be a desirable type. I am not going to say you are going to flood us with criminals and the weaklings. If you have a worked-up scheme the human side is a very definite part of that, and both psychologically and physiologically those matters would have to be dealt with by people who are competent.

Mr. Clinkard.] It is the idea of a special colony, as it were?—My idea is a State, and I mentioned Southland. You will understand why, when I describe later, because apart from defence and sharing the national debt I believe the new State could be completely autonomous.

Mr. Ashwin: I see. Under a separate governing body?

Mr. Langstone.] A new State altogether?—I would say she could only run at the start under a directory.

Like Soviet Russia?—They would have their vote for their rights, but the State would be a highly technical venture during the first five years.

Mr. Schramm.] We are bringing them out and we have to pay. Why should we give them a separate autonomy of their own?—No. You have this: England and New Zealand would be lending sums. When I get further, you will see. We would only lend that money under one consideration, and that is that those who have control are the most competent people you can get. The people in control on the engineering side and the technical side would have to have world standing; you see it is the directional side that is more important than mere numbers. The success of it would depend upon its direction. Those members of the new State could be given governing power as soon as their savings warrant, you could not expect people who own nothing to have millions to do what they like with. The thing would be impracticable.

If they come to New Zealand they would be part of New Zealand ?—They would be in the main.

Then why have the right to run a separate State ?—When we had a camp they were part of New Zealand and they were under a special form of discipline, for obvious reasons.

Captain Rushworth.] You do not mean that they would not be subject to the laws of New Zealand ?—They would have to pay for their own education, their own services, and run their own services. Even the law there may be different, though I am not saying it will. I believe it would have to be a completely autonomous State.

Mr. Schramm.] Would that not be a weakness rather than strength ?—I do not think so, when you have to remember that I am assuming that I am starting out with a crowd of young New-Zealanders who have not a job or a sixpence. I am assuming that we are bringing a number of people from England in a similar financial position.

A difficulty would arise if they had their own currency ?—They could not work it without their own currency.

It would be very difficult to have New Zealand as a sovereign State and then inside New Zealand have this settlement with its own legislation and its own currency. Would that not be a weakness ?—No. We have a particular problem there and the whole layout would be different because of the peculiar conditions.

The Chairman.] I would be very sorry if you had to leave here without fully explaining your plan, I think you had better revert to that ?—I have stated before that in starting this separate State there are three essentials as I view it; they are, as it were, mechanical features. There are three parts of this State that are absolutely essential to it, the first is that there must be one or two dominating industries that have an export market; the second is that there must be what I term an equating bank—I would not have time to describe that fully—in other words, the State would be more or less managed technically by its own bank—in fact, every man in that State would have to have a bank account and the very taxes would be collected every week; and the third thing is that there must be compulsory saving. I have worked it out that we could work much more efficiently than you can in New Zealand, because the whole settlement would be designed. We would want a tremendous amount of capital for these people that you could not possible borrow for them, so you have to rely on a form of forced saving. Their nominal wages would be much greater than that current now in New Zealand. I believe they would probably save a greater amount than has been saved in Russia, and Russia has put up the most phenomenal saving in history in the last few years. I know it has been cruel on the people, but, at the same time, any economist will recognize the fact that Russia has done that.

Mr. Ashwin.] If you are going to give abnormally high wages your saving is only nominal ?—No, because when a man has saved his quota for his house and so on he gets the full benefit of his saving.

If you are assuming that a normal rate of wage is £4 and you give a man £8 and he saves £4, you are really giving him the extra four ?—I have not the time to work this out in detail, but the workers would be ultimately better off; but we cannot get away from the fact that in the initial stages they would go on short shrift, and you would not force any one to go there unless they wanted to; you would only take those who volunteer. I know men who would go and I also know men—many men—who would not go.

Mr. Clinkard.] They would have to see it through, there would be no backing out ?—No. I have had a fair experience of running men and if you have a team of twelve men with one grizzler every one knows that that one grizzler will affect the team. I would make full room for the grizzler to get out, but he has to recognize the fact that he cannot take out his savings in one lump sum. I would not force them to go in, and I would not force them to stay. Those things are essential.

Captain Rushworth.] Your idea is going to work somewhat on the same lines, but to a much greater extent, as the superannuation system is worked in the Public Service ?—Yes. Now, I would like to refer to the industries that are vital to this idea, because without them it is impossible for the people to live at the standard we live at to-day and be a self-contained State. Ultimately it will be mainly a self-contained State, but you must have industries that can supply the means whereby to pay off the debt that you incur to the rest of New Zealand in the first place. It is a loan that £20,000,000; that adds up finally to £44,000,000, and you must have some industries so that you can send goods to the rest of New Zealand or overseas to pay back that loan, and you also must have an export to pay for the tea, coffee, and cocoa, and other materials you want from the outside world. Why do I suggest Southland for this State ? I suggest it for the very good reason that, according to my own lights, it is ideally situated to become a huge industrial centre, for this reason: That you have a combination there of two huge water-power schemes with harbours alongside—that is in the Sounds. You gentlemen know that, strategically, this age has been more or less a steel age, but steel is going to be supplanted by an aluminium or light-alloy age. Aluminium is revolutionizing the transport of the world. Aircraft is impossible without aluminium, but the competition of aircraft with railways has done what ? The whole of the railway systems in the world are going to be revolutionized some day by these new light alloys. All this aluminium work is comparatively new. In the year 1900 there was only 5,000 tons of aluminium turned out in the world; in 1929 there was 264,000 tons of aluminium, and I saw one of the most remarkable transport inventions this world has seen over a hundred years at a picture-show the other day and that was a new train turned out in Russia with no wheels. I saw a model of it running; it was aluminium. It will do 160 miles an hour they reckon. Just as you know that the railways which started in 1825 economically altered the history of the world, now it looks as if the new alloy age is going to have a tremendous influence on the economic fabric of the world. This railway that the Russians have built runs in what is like a gutter, it is run on spheres and the motor is in the spheres, while the whole train is stream-lined and keeps the centre of gravity perfectly. If you take the year 1929 there was something like 217,000,000 tons of steel and iron produced. In that year, roughly, there was only 250,000 tons of aluminium, so that we will say 850 tons of iron and steel were produced to 1 ton of aluminium. The needs of aluminium in the world for the next few years are going to be very

great. In Scotland one company has just finished a hydro-electric plant that has cost them £4,500,000. In Great Britain they will never produce aluminium in any great way. Why? Because it takes 26,000 units of electricity to produce 1 ton of aluminium, and that is only in one part of the manufacture. Steam electricity is too dear.

Mr. Ashwin.] What about the Severn barrage scheme?—I know about that. But if you take our potential schemes in New Zealand we have power that can be produced very cheaply. Another peculiar thing about aluminium is that in no part of the world can you get all the raw materials for its manufacture located in one spot and they are very cheap in the main. We would probably get some of our raw material from Australia or India, but the raw material itself, bauxite, is practically worthless. Then there is the shipping side; the transport side. We have all the factors in which a huge industry can be developed and established in Southland. There are no small firms in the world producing aluminium because the greater part of the raw material is hydro-electricity. Being a chemical industry, it requires the power night and day for cheapness' sake. We are specially fortunate in this country, for this reason: That even before you finished the scheme in Southland there is a large volume of power immediately available at Waitaki. Such power could be purchased for five or six years so that aluminium production could start right away on a moderate scale. I have information and details from engineering journals and I would willingly pass same on. Almost everything that copper can do, aluminium can do. It is just a matter of relative price. The roofs on your houses instead of being of galvanized iron can now be finished with an aluminium surface. There are no ends of uses to which aluminium can be put. I say that that is one industry that can be handled on a big scale, but of necessity you could only do that by getting in touch with the British Government and through them seeking the co-operation of the British Aluminium Co. and paying such company fees to have the benefit of their research staff to control developments for a period of years. That is one feature. I am now going from that to another huge industry that could help the farmers, I am going to deal with shipping between here and England. It is essential for the new State to have two dominating industries. Only recently the merchants in Christchurch placed at my disposal matter whereby I was able to make an approximate estimate of what shipping is worth between here and England, and it amounts to the huge sum of £7,600,000 per annum. I have with me plans of a boat that was turned out by one of the chief designers of the British Admiralty. He has now resigned from that Service, and in the last four years fourteen countries and seven Governments have in small boats adopted his method. Recently the British Government developed a gunboat on it, but he sent me plans of a boat the size of the Rangitiki which can do twenty-five knots and take Home New Zealand produce economically. Now, people may say it is very strange there are new boats being turned out in England to-day for New Zealand trade and there is nothing like that, so am I far from the mark in what I am saying, but there is a big time-lag between what the designers can do and what commercial companies order. I can give you an instance of one of the noted shipping designers of England who had to build three boats at his own risk to demonstrate his principle. Most of the shipbuilding firms in England are financially embarrassed. That means that they have not the means to follow up these new inventions, but, without going into a mass of detail, if the new State were given the right to take over the whole of the shipping between the United Kingdom and New Zealand they could take over the present liners trading at valuation. Practically all the boats would have to be scrapped or sold. The aluminium business requires such a large fleet of freighters that many boats could be adapted to its needs. This new State should be able to contract with the rest of New Zealand, to run a twenty-two knot liner service saving the farmer £1,500,000 a year, and giving a service to England that would enable goods to reach Britain, factory to market in a few weeks' time.

Captain Rushworth.] Would this new settlement be any less bankrupt that the shipping-firms?—I will deal with that later. I am not blaming the shipping companies. While you have half-a-dozen companies competing for the trade it is impossible for them to go in for modern boats. The fact is, that this new State can make huge profits.

Where is the money to come from?—I will finish with shipping, and then answer that. It would make huge profits on running a twenty-two knot liner service and saving the farmers £1,500,000 in freights. When it comes to dairy-produce—butter and so on—I believe we could turn out something to compete with Denmark. There is that question of the spreadability of Denmark butter, the chilled beef question also; it would facilitate us in putting our stuff on the English market in better quality than at present. If you save 3,000 tons in the hull weight of a boat you can get that equivalent in cargo. Although the capital cost of a duralumin-topped liner would be much higher, in the long-run the savings would be great. There is a recent invention from Gernamy by which you can produce your own hydrogen and oxygen on the boat and by mixing that with oil fuel you get a tremendous economy in high-powered engines. Again, that particular boat I have mentioned has neither rudder nor a propeller; it is carefully streamlined aft, in like manner to a fish whose tail is extremely fine.

Mr. Holland.] If you accelerate the speed of a boat, do you not increase the cost?—Yes, but through stream-lining and a different weight in your hull you get so many agents of economy. Take a boat 2,000 tons and one of 10,000 tons: On the average it only takes double the horse-power to drive the 10,000-ton boat that it does to drive the 2,000-ton boat at a given speed. Therefore, if liners are very large they can develop high speed at reasonable economy.

Mr. Clinkard.] That is partly owing to variation in size?—However, I have these figures, and I can give you the detailed cost of boats. I have the horse-powers and further facts all worked out.

Mr. Holland.] If you have a railway locomotive that will travel fifty-seven miles an hour and you want to travel sixty miles an hour, you would have to take two engines, would you not?—There is new locomotive machinery coming out all the time. The same thing is happening with boats.

If you increase the speed, how are you going to reduce the cost, that seemed difficult to me?—At any rate I have the plan of a boat. In planning out the new State the idea is to plan out two vital dominating export industries; after that it is purely a matter of getting the best technical expert

opinion from England to approve of same—I am not stating anything from fancy; I am stating what I know technical opinion and expert opinion in England can do—and if you have such a fabric to start with you have the means whereby you can go ahead with the others. Your plans would more or less have to be completed.

Dr. Sutch.] If you have £20,000,000 will that be enough?—I am glad you mentioned that. You would have to go to England and hold an exhibition there as a means of negotiating large contra purchases. In the shipping alone you would involve purchases running into many millions. What you do is this: What machinery and plant you want to buy from England you would bargain to pay for in aluminium at a later date. With England it would have to be an exchange of goods for goods. You would go to England and say, "We will want machinery and other things amounting to millions, and we will be able to pay you in substantial commodities at reasonable prices."

That is assuming that England is going to plan to some extent to fall in with our plans?—Yes, and there is only one way to do it, and that is to spend the money to get the best expert opinion, and then when you have done that have an exhibition in England. That is the only way in which it can be done.

There will be some difficulties with the shipping interests in England, will there not?—Again that is clear. There you will not be robbing the shipping industries of anything, you pay them for what you take and in my figures I have allowed a considerable sum for that.

Would they not fight you as a competitor?—You are merely buying out their complete business.

The Chairman.] Would your business not put them out of action?—No, you would buy them out.

Dr. Sutch.] But if that debt remains?—I have urged complete purchase of the shipbuilding industry.

But when you buy out the shipping industry, do you also buy out their connections in Australia?—No, purely in New Zealand. If I have to bring in 100,000 or 400,000 immigrants, they must have something to do.

Mr. Langstone.] Are there not too many people in England?—I am with you. I am offering this in a serious light. My main point is this: That if we are to help our unemployed and a similar class in England, we have simply to collect the best technical brains in the world and correlate their ideas. It is only by using these that the average man can be helped.

You suggest rather an industrial State?—Yes, I have an industrial bias. If butter is produced outside at 8d., the new State would simply buy it off those who are producing it at 8d. rather than attempt its production at such a poor price.

Mr. Lye.] You would commence by changing the economic system to-day?—That is just exactly what I will not do. I think it is fair. Nineteen-twentieths of New Zealand would remain under competitive capitalism. I am doing all I can to prop it up according to the system that is going. I am taking the greater part of New Zealand, pruning it, and propping it up altogether on the same lines as at present.

Do you think it knows it?—You know it.

Do you think that Major Douglas thought we should go on consuming at low prices for the benefit of the people at Home?—As far as I am concerned with Major Douglas's ideas, I have gone through them, but I put myself in a peculiar position, that of the Finance Minister, and if I were Finance Minister, this is my position with Major Douglas: I could not work his system and accomplish what I deem is necessary to accomplish. That is my position. I could not work his system and achieve what I want to do. I happen to see the world from a peculiar viewpoint; I have read every copy for the last eighty-five years of one engineering paper alone. About thirty years ago I read all the back copies, and I have kept in touch with it ever since, and I have a background of knowledge of changes, and I have gone through a few. I get men of all sorts who come to me for my opinion. For instance, when I wanted to know about the House of Parliament, I put in the whole session of 1907 in the Gallery. I wanted to do it thoroughly.

The Chairman.] What was wrong with you?—I was studying what was wrong with some one else.

Mr. Lye.] I am not concerned with the building of boats, or whether a fish in Southland has a particular bump on its tail; you propose a drastic change in the present system?—Yes.

There would be practically State control of the banking in New Zealand under your system?—Of a part of the banking.

Do you contend that your proposed system of banking would reduce the costs of banking and also the costs of public finance?—I do not know that it would actually reduce the costs of banking, because, to state it fairly, under that accountancy control it may even increase it partly, because the users would have to pay all costs for the currency control and as far as the State is concerned under my scheme they would forgo the cheque revenue and probably also the revenue on the note-issue.

You do not say anything in the direction of showing the Committee what would replace the stamp duty payable on cheques; you have on the sheet on the wall "Currency control revenue"?—The people who run the accounts have to pay for them. Instead of stamp duty of 2d. it may be 1d.; merely the cost of keeping the thing going.

The existing banks: Would they pay interest on fixed deposits?—Yes, of course; they would not get them unless they did. It is not likely that any one will lend money to the banks otherwise; the banks will be in the market, and would have to pay interest on fixed deposits and demand a greater return on overdrafts.

You propose to start off by an inflation of £20,000,000?—Well, of course, you use the word "inflation"; I would quarrel with the word: I propose to start off with currency that will give the State an immediate capital benefit of £20,000,000.

That is inflation?—No, I think the term is not properly used.

It is a further issue of £20,000,000?—It does not follow that it inflates the currency. Up to the point that our prices are too low we will reflate; we do not want to inflate.

Is not that only playing with words ?—If the word was used in its accepted sense, I would not agree with you.

But if it is immediately issued ?—The State get the benefit of £20,000,000.

I cannot see where the State gets the benefit ?—Yes, the State gets it.

Mr. Langstone.] You mean the whole people, not just the Government ?—Yes.

Mr. Lye.] Nothwithstanding, Mr. Walker, I believe that is inflation ; if the public of New Zealand are going to get the immediate benefit of this £20,000,000 of fresh issue, I must keep to the definition of inflation ?—Well, I will agree with you that it is a partial inflation, but it is inflation connected with my whole system, and it would not have the general disastrous effects of inflation which sets up a period of rise of prices and uncertainty in trade.

How would you prevent it ?—Take in rather elaborate safeguards.

The Chairman : These questions were asked this morning when Mr. Lye was absent.

Mr. Lye.] During the evidence that has been placed before the Committee questions have been asked and comparisons made between the methods employed by the banking system in New Zealand as compared with that in Great Britain, and the question of internal exchange-rate on cheques has cropped up. In your scheme, when you are going to have motor-vans going round collecting the deposits of the people it will probably necessitate iron guards, and the cost of collection would rise out of all proportion to the methods employed by the banking system ?—It is a matter of common-sense. You have six competing banks in a little town ; everywhere we have a number of competing banks. I believe there is a tremendous waste that way, but though there are big economies to be made by centralizing that in one bank, I believe you can give a service in motor-vans which might have to be protected in a way, but I am not stressing it too far.

The Chairman.] Would you suggest the motor-vans would call round and pick up the money ?—I think it would be very easy to do, but this a minor item.

Mr. Langstone.] It would save the time of the depositors ?—I was located seven miles from Christchurch, and every shopkeeper in that suburb had to take half-a-day off to do his banking.

Would you have an armoured car in case of robbers ?—I would even have one man with a machine gun, if that is what you want.

Mr Lye.] Could you give us a reason why we should jettison the present system in favour of your system ?—I will give you that in two or three words. I think I have only to go back to the evidence of the banks ; the bankers could give no evidence or any hope to put the broken men and women in New Zealand back on their feet again, and I have gone to a lot of trouble working out the system of a new State that I think is designed to help them and the boys and girls without work who have not a chance of putting up any security to the bank ; my monetary system does what the banking system cannot do. I have dealt with the new State's main industries ; but one must elaborate the main thing in planning a new State is to estimate the spending of the people. It is easier in general finance to plan for the ordinary common-place working-man than what it is for the people of great wealth. The buying of American motor-cars has helped to derange the balance of trade of the world. In some of the superlatively cheap cars, the Americans simply outstripped the other parts of the world. But unless the Americans would take equal goods for these goods ultimately, it had the effect of deranging the exchanges of the world. When we come to the ordinary individual's goods—what the working-man requires—they are mainly produced within a few miles of his home. The higher we get in the civilization of the world, the more economic difficulties we introduce. Without being egotistical, I say that if the Government would ask me, with the help of competent men, to design a system, I can do it, because the greater part of the spending of the community is in these simple items. I am merely going on facts. Your Government Statistician went to a great deal of trouble and in the 1931 Year-Book presented a table, and on that table I have worked. We must work from the known to the unknown. According to how the people spend their money, so we have some idea as to how to plan or anticipate the industries to employ them. If we are going to put a number of people in the new State, they will take a lot of the farmers' produce. In the present day, retailing and selling take up a tremendous part of our costs. Assuming we start off with, say, 43,000. It is a multiple of the family of 4·3. It is comparatively easy to plan. The essential thing for the new State is to have the initial loan, after that the capital requirements would come from compulsory saving.

Dr. Sutch.] One of the main difficulties is that of paying the money back ?—I am glad you mentioned that. I go further. I would not only make the new State pay the money back ; I would make them lend back to New Zealand an equivalent for every pound-year they had free of interest ; they have to pay it back, so that they are under no obligation at all.

Compulsory saving would do that ?—So that these people are not getting 3d. for nothing, only, instead of using interest forms, we are paying it back in another way.

Mr. Langstone.] One statement made by the bankers was that they would lend money to any one who had assets and securities, and would advance against it. The only asset a great number of the workers have is their labour, therefore they can get no benefit from the present banking system. Under your system you are going to advance against their labour, and the result of their labour is the physical evidence of the value of money ?—You have the point, but, instead of that, I bring them to one location where you can put in the best technical management as a guarantee of repayment. I think you can see clearly my idea : These people jointly produce the essential goods they require. They receive goods and services from the rest of New Zealand as loan, and repay at a later date in goods the rest of New Zealand desire, but the goods they repay in must be planned in advance. I believe that we could jump out of the slump right away. This matter may seem difficult to you, but if one got to work it is not so difficult. Therefore, it is easy to plan. In many places people may want 3 acres with only 1 chain frontage or 1½ chains frontage. You could plan the new State on lines that are far in advance of existing cities. It would be more like a combination of urban and rural parts. New Zealand has

any amount of technical men idle at the present moment, and they could get on to the drawings and estimates right away.

Dr. Sutch.] The difficulty I see is to persuade the people to adopt your philosophy, that they have to fit in with your plan ?—As far as the rest of New Zealand is concerned, my new State would bring them new business. I am going to take off their shoulders the greater part of the cost of £4,500,000 for unemployment. Then if we made a deal with England the exchange could be lifted. It is only a temporary expedient to help the farmer.

Is it temporary ?—Well, between the exchange and the unemployment, New Zealand is loaded with a cost of £13,000,000 a year. Now, in my scheme I do not ask for a threepenny-piece that will not be repaid. In helping the unemployed I do not want a pennyworth of the unemployed revenue. If you get help in that way, it is only a sign that your directional control is weak. The planning and the thought is incomplete. For the managerial positions there should be plenty of competition. Competition for excellence. Now the whole question of management is a technical one, and there is only one way to tell how a person can manage anything and that is to know what they have already done, and what they reckon they can do. Probably a number of your managers will be brought from outside. In fact, I would go so far as to say that it would pay the new State to be continually picking the brains of the world.

Mr. Ashwin.] Your central executive would have to have wide dictatorial powers ?—The whole thing is that you could not start that unless you had a group of men who were competent in their several callings. Ultimately the thing would merge more into democratic control, but as it has been set out, in the first instance, so a habit and a tradition would be created that would more or less determine future method. You will find it is the hardest thing in the world to break away from habit or tradition, and what I am suggesting now is a breakaway from habit or tradition ; but we have already broken away from habit or tradition, because we are in a frightful slump.

Captain Rushworth.] Are we not doing it continually, through the centuries ?—Yes. But I am not going to live for centuries, nor are you.

So that it is not impossible to break away from tradition ?—Oh no. I grant you that. Take the whole industry of banking. Banking has only been revised in times of direst disaster. These are the times when it must be revised.

You come back to the same old point that we are continually getting to. There are a variety of plans put forward in various parts of the world, but in every case we bump up against this question : Where is the money to come from ? That is the question that has to be settled before everything else ?—I am in entire agreement with you. I believe that the whole monetary business has to be put on a conservative basis.

Mr. Langstone.] Money is only minted or printed. That is the only way you get money ?—Yes. If anybody can follow me philosophically, they will probably see my line of approach. It may seem ultra radical, but if they are wise they will find I am following a line that is seven-eighths conservative.

Dr. Sutch.] You are just trying to conserve the system we have ?—I am improving it in little ways, but in the main I am conserving it ; but nevertheless people should be free to attach themselves to the economic system which suits their taste. For instance, if we have a hundred thousand Communists in New Zealand and they want Communism, I should say they have every right so long as they do not want to force everybody else to be Communists.

What would you do with your newspapers then ?—That is a bit of a bombshell.

Well, how are you going to allow your Communists to have what they want ?—I mean if they had a Communist settlement, just the same as we have tolerance in religion. I believe, instead of forcing one another into our own economic creed, there is room now in the world for different economic creeds.

The Chairman.] Have you finished with your charts ?—Yes, I think now that finishes the charts.

Mr. Clinkard.] Would it be possible to adopt any part or portion of your colonization proposals without necessarily taking up and entering into the other portion, assuming that the State had some other means of providing the necessary finance ?—I come before you with a concrete idea ; but I do not come before you as being omnipotent, and my suggestion is this : It is probably bold, but I make this claim, that I would like to be favoured through this Committee with a recommendation that the Government grant me the assistance of departmental heads and others to set forth relevant facts in book form of the possibilities, advantages, and worked-out economy of this new unemployed and immigrant State. What I mentioned in aluminium, for instance, could be applied at Waitaki, because the Government will have power in its hands, but at the same time my connected ideas do require a tremendous amount of organization and working out. I do not say it will be easy reading, but there are any amount of people who are technically inclined and will criticize it from their point of view.

The Chairman.] Two or three times yesterday you made use of an expression and you did not go on with it. Probably you could give us a little information. You said that the farmer has to be ruined—that is, the farmer who is not a success ?—I know. That is probably putting it in a very crude way, and sometimes we have to say things in a way to shock people, almost to hurt them, to make them sit up and take notice. Now, I will explain that from my experience in the market with pigs. For many years I had a pig-farm and bacon-factory, and I adopted this principle, that if there were many pigs in the market I would buy heavily, and stand off in the days when there were none, and try to even up prices, and I believe I achieved that to a certain extent and so stabilized the prices. I found as time went on that by that very stabilization a number of farmers were tempted to produce too many pigs for the market. We could not export to the North Island, because you supplied your own. It was a limited market so some farmers had to be ruined as pig-producers to stop them producing. I think that is a fair illustration of the working of markets in a big way. I was helping the tendency for farmers to go in for pigs. There was no margin to export, so the result was that there was a tendency to produce too many pigs for the market.

Mr. Clinkard.] Overproduction ?—Yes. But you could cut the price of bacon down and the consumption did not go up by much. The habits of the people were such that their consumption demand did not go up. Thus ultimately I found that if you tried to carry out a generous policy, you simply had not the money to carry it out over a period, and you would be loaded with stuff you did not want. If you carry meat stuffs too long it begins to depreciate in quality, and it shrinks in weight. So you still had the whole of the market and if the market was oversupplied we simply had to drop buying-limits knowing that many of the farmers had bought their stores at such a price that it was not paying them. We were conscious of the fact that many of those farmers had to be put out of action, because they were simply supplying a number of pigs that were not wanted. So I went out of my way to help them; but I could not help them to any great extent, but probably in a little way: In other words, to put it in a blunt way, we had to ruin some of the men in that game to keep them from producing, because in pigs it is simply amazing what can be produced. As far as New Zealand is concerned, we have not only the unemployed in New Zealand, but we have the misemployed. There are any amount of people in New Zealand who are either employed at stupid or vicious callings. I have not time to enumerate them, but there is little chance of bringing them back to the state of usefulness which is desired. In my unemployed and immigrant State many of those men would be successful. Then there would be those who have been failures as farmers, and I know many of such men, who have failed on farms, excellent fellows, who would make splendid settlers of my suggested State. Do not think I have limited it to the unemployed. The entry would be voluntary, and I believe that it would be better for many of the remaining farmers to take over the land of the displaced men. I think we have to face the fact that it would be better for some people and their families and the rest of New Zealand if they went off the land. I am not prepared to say exactly what that proportion is, but if we set out as a policy to keep every farmer on the land we will not be successful.

The trouble is your State would be so prosperous we would have no one left in New Zealand ?—Well you are only advocating my scheme in a very emphatic way. I had that in the back of my head, but I did not like to tell you so. I am glad you have seen the point.

Yes, I can see now you are making provision for them ?—Yes. And I think it is our duty to do so.

You think that the man who is not a competent farmer is better off it ?—I simply cannot, at my age, go back and work like I worked twenty years ago. I had to work at one time like many others who went into camp. My affairs were broken, and I had to start life afresh, and I worked night and day to replace myself; and what happened ? Another slump came, and I negotiated that. Well, one simply had to work in a way that I could not face again.

The Chairman.] But you think that the present system of helping the farmer, as Parliament is doing by legislation, to-day, is wrong ?—No. I think it is only a temporary stop-gap, and I think it must be only viewed as a temporary stop-gap; and the sooner we get to real constructive measures the better.

You would go through the farmers, and those whom you consider were not competent to carry on you would put them off ?—If I am starting that State I would compel nobody, but I would make it so that in this State of ours we would have young people with a young family coming on. They would be valuable to us. We want them all and the more we get the better of a certain type.

You have not answered the question ?—I did not say I would go through them and comb them. I would simply make conditions there and facilitate the farmers who wished to quit their farms.

Mr. Ashwin.] You would simply withdraw the temporary assistance you are giving them and they would be forced out ?—Quite so.

You said you would ruin the farmers. You would have to do it ?—Yes, I know I stressed that, and I stressed it purposely, because here again I am taking the philosophic view. But the way I view the capitalistic system it is a system the regulation of which is done by ruin.

Mr. Clinkard.] Does it not occur to you that if you can maintain these men in your colony producing bacon by assistance, that you might not just as well keep them on the farms that they are on and let them do it there ?—No. You understand I am only talking about the marginal farmer.

I quite understand that.

Mr. Schramm.] The man who is a clog in the industry ?—No, not only that. In the village I built I had quite a number of men who had come off farms, and I know them in their intimate family life.

Just what harm are they doing by remaining on the farm ?—If a man is hard up on a farm and has half-a-dozen children and they have not the advantages of education, they have not the advantages of going to a decent job, they have not any opening in life except to help their father to drudge along, on a hopeless task——

Some of them have made the finest colonists we have in New Zealand ?—I agree with you there, but I do know types that have been good farmers, but they have lost their equity. Once lose your money and you try again to build up an equity so that you can go ahead, it takes a very long time.

That applies to any walk in life ?—I am not stating that you are going to take any great percentage, but I do state there might be four or five or six or ten thousand, well, say, at least five thousand farmers who should come off their farms.

You would ruin the farmer as a farmer, but you would put him in a better position than he was before ?—That is so. Now take myself. I do not mind being ruined. That is nothing, if you leave that failure and you step into another form of opportunity; but if you are not only ruined, but you have got your family and you are up against a wall of blackness and hopelessness—what then ? There are crowds in this country who are ruined, and the peculiar thing is it is not the worst farmers or tradesmen. Some of the best farmers and tradesmen have been ruined. Some men incur debts from going in for plant and scientific equipment. It does not follow that such a man is a dud. It is sometimes the enterprising man. I am not passing any reflections. I see things according to my own lights. I think we should have a definite policy to rescue some of the people off the land.

Mr. Ashwin.] And your idea is that so-much of the land should go out of production?—No. I have mentioned that the farmers of New Zealand should be helped. It is possible even now to grow grain in parts of the North Island that have not hitherto been thought possible. I know ways to dry grain artificially at practically no cost. If you follow the line of technical advancement I believe we may have to have, for instance, large supplementary fodder farms. Thus many unsuccessful farms may be regrouped into one large successful farm.

That is the point. I wondered if you were going to force one farmer off and put another one in his place?—I am helping the very farms that are strong, strengthening them. I take the land that is not being worked successfully to strengthen those that are relatively strong.

It all comes down to the one point: You would plan an industry?—Well you have got to be quite fair when you come to planning our farm production. You cannot plan other people's property. It is a very modified form of planning. You can do a little, but you cannot do a great deal. You cannot break into the habits of the past.

But forced saving is planning for people?—I do not suggest that for the whole of New Zealand, merely for the new State.

Dr. Sutch.] You are simply making the marginal adjustments that squeeze men out of industry. You are adjusting things so that they can be reabsorbed somewhere else?—Certainly. I say, if the door shuts one way, open another door, and I believe that the monetary system can be worked so that, though the door be shut on a man, it is still possible to open up further possibilities for him.

But the capitalist system is so worked that if a man is squeezed out somewhere there will be an opening somewhere else in that system?—Well, you know, with the development of machinery and specialized powers, it is particularly difficult.

There is something wrong with the system then?—Well, do you think that anybody will defend the working of the capitalist system as it has worked, 100 per cent.

The capitalist system?—With all its faults? I think there is only one place for a man who will say it is perfect. It happens that many a man who earns a big salary frequently has to invest the whole of his savings in his or his company's business, and he had every reasonable assurance that his business would go on.

They are mostly all insolvent to-day.—There are various forms in which you can save. We all know that the people who have saved have generally been losing everything.

Captain Rushworth.] Is it not true that if a man does not save he would not lose anything?—There is something in that.

In other words, it is only those who have saved who have lost.

Mr. Schramm.] Do you not think that in the present system the great bulk of the people who have lost their equities in properties, it must be many millions, have been defrauded out of their interests and out of their savings by the working of the present system. I mean, defrauded within the law, of course?—Well, you suggest something that is conscious. The fact is, there is not one man in New Zealand who knows what our economic system is.

I know something about it?—Yes. You might know something and I think I know a bit, but it is mighty little, and the effect of it is that many of these things are unconscious. When you talk about fraud it is generally something that is conscious.

But are they unconscious?—I have met the callous sort.

Well, let us take a company where they are going to increase their capital out of reserves, and only the directors know about it, and they say, well now, if they are going to give a resolution to the general meeting which they know will be carried in six or eight months' time, have they not an advantage in buying up the shares that are on the market?—I grant you do get cases like that.

Mr. Langstone.] Is that unconscious?—I would like to give a little quotation from the London *Economist*, which is one of the standard business papers in England, and it is a great free-trade paper, and yet the *Economist* made a statement like this the other day. It said, "Free and unfettered competition such as they have in the United States of America has only one logical outcome, and that is Al Capone gangsterdom." That was from a free-trade paper, so that suggests that in a community that is going to be civilized and of a high standing we have to have a conscious control or else the criminal element more or less gets the uppermost in the end. Now, if you read Stuart Chase's book, you will find the number of people who were employed and earned money from gangsterdom amounted to a figure that amazed me, and they themselves had any amount of decent people indirectly dependent on them. Nobody here wants to see lawlessness uppermost. I have probably traversed a wide field, but I think it has been necessary, because I think the way to get order is not easy, but I believe it is not beyond the power of the Government to get the help of men who know their several parts well to join them together, that they may do a collective work and so point the way to a better scheme of things, and that will open up vistas to the people who are now in difficulties, even if they are a little more stupid, a little more backward, than the others. I think we can do a tremendous amount, but the beginning of things is centred in a proper monetary control.

WELLINGTON, TUESDAY, 17TH MARCH, 1934.

Witness: Mr. J. FEENEY.

Mr. Feeney: The bulk of the trading capital used by the banks here is depositors' funds. In the 1921 crash their advances exceeded deposits by about £8,950,000. I do not remember what the deposits were at that date, but they are fairly high now, £61,000,000, and, with all this criticism, my suggestion was to let the depositors run their own bank. Beyond that, the proposal is self-

explanatory as set out. From a sentimental or psychological point of view, if there is such a lot of fuss about the way the banks run the deposits, it is up to the depositors to run their own bank.

Mr. Clinkard.] But evidently the depositors are not antagonistic, because they place the money in the hands of the banks ?—That is quite so. I could elaborate my insurance proposal, if desired. There was one witness giving evidence, talking about insurance funds. As a matter of fact, you could insure New Zealand without insurance companies.

Dr. Sutch : The position was that we have your scheme, The People's Bank, but your other letters have not been circulated. We are familiar with the proposals in regard to the bank.

Mr. Feeney : I will go into the matter further if you wish. I say it is possible to insure fire, accident, and marine at 50 per cent. of the present charges. The position is that an insurance company goes out to insure a building which has already been valued by a city valuer, or county valuer, or Road Board valuer, and the rates collected on the valuation. If you pay your rates, you write a cheque for your rates and then go down and pay the insurance premium. Why not conglomerate it ? If buildings are valued by the borough and you have roads, &c., why not put on another lot for insurance rate ? You would save a lot of printing, stationery, and staff, and it would cost nothing more. If you turn up the statistics you will find, I think, that the loss ratio runs about 47 per cent. or 48 per cent.

Mr. Ashwin.] Your idea is that the municipalities should carry their own insurance and meet claims ?—It would be a national scheme and a national fund. It would not be sound if one borough did it ; that is the first law of insurance. It might be necessary to reinsure a certain proportion of it with Lloyd's. Probably in the bigger cities you would have to have an expert to gauge that out.

You say that the people as a whole could get cheaper insurance that way ?—Absolutely. Your own statistician publishes those figures. The thing is axiomatic because you are giving service for water, drainage, parks, roads, streets, bridges, &c., and the fact that the work is duplicated ; an insurance officer goes out and values it when it is already valued ; you have Building Inspectors and have to have a permit in every borough and city in New Zealand. You have got to lodge your plans there and the contract price, and it is built on the inspector's say-so. Other than the saving, looking at it from a rational point of view I think you would get better building construction. If you go round the back of any of these places, it is surprising to me that the whole lot of them do not go. In Germany they did better. I do not know how long ago these statistics were taken, but in Leipzig the insurance laws were very tight. If you owned a building and it caught fire and spread to your neighbour's you paid your neighbour damage. The result was you stopped it ; you built a wall to prevent fire. In the town of Baltimore, a town of the same population, there were more fire losses in every year than the total for twenty-five years in Leipzig.

Dr. Sutch.] Would this national insurance be compulsory ?—Absolutely.

Every one would have to insure in the same proportion ?—You would not have to. You would simply pay an insurance rate, the same as a water rate.

Captain Rushworth.] What would your insurance cover—everything, or only fire ?—You could make it cover anything.

Could you insure against a policy of inflation or deflation of the monetary system, for instance ?—No.

Nor against profits, or anything of that sort ?—Not under this scheme. That is simply a trading venture. This building belongs to some one ; it pays rates for all the services, and the owner says "All right ; instead of paying £1 down the street to have the building insured, I will pay 10s. here."

Mr. Munro.] That would knock all insurance companies out of business ?—Yes, but there is a terrible lot of that.

It is quite a good idea ?—Thank you. If you are going to get along in this country, you will have to get costs down. I think I said in one of my letters that criticism was running fast. You are all Government people. I do not know what the fire-insurance figures are, but they are ascertainable from the Year-Book. There is an enormous saving. Furthermore, you would build to a definite programme to save waste. At present it seems to be no-one's concern. We have got to run things better.

Mr. Ashwin.] You quoted Leipzig ; the building of those fire-protection walls was really due to the building regulations rather than insurance ?—Absolutely, but that is what prompted it.

Supposing you passed such a law here, it would probably mean that people would simply insure against that added risk rather than go into building a self-contained show ?—I agree with that, but once you have started it as a municipal scheme, just as traffic regulations, I think it would be one man's job, the Engineer or the Town Clerk, to see that things were done efficiently instead of waiting for about thirty or forty people. It would trend that way by-and-by.

Yes. Of course you mean insurance of buildings, not life insurance ?—No ; I was going to speak separately about life insurance.

If there was a saving by having one organization, there would be equally as much saving in one as in the other ?—It is a frightful waste. I suggested that they should get Antonio T. Traversi, who is now in Australia, to value up all these companies and shoot them under one roof. Instead of working-expenses being from 13 per cent. upwards, they would get them down to about 2 per cent.

That is life insurance, but there is probably greater waste still in bakers. Look at the enormous added cost of bread there must be in having so many small bakers. Would you go so far as to say we should nationalize everything ?—No. I do not say that at all. When the baker delivers his bread, he delivers it. He has not got another fellow doing the same job. In insurance you have. You have got a duplication. You have the Town Clerk and the city valuer, and then you have got the insurance man going into the same building to do the same job.

Dr. Sutch.] But there may be three or four bakers' vans in the same street ?—I mean you have got the machinery there all at your hand ready to do it.

Mr. Ashwin.] You do not intend this as a step towards complete nationalization of all things ?—No.

That is what I was getting at when I asked you about bread ?—I am an old Civil Servant myself and I left it because I do not like State institutions. I do not believe in it. But you could not

conceive that State Councils, Municipalities, and County Councils should be abolished. That could never be. You might amalgamate them to a point.

Mr. Schramm.] You could not abolish State institutions. What about the Post Office ?—You give me the job for a week. I would abolish them.

A statement like that does not get you anywhere. Would you abolish the Post Office ?—No.

The Government Life Insurance ?—Yes.

The Public Trust ?—Yes.

Mr. Ashwin.] The Tax Department ? — No. How would you get your salary if we abolished the Tax Department ?

That is just what I was wondering ?—That is only a subsidiary thing. I appreciate the attention you are giving me and the friendly questions you are asking me. But it is really outside your sphere and I would not have brought it up if it had not been mentioned, but there are quite a lot of able legislators here, and they might make a note of it for future reference.

You think that there are special openings for savings in the administration of insurance. That is what it comes to ?—Absolutely. I think everybody listening up here agrees with it, except anybody that has a lot of shares in an insurance company, and I do not think any of you have.

Mr. Munro.] The claim that you have put before the Committee is really a banking proposal ?—Yes, it is. The Chairman asked me to speak on a banking scheme, but I said I could not speak on it. I wrote it out, and I could not amplify it. I only wrote it out because there is a lot of criticism about the banks, so I thought, to settle the argument, let the depositors run their own bank.

Mr. Schramm.] They would have to come to the State again then ?—No. It would not be the State.

Would they issue notes ?—No. Mr. Lefeaux is going to issue all those. The central bank will issue them.

Mr. Ashwin.] Why should the depositors, who own those deposits and have the right to use them, pay them in here and receive 4 per cent. on them and then borrow them at 5 per cent.?—They do not borrow them at 5 per cent. That is wrong. We would lend it to the Treasury at 5 per cent. You are always wanting money.

But that is not the point. After all, these deposits constitute the major item in the purchasing-power of the community, and they will want them for that purpose, to buy things with, to trade with ?—That is all right.

Well, if you are going to take the whole of the deposits, if your intention is to contract the whole of the deposits and thereby close up all the other banks, you are going to put them in the form of scrip. It would mean, then, that nobody could draw a cheque to pay his rent or to buy food or do anything else, without having to pay 5 per cent. on it. That is what it would mean ?—That is quite right. You have very nearly caught me out. I have got some money in the Savings-bank. What are you paying in there now, 3 per cent.?

No. $2\frac{3}{4}$ per cent. now ?—Well, I go there and I draw that out and I have reduced my share capital in the people's bank by that much automatically. You do not pay me $2\frac{3}{4}$ per cent. on my original deposit in the Savings-bank if I draw £10 out of it to go to the races.

Do you suggest that our economic system could function on a Savings-bank alone ?—The Commonwealth Bank of Australia seems to have been making a pretty good job of it.

But they run a Savings-bank as a sort of side line, but actually the basis of the credit of the community is their commercial banking side. What is implied in your answer is that you could dispense with credit banking and merely run a Savings-bank by using notes alone ?—Up to a point you are right, but when it came to the time if you started with £60,000 and you lent out £60,000 and then a fellow went to draw £10 it would not be there. That is what happened with Lang's Savings-bank in New South Wales. It was not there when they went to draw it because they had lent up too close. I am not a banker. I am only stating a parallel case, but in the central bank, it is established as a sort of governor on the engine of credit. That is really the principle.

But the governor is no good if you are going to dispense with the engine ?—You have got the engine in the central bank. When it came to the time that this new bank, the people's bank, had lent up well, it would lodge its securities with the central bank, and that is the function of the central bank, I understand. I have read very little about it. Cassel of Sweden seems to be the best man and I have not read him for about ten years. Supposing too many drew out, you could get the funds back from the central bank, I take it.

That is true. But do you not appreciate this difference, that in a Savings-bank it is purely, as it were, a safe repository for notes. You can take out what you put in. You cannot create credit or make advances or do anything of that nature through a Savings-bank ?—But you lend those funds out, do you not ?

The Savings-bank ?—Yes.

No. The Savings-bank funds are mostly invested in Government securities, and the money is used for expenditure ?—But sometimes you must get pretty close up between the actual deposits and the amount you have got out under the local bodies' loans and all that sort of thing. What do you do then ?

Mr. Clinkard.] That does not get over Mr. Ashwin's contention, which is that by your method you would eliminate the ordinary banks which trade with the community—that is, borrow, lend, run current accounts, and so on. You would have a Savings-bank but no trading bank ?—No. It would function exactly as a trading bank does. There would be no difference. The Savings-bank just runs on its own capital, and gets deposits, and then lends. It would function the same.

Mr. Lye.] You propose to establish a people's bank with a capital of £50,000,000. Is that right ?—Yes.

I suppose you know that the six commercial banks operating in New Zealand have nothing like that amount of money in the aggregate in subscribed capital ?—I do not know what their capital is, but it cannot be anything like that.

No. It is not. In the first place, it might be a very difficult matter to get anywhere near £50,000,000 which would be the capital for this proposed people's bank, and, in the second place, to contract deposits you propose to give 4 per cent. on money at call on current accounts ?—Yes. When that was stated the overdraft rate was 7 per cent. Then the real point of the argument is not the 4 per cent. and 5 per cent. Read it as it is to-day. That was in 1929 or 1930 when the bank overdraft rate went up to 7 per cent.

All right. We will not split hairs over that. Do you think it would be possible for a commercial bank to carry on paying a rate of interest on money that was at call, in this country We have not what is called a bill market in New Zealand, where banks are called upon to discount bills at sight, and bills at thirty days and bills at sixty days, and therefore the banks operating in New Zealand have no prospect of being able to make anything out of the investment from twenty-four hours to sixty days. They have no prospects of making any earnings upon moneys which are deposited on current account, and, therefore, would it not appear to you on second consideration that it would not be possible for the banks to offer any rate of interest on money at call or on current account. Let us look at it quite fairly. I do not want to argue the point with you ?—Quite so. As I said to Mr. Ashwin, I appreciate your question.

To me it appears that it would not be possible to pay anything, even up to 2 per cent., for money at call, money on current account, on a daily balance such as is the practice, I believe, of some of the private banks in Great Britain where they do give you a certain amount of interest for money on current account. In New Zealand there are factors which prevent payment of interest on money at call or current account. On second consideration, do you not think that it would not be possible in actual practice in New Zealand for the purpose of attracting depositors' money on current account to pay interest on that money ?—I will answer it in two sections. Now the Savings-banks here, not only the Government Savings-bank, but the private savings-banks as well, have been giving these rates at call for years and years, and they have always seemed to be able to get an investment for their funds. Now our Savings-bank, does it run the bank with all its depositors' money ? They have always been able to send it out, but you are right, and in putting up an ideal like this it cannot be correct the first time. There are little holes to be fenced off at certain stages. Taking a case like this, where the deposits are so far in excess, if the Government were not taking the surplus over the banks would be in the cart if they had all that money on deposit at interest. It is when they do not give anything on the free deposits that they have that safety-valve that you are warning me of.

But you have got to remember, in connection with the Savings-bank operations, to a certain limited extent it is on fixed deposit, because we cannot operate on our Post Office Savings-bank account by cheque. Neither can we on the other savings-banks. We have got to give a required notice which enables those savings-banks to find us the money. So that, to a limited extent, we may say that the money that is deposited is on fixed deposit, and therefore, although it can be realized, upon the required notice being given, of a few days, at the same time one cannot operate on that account by cheque ?—Not as fast as you can do down the street under the present institution.

I presume the capital of the people's bank of approximately £50,000,000, if it were possible to secure that amount, that would largely be used in providing plant and premises and general administration of the business for a start, and the funds that were to be lent out as the commercial banks do nowadays would be what are called the bank's resources, including deposits, which brings us back to the argument that one school of thought says that banks do not lend their deposits. Have you any opinions on that ?—Yes ; I say they do.

And I agree with you, because immediately they receive it as deposits for a fixed period they become part of the bank's resources and by virtue of the fact that the bank has to pay interest to the depositor who fixes his money for a period, they have necessarily got to earn interest by using that money, which is now termed the bank's resources, to enable them to pay interest on the fixed deposit ?—That is my idea, and while you are on that subject, I cannot understand why there has not been an authority quoted. When that statement by McKenna first came out the *Sydney Bulletin* took the whole text, somewhere about four or five years ago, and they practically said that McKenna did not say that ; if they had read the whole text of the work he did not say that at all. I did not cut the article out, but I thought that settled it. It is like Euclid saying that two sides of a triangle are greater than the other one, and he proved it.

This people's bank of yours would be composed of a group of shareholders ?—The depositors would automatically be the shareholders.

That does not necessarily follow, because I may refuse to subscribe any capital to the bank, but I might find it a convenience to lodge deposits from time to time and let them keep my account ?—We would not take them from you.

Unless I was a shareholder ?—If you are a depositor you automatically become a shareholder under the articles of the bank.

I cannot see that that would follow at all. I am not a shareholder in the Bank of New Zealand, but I can deposit my funds there without having to take shares ?—But the deposits are all going into the people's bank, a separate institution. That is the idea of the scheme.

And immediately you withdraw your deposits you cease to be a shareholder ?—Yes ; and quite right too.

There is that difference, then, between the commercial banks, who are shareholders banks with subscribed capital of a certain amount. There is that difference, that you would call your depositors shareholders, but the bank must have capital and a business must have capital, and you would not have capital if you relied upon your depositors' funds and they withdrew them suddenly. You would

have to have working capital that was subscribed as capital for the bank, but if you relied entirely upon the depositors' funds, if something happened, that they lost faith or confidence, the whole of your capital, together with your deposits, which were one and the same, would disappear ?—You must not overlook the fact that to put a scheme through like this you must have legislation, and you must legislate that there would be only one place where you could put deposits, and that would be in the people's bank. You could not do that without legislation. You could not leave it to the will of the people. If it was decided that this was the right thing to do you would have to do it by legislation as you legislate for everything else.

Dr. Sutch.] But you can start a bank now. You have the right to ?—Yes. You see, if this were an ordinary Chamber of Commerce Committee or anything like that it could not be brought up, but this being a Legislative Committee you bring these matters up, and if you decided that it was right for New Zealand you would have to legislate to bring it in.

Mr. Lye.] Do you not think it would simplify things if you declared straight out for a State Bank with a State guarantee behind any issue instead of calling it a people's bank ?—No. Because then anybody would have a say in the running of the bank, whether he had a match or not. There is a difference.

Dr. Sutch.] If this bank is doing all the banking of New Zealand the question will arise as to what standard it has got to be on, whether it is going to have sterling exchange standard or gold standard. Have you any thoughts on the buying of gold as a basis for our currency ?—I was over in Australia and I came back when I saw how bad things were, and I had an argument with a banker friend of mine about the gold standard, and he was getting very hot under the collar about people saying we could not get on without gold. I said, "All the gold in the private banks will have to be commandeered. At the present moment there is £29,000,000 interest bill, £21,000,000 excess of deposits; that would be about £50,000,000." Wool was falling. I was at the June sale in Sydney and 26½d. wool made 16½d., and you remember our November sale in Wanganui averaged 10·75d. in November, 1929, as against 15·8d. in November previously. And within two months the whole of the go'd was commandeered and put into the Commonwealth Bank which became the central bank. They all had to get together as you know. I said, "The whole of it will go over to London." He said, "Nonsense. On what would you support your note-issue." I said, "Imagination." What is the position today. There is £1,000,000 bullion propping a note-issue of £47,000,000 in the Commonwealth.

What would you do for New Zealand. Would you have any gold backing ?—No.

There are many people in your town especially, who consider that we should ?—No. It is ridiculous. You have got the central bank linked up with the Bank of England, who maintain the gold stability of the Empire.

But you have a definite scheme about buying gold to base our currency on ?—That is stupid, especially to-day. What is it to-day ? About 70 per cent. above par. Where is the sense in that, when Australia is issuing £47,000,000 of notes.

We had a witness from Wanganui who was going to buy gold and base his scheme on that and keep exchange-rates stable. Your scheme is nothing to do with that ?—No. I do not think you need any gold backing in New Zealand. I never did think you did.

The position at present is that we do not need a gold backing except for the psychological side of it. You say you would take all the good accounts over and let this other man—— ?—Well, they were getting a bit nervous and things were very bad, and that was only a sort of dig under the ribs at him. I went through all the firms and the ones who were prosperous I said I would put all those into the people's bank, and you could keep the ones that were in liquidation. You were talking about the Bank's capital. Well, their own resources and reserves, &c., could have carried Jack Fosters and the Woollen Mills that were in liquidation. They could have provided for them with their capital.

Mr. Lye.] If you are going to pay approximately 4 per cent. on your free money, what chance would you have of any money being left on fixed deposit for a term if there was only 1 per cent. difference ?—You would not want it at all. It would run like the Savings-bank.

It would be very handy if you could get interest on money at call ?—Absolutely. But when I say 4 per cent. and 5 per cent., the average deposit rate that they were paying that day, I doubt very much whether it would average 4 per cent. They were charging 7 per cent. and there was a 3 per cent. discrepancy.

You would reduce the margin between the two ?—No. After hearing what you and the other gentlemen have said I would raise the margin.

Dr. Sutch.] At present the Government taxes the banks as much as 8s. 9d. on every £100 they lend. I suppose that your bank if it was constituted would similarly pay taxation. Would not this 8s. 9d. further widen their margin ?—Yes.

I am trying to arrive at what the advances rate would be. The advances rate might be higher on your scheme ?—No.

The banks have taxation, overhead expenses, and profits to shareholders. You would eliminate profits to shareholders, but you would add an amount for currency ?—Yes.

That might be greater than the amount that is now spent in profits to shareholders ?—It is just a postulate; I just took it out on that rate, because I did not think the fixed-deposit money would cost the banks more than 4 per cent. on an average, and they were getting 3 per cent. on the fixed and 7 per cent. on the unfixed.

The Chairman.] The scheme is all set out here. Did you collaborate at all with Mr. Tingey in Wanganui ?—No, sir, I did not collaborate with him. I have been trying to convert him.

You do not agree with him ?—No.

WELLINGTON, TUESDAY, 27TH FEBRUARY, 1934.

Statement and diagram submitted by Mr. R. H. ROBERTS.

PLAN FOR A DYNAMIC CURRENCY SYSTEM, EFFECTUALLY AND PERPETUALLY ACTUATED BY DEMAND.

Foreword.

It is about nine years since first I formulated a simple scheme for currency reform. The idea of the currency-tax (a periodic levy on all credit accounts, notes, and coin) occurred first. It seemed to me illogical that with a scarcity of the medium of exchange there should be a strong inducement to prevent its circulating. It seemed to be wrong that some people should have to borrow at interest from others, and it appeared to me that this was largely owing to the fact that capital could be augmented by usury out of all proportion to the personal effort of the usurer. I felt that if money could be kept always in circulation and never hoarded, borrowing would be unnecessary and usury obviated.

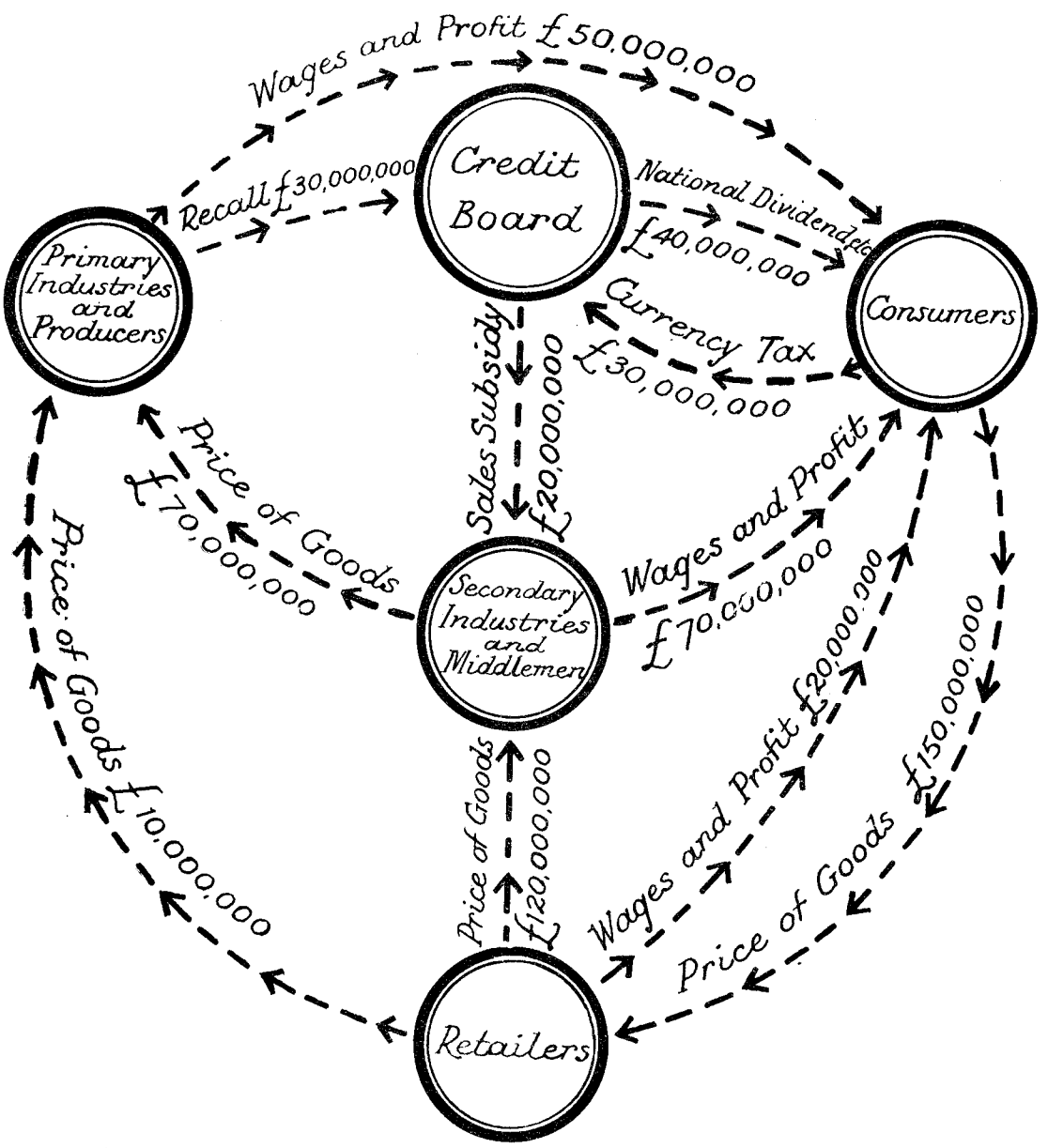
As soon as I began to formulate a plan, the necessity for State control of currency became obvious. The currency-tax necessitated pensions to all above a certain age and an issue to unemployed, and it appeared desirable that free State insurance against illness or accident should replace insurance companies, which, of course, depend on the investment market.

Later (a year or so ago) I came in contact with Douglas social credit. The ethical and economical soundness of the national dividend immediately appealed to me. I already had a partial one in my scheme, but I promptly decided to make it absolute. I saw a defect in the Douglas scheme in the danger of hoarding, and was pleased to observe that the currency-tax in my scheme not only obviated that defect, but also made the "just-price subsidy" unnecessary.

I have found more approval than disapproval of my scheme so far amongst Douglas members. Of course, it is largely "social credit" in principle, but more definite, simpler, more effective, and without the weaknesses of Douglasism and the danger of abuse. I particularly want to emphasize its superiority to, and difference from, the Douglas plan in view of a quite justifiable request by one prominent Douglasite who had misgivings about my plan, that I be very careful not to let it be mistaken for Douglasism. I am the more agreeable to take the hint, as the only things my plan owes to my contact with Douglas credit are the completeness of the national dividend and the presence of the sales subsidy, a measure similar, but differently applied to, the just-price subsidy.

Finally, permit me to emphasize that whatever fears of inflation may be held, rightly or wrongly, in regard to Douglasism or any other scheme for currency reform, it will be found that my plan definitely provides for revenue to balance the issues by the Credit Board, and nothing of an "inflationary" nature is advocated.

I earnestly solicit your careful attention to the plan, as I am convinced that a currency system on these lines is essential if we are to avert an ultimate national calamity. If Governmental action should make such a currency scheme possible, such action will go down in history as an epoch-making event and be blessed by generations hereafter as the opening of the new era.



Witness: Mr. R. H. Roberts.

Mr. Roberts: The diagram illustrates the main principles of my plan. I beg you to run over it with me before I explain the why and the wherefore. We will assume that Government expenditures (grouped with national dividend in the diagram) over a certain period are expected to require £20,000,000, that a national dividend (I borrow the Douglas term) of £20,000,000 is required (I will explain further on how it is estimated), and that a sales subsidy of £20,000,000 to approved enterprises will be a sufficient check on unapproved and therefore unsubsidized enterprise. The total Government issues for the period will therefore be £60,000,000. Recovery by currency-tax attends to £30,000,000 of this, and the remaining £30,000,000 is recovered by striking a percentage on the expected net incomes of the primary industries and producers, basing the estimate on the previous period. The primary industrialists and producers, knowing the percentage recoverable from them, add it to their prices. In the diagram it is assumed that they recover in prices and pay to the Credit Board the exact amount required. But in practice one would, of course, expect a discrepancy which would be adjusted in the next period. We are assuming in the diagram that primary industries and producers have a wage and profit bill of £50,000,000. Their payment to the Credit Board being £30,000,000, they must recover £80,000,000 in prices, £10,000,000 being recovered from the retailers and £70,000,000 from secondary industries and middlemen. That squares them. The secondary industries and middlemen pay £70,000,000 for building materials, machinery, raw materials, produce for packing and resale, &c., and have, say, a wage and profit bill also amounting to £70,000,000. That makes their total costs £140,000,000. In consideration of a sale subsidy of £20,000,000, they are able to sell their goods for £120,000,000, which leaves them square. In practice the sales subsidy would be declared, of course, as a definite percentage discount on prices. The retailers will now have paid £10,000,000 to primary industries and producers (for fittings, delivery, trucks, &c.) and £120,000,000 for goods from the secondary industries, and they have a wage and profit bill of, say, £20,000,000—a total of £150,000,000. They charge £150,000,000 for the goods and are also square. The consumers, who have to pay £150,000,000 for goods and have also to meet a currency tax of £30,000,000 (a total of £180,000,000) receive in wages and profit from primary industries and producers, secondary industries and middlemen, and retailers £50,000,000, £70,000,000, and £20,000,000 (£140,000,000). Wages, &c., paid by the Government brings this to £160,000,000, which leaves a discrepancy of £20,000,000 to be attended to by the £20,000,000 national dividend. That squares the consumers. The term "consumers," of course, includes everybody, whether engaged in industry or not. The Credit Board will have paid out in Government expenses, national dividend, and sales subsidy, a total of £60,000,000. It squares itself by recovering £30,000,000 from primary industries and producers, and £30,000,000 in currency-tax. Everything is square right through, and it will be seen that there is obviously nothing inflationary about the system. Of course, this does not mean that it would not be advisable to increase the total amount of currency in the country considerably at the inception of the scheme, but that is a separate consideration, and, moreover, an initial and not a continuous one. After its inception the issues by the Credit Board would naturally exceed the recall (or, more rarely, *vice versa*) to an extent sufficient to maintain the total amount of currency at a regular percentage of the aggregate yearly incomes of the people. This will be seen to be logical as the amount of currency that is necessary would naturally vary according to the number of people issuing it (the population), and according to the extent to which they used it (depending on the standard and cost of living and the distribution of currency), and the product of these two factors would be exactly indicated in the aggregate yearly expenditure (which would equal the income of the people). I propose that production, industry, &c., shall be financed by the Credit Board with interest-free loans. To avoid confusion this is not shown in the diagram.

Now, I shall briefly show the purpose of the principles I am advocating:—

1. *The Sales Subsidy.*—This is a measure which it would be necessary to apply to the retailers were it not for the currency-tax. Major Douglas proposes a just-price subsidy applied to retailers. But the currency-tax makes this more difficult and cumbersome measure unnecessary, and because of the currency-tax the sales subsidy that I propose to apply to secondary industries and middlemen is the least important part of my plan and could even be dispensed with.

However, it serves a desirable purpose in giving the Credit Board a controlling influence. As a condition of the subsidy, the Board is in a position to demand such statistics as it requires and to enforce price regulation, and by refusing the subsidy it can discourage the duplication of industries by excess competition.

2. *The National Dividend.*—This is probably the most important measure. It gets purchasing-power to those unable to obtain paid employment, it encourages retirement above a certain age, encourages the development of the particular hobby or ambition where the enthusiasm exceeds the desire for monetary gain, it encourages the waster to stop out of industry, it provides economic security, and thus obviates exploitation, and it distributes the right to the net free gift of Providence to mankind through the mechanization of industry. It ensures the distribution of purchasing-power equitably to all, which is one of the main objects of currency reform.

The amount of the national dividend would be determined in this way: In the absence of machinery there would still be a contribution to production by natural forces and materials. Assume for the purpose of illustration that we assess it at one-fifth of the total value of production. Now comes machinery, displacing labour, and in a community of 4,000, 3,000 are wage-earners, and 1,000 non-wage-earners, and the cost of production is £9,000 paid in wages to the 3,000, assuming the 1,000 to be supported by charity. Natural forces have increased their contribution and displaced 1,000 men, or one-quarter of the four-fifths that man-power was doing. This leaves three-fifths of the total value of production being contributed by human effort. And as the value of this three-fifths is £9,000, the value of the remaining two-fifths contributed by natural forces is £6,000, which will be issued as national dividend. There will therefore be (unless it is graduated) a £1 10s. national dividend to all, a wage-earner getting £4 10s. (wage, £3, plus dividend, £1 10s.), and a non-wage-earner £1 10s.

It should be noted here that whilst the function of the national dividend is to increase the *use* of effective purchasing-power by ensuring equitable distribution of it, the complete application of this scheme would increase the total *amount* of effective purchasing-power also, by abolishing usury, impedimentary and class taxation and bank control of currency.

The national dividend, as I propose it, would be a graduated one, and those over an early retiring age would get quite three times the dividend received by those below it, so that it might be that 5s. per week

would be received by those under twenty, 10s. over twenty and under forty, and £1 10s. over forty. I am not specially suggesting these amounts. It would have to be worked out, and the amounts would, of course, increase as the proportion of non-wage-earners increased.

3. *The Currency-tax.*—A very important purpose of the currency-tax is to prevent hoarding. Under the usual social credit proposals I consider that hoarding would most certainly occur, unless either the currency-tax or other regulations more complicated or more unjust were introduced to prevent it. Although, in the absence of usury, savings could not be invested as to-day, the amalgamation of capital augmented by years of saving could conceivably buy out industry and corner commodities, and, disregarding the "subsidy," could make their own prices and profits. And they could probably buy out or bribe into amalgamation any State-financed competition. The currency-tax is the simplest and fairest way of preventing this.

The currency-tax is a decided inducement to spend. It speeds up the circulation of currency, and is the only form of tax that is a lighter and lighter charge against income the faster the currency circulates. It assists the national dividend to ensure a truly equitable distribution of purchasing-power amongst the consumers.

With the currency-tax, if the regular income were increased, the credit account (or currency holding) would be proportionately increased, but it could not be *continuously augmented.* It would stop increasing when it reached the figure at which the currency-tax was again equal to the income (provided one let it reach that point). No inducement for substantial profiteering would exist, and private capital could never accumulate unduly, so that production, manufacture, &c., would be very much under the control of the Credit Board in its issue of interest-free loans for the purpose.

The currency-tax would be declared as the percentage that the amount it was required to recall in that way (probably half the total recall) bore to the total currency. According to my own ideas, it would probably be about 16⅔ per cent. per annum. But that would depend, of course, on the total amount of currency decided upon. Perhaps it is as well to say here that I apply the term "currency" to all money. Whether it were book entries negotiable by cheque, or notes, or coin would be purely a matter of convenience.

The currency-tax would be levied by redemption of all currency at a discount periodically, probably every six months. It would be desirable to have about three sets of metal tokens (or coin) which would not need to have an intrinsic value, and one of which would occasionally be melted and re-minted or else re-marked, to kill any inducement to carry them over and escape the tax. This arrangement is not, of course, indispensable, and it would probably suffice, though less proof against abuse, to use the present metal coinage and require currency-tax on coin to be paid by declaration of the amount held, trusting largely to the honesty of the payer as is done with income and unemployment taxation to-day.

There would have to be currency-notes, current only between the redemption dates, in place of present bank-notes, and cheque-books would for obvious reasons, to prevent possible fraud or error, be printed in different colours for the different six-monthly periods. Pages could be written about these arrangements, but others can attend to them as well as I. They would not be unduly costly or complicated. As a matter of fact, the expenses of the change-over would be more than offset by the savings. Remember, for one thing, all taxation Departments would be abolished, immediately for preference, but ultimately at any rate.

It may happen to occur to some that the principle of the currency-tax is applied in some or most of the "stamped scrip" schemes. But there is absolutely no comparison, of course, between the two applications of the principle. The percentage of tax is about six to twelve times as heavy in the "stamped scrip." Then there is the cumbersomeness of stamping and the inevitable anomalies and injustices that must arise when the principle is applied only to certain denominations and used side by side with an untaxed currency.

4. *Other Particulars.*—The Credit Board would provide Savings Bonds not subject to currency-tax for conversion at any time into overseas currency and for such other purposes as arose for which a real necessity existed. They would not be legal tender. Probably they could be reconvertible into legal tender by paying accrued taxation plus an additional fee.

Municipal expenditures would be provided for in the total Government expenditure allotment.

It will be seen that all present forms of taxation (which are largely impedimentary and class-partial) as well as municipal rates, are replaced by the currency-tax and the "recall" from primary industries and producers. The currency-tax, as we have seen, stimulates instead of hindering circulation, and cannot be a hardship, as the money must of necessity be there to pay it. The other method of recall is no hardship to the primary industries and producers, as they simply put the amount into their prices and it is not recoverable *from* them unless and until recovered *by* them; and it is no hardship to the public, as the national dividend and sales subsidy provide them with all necessary purchasing-power in addition to wages, salaries, and profits.

I would suggest that as time went on transport, radio, and other public utilities should be provided free and included in the general Government expenditure issue. But that is a suggestion, and is looking ahead.

In explaining this scheme, I have more or less disregarded the question of overseas trade, as it simply boils down to a matter of barter anyway. A balance between imports and exports would have to be maintained, as should be done to-day; and existing overseas debts and interest thereon could be paid (if at all) only in goods or gold exactly as is the case to-day.

It will be observed that by this plan the necessity for considerable saving is largely obviated as follows:—

1. Production is financed by Credit Board loans. Moreover, producers would have adequate incomes to permit them adequate credit accounts (or currency holdings).
2. The needs of one's later years are provided for in various ways.
   (*a*) Real wealth (a section, house, furniture, car, yacht, &c.) can be accumulated without having to pay rates or taxes thereon.
   (*b*) Savings bonds permit saving for travel.
   (*c*) A comparatively large national dividend provides a regular income.
   (*d*) The Credit Board should also provide free insurance against certified illness or accident.

As time went on an increasing sum from the national dividend allotment should be used to subsidize the artistic or scientific efforts of genius, thus offering a progressive inducement to the better organization of increasing leisure (which by no means need ever mean idleness).

Special regulations to restrict the acquisition of land would have to be introduced with this plan, or capital would be used to corner it.

It will be seen, I think, that the introduction of this system need not cause undue disruption, as the vastly increased prosperity would justify sufficient new currency to give compensation where necessary, liquidate Government internal loans as required, and finance the lifting of mortgages, &c.

The plan would be applied, of course, by first establishing a Credit Board, then arranging the minting of tokens (unless the present coin were to be used) and the printing of currency-notes and cheque-books, then redeeming the old currency by the new, and so on. The first national dividend should be issued at the earliest possible moment.

Some at least of the present banks would be retained, their system entirely reorganized, to act as agencies or branches of the Credit Board. Remuneration could be simply by wages and salaries (if branches) or perhaps on a basis of the amount of money circulated by them.

I strongly advocate, in addition to the foregoing, that usury be prohibited by law, though, of course, it is as good as precluded by the system in any case. Certainly such a law would require little enforcement.

Finally, I have absolute faith in the eminent soundness of this plan. Three words recommend it—*it will work*, simply and efficiently. Without inflation, it will enable consumption to equal production, for, without removing the inducement to get paid employment if available, it will adequately, continuously, and equitably distribute purchasing-power to all.

Appendix.

It has been suggested by some Douglasites that under the Douglas plan hoarding should be discouraged by the banks charging for assuming the custody of money, but this would merely discourage the depositing of money, and would not penalize the hoarding of cash. (I would explain that this is not actually in the Douglas proposals, but is merely individual recommendations by some Douglasites.) It has also been suggested that a steeply graduated tax be applied to savings above a certain limit, but, again, this does not touch the secret hoard; and a fixed limit does not differentiate between savings that are necessary and savings that are not, whilst a variable limit would be an arbitrary arrangement susceptible of unfairness.

The suggestion that comes nearest to the currency-tax was that a graduated tax on savings above a certain figure be applied by redemption of the currency periodically, but it will not stand comparison with the currency-tax.

Others suggest that wages and salaries and consumer-credit issues should be prohibited from use, other than for consumption, however much the money be hoarded before use. But this would be unnecessarily bureaucratic, and would preclude the experimental productive effort that would sometimes be necessary as a prelude to bigger effort approved by the Board. It would prohibit employment of labour by the general public, and would, in fact, be impossible to enforce.

The foregoing remarks are in no way intended to belittle Douglas credit, as it is not the present policy of the Douglas movement to advocate detailed plans, but rather the broad principles that such plans must incorporate. But these suggestions do more clearly and emphatically show the necessity and the desirability of the currency-tax as an anti-hoarding device. That the currency-tax serves other valuable purposes also is still more convincingly in its favour.

One prominent Wellington professional man put this question to me, "Under your scheme if two men buy houses requiring in each case a cash payment of £1,000, and one being due just before the six-monthly redemption date and the other just after, would there not be unfairness in the fact that one would pay the currency-tax and the other escape it?"

My answer is this: "There are always two parties to a bargain and if they are sensible they make it in view of all known facts. Therefore, a seller, realizing that the £1,000 would have to be redeemed at a discount right after he received it would naturally allow for that in his total price; whilst a buyer, arranging to make such a payment just after the redemption date, would urge the fact as deserving of a more favourable price."

A written agreement would naturally name the date or dates of payment, and if a vendor had ordinary business sense he would naturally insert a clause assuring him a net reimbursement equal to the currency-tax escaped by the payer in the event of premature payment.

It will be noticed that in my diagram Government expenditures are blocked with the national dividend for the sake of simplicity and are all of the wage and salary type. The fact that some Government payments would be for plant and materials from secondary industries and middlemen would in no way affect the working of the scheme.

The national dividend and sales subsidy are shown of equal size, but in practice I think it likely that the former should considerably exceed the latter to start with, and increase, of course, from year to year.

Common-sense would dictate the application of the sales subsidy which would be applied only when necessary and would vary with different industries.

The Credit Board or the banks acting for it would keep a check on overseas trade, allowing the exports to exceed the imports so long as we had debts of which payment was accepted in that way. No two-way payments would be permitted outside of legitimate trade in order to escape the currency-tax, and any surplus credits brought back by overseas travellers, having been taken from here, would be duly discounted here on return.

The Chairman.] Would you like to amplify your statement in any way before questions are put to you?—I think I would leave it to the questioners now. The statement read does not, of course, go into all possible details, but gives a brief outline of the scheme.

Captain Rushworth.] I would like to ask where the scheme starts: where is the money to come from in the first instance?—I would stress, in introducing the scheme, that the Credit Board should first, at the earliest possible moment, issue a national dividend. Revenue would be required to balance the issue, except to the extent that the currency needed to keep pace with the increased prosperity.

Where does the money come from in the first instance?—By redemption of the present currency and at the same time the greater amount of currency that prosperity would make possible would, I think, permit its issue in liquidation of securities, &c.

You would use the present volume of money, is that it?—I really want to make it clear that this is a separate consideration to the actual working of the scheme, but I do propose that the volume of currency be increased.

Who is going to increase it?—It should be increased until the total amount of currency in circulation is a definite percentage—I would not dogmatize as to the exact percentage it should be—but a definite percentage of the aggregate incomes of the people.

Who is going to increase it?—The Credit Board is going to use the surplus in liquidation of securities, financing repayment of mortgages, &c.

The Credit Board are going to manufacture the money of the Dominion, is that it?—Yes.

That is something entirely different to the present system?—Entirely different. The money would have no intrinsic value, and would not necessarily be backed by gold or anything of that sort.

I am looking for the foundation at the moment; the Credit Board is to be the sole manufacturer of money, is that it?—Yes.

That is different from the present system?—Yes, it is really revolutionizing the present system.

What basis would be adopted by the Credit Board for the manufacture of the money?—Crudely speaking, it would be based on production. It would really be based on the necessity there was for it indicated by the demand of the people. The aggregate income of the people would really be the same as the aggregate expenditure under this scheme.

The aggregate income of the people would really be the total volume of money issued by the Credit Board?—I am taking into account the speed of circulation also; the money might be used many times over.

Where would the extra money come from?—The same money would circulate a certain number of times.

By aggregate incomes you mean the total incomes of the people?—Yes, that is really what I mean.

There is a confusion of thought here; you are not taking any particular moment as I was: you are taking the incomes over a period of time. They would be greater?—Yes.

At any particular moment the total incomes could not exceed the total amount of money issued, could they?—Well, of course, you can hardly consider an income at a moment I think.

Exactly. That is the point I wanted at the moment. Coming back to the base, I want to get this quite clear, as to what the Credit Board would use as a base for their manufacture of money?—Purely and simply the need that there was for it. I think that would be reflected in the aggregate incomes.

There would be a unit presumably?—Oh yes. I think the present units of currency could be retained.

What are they?—Pounds shillings and pence.

What do they represent?—At present I think they do not represent anything in particular. They would really represent real wealth under my scheme.

Would you perpetuate that?—The present denominations of currency?

No; the present units of money, you say, represent nothing?—No, I would not perpetuate that at all. I propose that it shall be based on real wealth.

A unit of money would represent a unit of real wealth. Is that the idea?—Yes.

What unit of real wealth?—Perhaps I should amend that. A unit of purchasing-power would represent a unit of real wealth. Purchasing-power, in my opinion, is money multiplied by the number of times it circulates.

Yes, but this question of the unit of purchasing-power or unit of money, whichever phrase you like, that is to equal a unit of real wealth?—Yes.

Can you give me any idea of what you mean by a unit of real wealth?—I think we would have to arbitrarily fix some price-level to start with.

Yes, but is it a coat-hanger or a steamship?—We might take the present price-level as a guide I think.

And perpetuate the present prices?—If a certain quantity of certain goods cost a certain amount to-day, I think we might make our estimates agree with that standard and assume that it would cost that price under this scheme.

If you do that, the present price-level would become a fixed price-level really, would it not?—Of course, everything else would adjust itself accordingly.

Yes, but the present price-level would become a fixed level?—Not arbitrarily fixed. It would fluctuate of course.

Previously one-twentieth part of an ounce of gold was an American dollar. Now, are we going to keep to pounds shillings and pence, or what is to represent a pound or a shilling?—I do not think we need worry about that, so long as it functions as purchasing-power and represents real wealth.

In your scheme you have no provision for a basis?—Excepting that we would start from the present price-level and it would automatically adjust itself, probably slowly, but it would be actually basing it on real wealth to be issuing it according to the demand there was for goods. People would demand, of course, on the basis of present prices.

Well, we keep on having the butter thing hurled at us. Taking the present price of butter as 6½d., would you perpetuate that? A pound of butter is 6½d.—I do not think the Credit Board would have anything to do with it. The price would fix itself. It would depend upon the amount of money there was to affect the demand.

But is not the Credit Board going to issue the money?—If the Credit Board made a mistake in its estimates and issued perhaps half the amount of money that it should at the inception the price-level would adjust itself accordingly, but once we had started with the new scheme we would maintain a steady price-level.

But supposing the Credit Board did not make a mistake. How much money are they going to issue against a pound of butter?—That, in my opinion, must depend upon what the speed of circulation would be. If it is to be a speedy circulation, perhaps twice a year or possibly three times a year——

You have not made any provision for any particular base?—I do not see how it is possible that one could do so.

The Credit Board, when it manufactures its money, is to issue it as a loan under your scheme?—It issues it first in reduction of the present currency, of course. That is not a loan. And thereafter it issues loans for production purposes. They are purely loans; but there is also a national dividend issue which is recoverable by revenue. That is a free gift to the persons it is issued to.

Page 3, "Production of industry shall be financed by the Credit Board with interest-free loans." How are those loans recovered by the Board?—By repayment when the producers have recovered in prices.

By what method? Do they simply pay it back to the sinking fund?—Simply pay it back to the Credit Board, and it would be simply cancelled.

There is no machinery for paying back?—I have not gone into the details by which that part would be administered, but there would not be any difficulties.

Probably the existing machinery?—Yes. It would be simply a loan free of interest until it would be required to be repaid when recovery in prices was made.

By the sinking fund machinery, or something of that sort?—It would simply be repaid to the Credit Board and cancelled out of existence. The manufacturers would probably repay it in that way. They might at frequent intervals.

They lend the money to the producers and the producers pay it back to them?—Yes.

You do not criticize the present system so far as that is concerned?—I do criticize the present system so far as the present loan mechanism is concerned. I criticize the fact that most of our

currency depends on bank loans. Under my scheme these loans would be really a minor part of the currency. I criticize usury also which is not included in my scheme.

Shall we get this point clear first? The word "currency" is a little troublesome, because I personally apply the term currency to legal tender—pounds shillings and pence—and notes and coinage, whereas we know, of course, that the great bulk of the world's business is carried on by other forms of money in the shape of credit instruments and even book entries which you refer to later. Can we for a moment confine the term "currency" merely to legal tender, usually more generally termed "money." I am anxious to discover what is meant when you talk of a currency-tax. That is why I raise the point. Is that currency-tax leviable on all forms of money?—All forms of money.

Bills that have been discounted, credit instruments of all varieties?—All money in whatever form, when the redemption date falls due, will be discounted by that amount.

And how do you arrive at the amount of the currency-tax?—Well, there would be a total amount of recovery required. Assuming the population and the standard of living, we will say, to be remaining constant (the issue would exceed the recall to the extent that they were not), but assuming them to be constant the recall from the primary producers and primary industries and the currency-tax should be, I should say, about fifty-fifty.

It would be levied, presumably, by the Government as a tax?—Yes.

And what would happen to the tax?—It would simply be reimbursing the Credit Board to the extent that they had issued currency.

The Credit Board issues the money as a loan in the first instance?—Oh no. There is a free gift as a national dividend, a subsidy to industries and middlemen and Government expenditures.

So that money comes out of the Credit Board in more ways than one?—Oh yes.

It comes out partly as a loan?—The loans, of course, are merely repayable as loans. They can really be disregarded as far as the recall is concerned.

But the money comes out of the Credit Board for the purpose of financing industry by interest-free loans?—Yes, that is so.

So that it comes out of the Credit Board in the first instance in part as a loan?—But that money is not required to be accounted for in recall by currency-tax or recall from the primary industrialists.

No. It comes out partly as a loan. What other way can it come out of the Credit Board?—Also by payment for services of Government employees and payment for materials required by the Government, and as a national dividend, and as a subsidy to producers.

That would come out from the Credit Board as a free gift to the Government?—Free gifts to the country.

To the Government. The Government would dispense it to the country?—Oh yes. From the Credit Board.

So it would come out as a loan to industry, but a free gift to the Government?—The Government recovers it, of course.

So it comes out partly as a loan to industries for production purposes and partly as a free gift to the Government?—Yes.

What is the limit of the free gift to the Government?—Estimated Government expenditures. I should presume they would have to be curtailed to an amount that would permit of a recall that was up to, we will say, a certain percentage of the total amount of the currency. The national dividend would be estimated, as I have explained in the outline of the scheme, and the subsidy would be merely a matter of expediency to discourage undesired industry and to fix the price if necessary.

At the present time the Government are expending somewhere about £26,500,000 a year. Under your scheme they would go to the Credit Board and say, "We are not going to levy taxation. We want you to supply us with £26,500,000." Is that the way you would go about it?—I have not really gone into administrative details so far as fixing the exact amount that would be possible. I have just laid down the principles.

Well, whatever the Government asked the Credit Board for they could get?—Not necessarily at all. There would have to be a limit fixed, of course.

Well, who would fix the limit, and what would it be?—The limit would have to be the practicable limit of revenue just as it is to-day really.

There is no revenue. The Government are raising by taxation at the present time £26,500,000?—There is an equivalent of present taxation in the recall from primary industrialists and producers and in the currency-tax.

I see. Your currency-tax takes that form?—That takes the place of revenue.

Is there any reason why that currency-tax should be paid to the Government, then, instead of to the Credit Board?—Well, it is really immaterial. In considering the application of my scheme I am really assuming that it is paid to the Credit Board and goes out from the Credit Board. Whether it comes through the mediation of the Government is immaterial. The Credit Board would, through agencies of some sort or other, be paying the national dividend direct to the people and the Credit Board would, of course, recover; the Government expenditures would, of course, have to go into the hands of the Government first.

Can you describe it, then, that the £26,500,000 supplied by the Credit Board to the Government is a loan to the Government, the Credit Board hoping to recover that by the currency-tax?—I suppose in a sense you would consider it in that way.

In this case would not it be correct to say that both the production-money and the Government money comes out as a loan. It is not a free gift if you are going to recover it by means of a tax?—No, it is not a free gift actually to the people as a whole, though it is a free gift of purchasing-power to those who receive it. They actually benefit to an extent they would not benefit otherwise, and the country does not suffer.

Somebody later has to pay a tax ?—Yes, but the point is that it is no hardship to anybody. It does not hurt anybody, whereas the present taxation does.

I am not talking about whether it hurts anybody. I am trying to find out the mechanism, the pipe, through which this money is going to flow. You have two pipes to it, one financing the money on loan and the other financing the Government ?—Well, part of it would go to the Government and the Government would pay it as Government expenditure. And the other part of it would go directly from the Credit Board or its agencies as a national dividend to the people.

Take that part that goes to the Government. Is that supplied to the Government on loan or is it a gift ?—Well, I do not think we ought to consider the terms at all. It is really a loan in a sense because it is coming back to the Government again later.

Is there any other source, any other method rather, that the Credit Board would put the money into circulation ?—Only where the subsidy to industries was supplied.

And would the subsidy be as gifts or loans ?—Well, it would all be included in the recovery.

They are loans. Is that it ?—It is a loan to the country as a whole, you might say. It is not recovered from the people it is issued to. It is allowed to circulate right through first.

Yes, but from the Credit Board's point of view it is a loan ?—Yes it is a loan in a sense. An essential difference between loans of that nature, if you call them loans, and loans as we know them to-day from the banking system, is, of course, that loans to-day are issued for production only. These are issued for consumption.

It all comes out as loans from the Credit Board's point of view ?—It does really. I suppose you could use that term.

You mention later on here something about the necessity of dealing with land because people might use the money for the purpose of buying land. You think that is a danger that should be guarded against ?—Yes. I think it would be almost inevitable.

What about people buying newspapers or bonds ?—Well, if any other form of real wealth proved to be in short supply no doubt its acquisition would have to be restricted, but most real wealth, I think, would be so superabundant that there would not be much restriction necessary at all, excepting so far as protecting industries against excess competition was concerned, with the free loans and the subsidy. The free loans would not be issued to undesirable excess competition, nor would the subsidy.

No. But there is the question of using the money once it has been issued. You are endeavouring to deal with the evils of hoarding. You suggest, quite rightly, that if people want to hoard and they have melting money they might be tempted to buy land with it. Could not they equally buy other things ?—Undoubtedly, and I think it would be desirable.

Why, then, do you make provision only for dealing with hoarding by buying land and not by buying other things ?—I think the currency-tax provides against all hoarding.

I see. So that that reference to land really could mean all forms of wealth really ?—No. My reference to land points to the necessity for definite restrictions on the acquisition of land and independently of the application of the currency-tax. The currency-tax is merely the mechanism to prevent undue hoarding of currency (or money we will say), but restriction of the acquisition of land would be required quite independently of that. The currency-tax does not prevent the use of money excessively for purchasing land, provided that it is available of course.

That is something outside the scope of this inquiry ?—I do not think so. It is merely that I think that restrictions would need to be brought in with not only my scheme, but any other scheme, to prevent the acquisition of land unduly. My scheme automatically prevents hoarding.

But is there any reason within the monetary inquiry why special attention should be directed to land ?—Only that if any currency reform is introduced I think that that problem will arise and special restrictions on the acquisition of land will have to be introduced.

Yes. The question I want to get quite clear is: You raise the point because of its connection with the possibility of hoarding, do you not ?—I am conceiving the possibility that sufficient money might be available in any case, and apart from undue hoarding, there will, of course, be persons with big incomes who could apply them to the purchase of land. But principally I was considering the inception of the scheme. Accumulations do exist to-day, and, of course, would be redeemed under the new currency. Those accumulations, even if they were not to occur later in the working of my scheme, would be used at the inception of the scheme to purchase land, and it is really that I am providing against.

Only at the inception ?—That is where the main danger would occur.

You frequently direct attention to the necessity to prevent hoarding, do you not ?—Yes. I think that would be quite a considerable problem.

A greater problem than there is at present ?—I think so.

Why ?—Because the individual capitalist has been largely embraced by the present financial system, by the banking system, and hoarding would be possible more than it is to-day because people would not be paying interest to the banks to the extent that they are now. They would not be absolutely mortgaged up to the banks. Hoarding is really not possible within the banking system to an extent to-day proportionate with what might occur then.

But surely under your scheme they would be mortgaged up to the Credit Board just the same as they are to the banks now ?—Oh, no.

They have this money out on loan ?—Yes, but the loan does not entail any obligation on the part of the people. It is put into prices and carried right through.

So you think that there will be a very real risk of hoarding under your scheme, a risk that does not exist to-day ?—I think there would be a very real risk of hoarding under any scheme altering the present banking system.

You think the present banking system prevents hoarding ?—It does. It minimizes it anyway. It does not prevent it. Usury and the monopoly of the present banking system have really superseded it to a very large extent. Hoarding occurs, of course, but it is not the major evil.

No ?—Perhaps I should not minimize it, and to some extent it is really an evil to-day, but it would be a very much greater one under the system that I propose or under any other scheme of currency reform unless that point was attended to.

We are only considering yours for the moment. You think it is really necessary to take some measure for preventing hoarding ?—Yes.

What provision do you make for preventing hoarding in the case where the national dividend is issued ?—It would, of course, be subject to the currency-tax, just the same as all other money.

I see. The currency-tax would operate something like the melting money that you refer to further on such as stamp-money for instance, money that is to be stamped with its value ?—Yes, it would apply to all forms of money whatever. Every six months we will say, I do not necessarily stipulate that period, but we will say six months, all forms of money of any form whatever would be redeemed at a discount of whatever the currency-tax was.

You know the system that was in force at Waera and Worgl where it depreciated 1 per cent. per month and to keep it alive you had to put a stamp on it ?—Oh, yes, the stamp scrip scheme.

You would not adopt a method like that ?—Well, the evils of those schemes lie in the fact that the tax was unduly heavy and the tax applied only to certain denominations and ran side by side with currency that was untaxed.

Exactly. How would you levy this tax in the case of credit instruments, a bill at ninety days, for instance ?—Well, the exact mechanism by which it would be done I have not troubled to think out. By discounting them to that extent their value would be lessened by the amount of the tax.

Mr. Holland.] Captain Rushworth has asked nearly all I intended to ask. These stupendous figures, Mr. Roberts, £50,000,000 and £80,000,000 and £140,000,000. It seems very cheering to see such large figures, I do not know just where you get the money from ?—Of course, the figures are not intended to mean anything in particular. They are purely for illustration purposes. But I do believe that the total amount of money would have to considerably exceed what exists in the country to-day. I think that prosperity would necessitate that. It would be found by allowing the amount of currency to increase until the total amount of currency in circulation was at a definite ratio to the total incomes of the people. What the figure would amount to, doing it that way, I would not like to say ; but I think it should be several times—twice, at any rate, we will say—the total amount of currency to-day. That, of course, is really a separate consideration to the actual working of my proposal, though. If the wrong amount of currency was issued it would merely mean that the price-level would adjust itself differently.

How long have you been studying this scheme ?—Approximately nine years now.

You think it is beyond all possibility of any error, serious error ?—I am quite convinced that it would be perfectly practicable myself. It is mathematically sound in every way and it certainly has been subjected to quite a lot of examination and argument in the course of that time.

Is it in operation anywhere in the world ?—I do not think the scheme that I am propounding has been propounded exactly that way by anybody else so far as I know. It incorporates principles, of course, that are included in a large number of currency-reform schemes, defines essential principles that must be incorporated—State control and the national dividend particularly.

You are aware that New Zealand lost some £67,000,000 during the drop in the price of exportable produce ?—Yes.

And you would think that, in view of that, this is a suitable or opportune time to inaugurate such a scheme as this you propound ?—Well, it could only be of benefit so far as the export question is concerned in so far as it did have any effect upon it. Of course, we cannot really regulate the demand overseas by any currency scheme we introduce here to make us internally prosperous, but it can lessen the costs.

Just how would it make us prosperous ? Because we have no control of prices overseas, have we ?—We have no control of prices overseas, but I think that our production is very inefficient so far as the loading of costs is concerned, owing to impedimentary forms of taxation and various other impediments to the circulation of currency and also owing indirectly to the lack of demand locally. Of course, producers would benefit directly by the increase in the local demand which would occur from the issue of national dividend. We can attend to that. We can relieve the people who are badly in want by the issue of the national dividend, and consequently increase the benefit to the primary producer. Beyond that, of course, we would have to wait until other countries followed suit before the further benefit was appreciable.

Supposing none of them did follow suit ?—Well, we at least would be well enough off. After all, overseas trade boils down only to barter and the amount of money required for paying the prices of goods we buy from abroad would always be available under this scheme. As, of course, our own industries built up in competition and their prices were less than the overseas prices, we would buy locally.

You speak here of the secondary industrialists providing £70,000,000 ?—The primary industrialists, I think ?

The secondary industrialists and middlemen, £70,000,000 ?—That is their wage bill, £70,000,000.

You are taking the wages, then, from the men who have earned them ?—I am just assuming for the purpose of that illustration that their wage and profit bill is £70,000,000. The figures are not intended to mean anything beyond illustrating the scheme.

Mr. Langstone.] Could you tell us when this currency-tax would be put into operation? What period of the year would it be, quarterly, or half-yearly, or annually?—Well, I would suggest about six-monthly, but I would not dogmatize on that point. I think that six-monthly would probably be as convenient as anything.

Well, suppose you acquire some currency just before that tax is going to be imposed on it, and you want to spend it and another fellow does not want to sell and he wants to take the money only after the period has gone past. How are you going to get on?—I do not think that would be a difficulty, because people would simply adjust their prices accordingly if they had to pay the currency-tax after selling. There might be at the inception of the scheme for a while a slight tendency for vendors of goods to be left with currency to a certain extent, but I do not think the currency-tax would be so enormous as to make that inducement a very large one.

But you are going to pay $16\frac{2}{3}$?—Well, of course, there would always be an inducement for people to retain a small currency hoard to come and go on, and they would not deplete it to more than a certain extent. If that did occur it would stimulate the circulation of currency and be highly beneficial. It would tend to increase the standard of living.

How could it stimulate circulation if one person having the currency wanted to pass it on in order to avoid the tax and the other person refused to accept it also to avoid the tax?—But would he not automatically charge accordingly, and take it?

That is for you to say. We want you to explain that. That is one of the difficulties that appears to me?—I do not think that a shopkeeper with goods for sale would refuse a sale because the date of redemption was drawing near. He would sell at a price which would reimburse him sufficiently to recover that.

He raises the prices according to the tax?—He would hardly be likely to vary his prices to that extent. He might vary them slightly but I think he would be more likely to maintain a flat price throughout; that would embrace that. In any case there would not be any trouble there whatever he did. He would be a free agent in the matter and charge accordingly, but the money would always be available to pay him.

It is not a question of the money being available; there is any amount of money available to-day in England. There is money lying there; in fact the Government in England is paying 5s. per cent. per annum; there is no shortage of money?—What I mean is that it would be adequately distributed always to the people who required it.

You would create an obstacle in the circulation of your money by having this half-yearly or quarterly tax?—It should be realized that to the extent that Smith would unload on to Jones, Jones would unload on to Smith, and everybody would be equally desirous of getting rid of it and everybody would accept the state of affairs, and the currency would circulate. I do not think there would be any difficulty; the shopkeeper would naturally charge accordingly.

You think that in a small matter like this people would not take any notice of it?—So far as the shopkeeper is concerned he would charge the currency-tax on to the prices of his goods and the customers would pay it. The money, by that mechanism, would not be hoarded, and the stimulus to circulation would exist.

How are values created? What are values?—They are simply the result of the payment of wages, salaries, profits, &c. To-day they include payments of interest to the banks.

No. Even if a thing has not an exchange value it has a value?—Yes, that depends upon the demand.

No, no. Suppose you grow cabbages in your own garden and they are not for sale at all and they do not enter the world market at all, they have a value, have they not? They have the same value as the goods you buy?—Yes.

The food-value of them is the same?—That is quite right.

The exchange value in any commodity, how is it determined? What is the basis of it?—I think the exchange value is directly resultant from demand and the amount the people are prepared to pay to realize their desire.

Yes, but how is the value created?—You do not mean cost?

Leaving the exchange alone, how is value created?—Cost is the result of the money they have to pay in the production.

If you build a house, how is the value created?—What is referred to as the value of a house is the result of the cost of it.

It is the labour embodied in it, in other words?—As I said before, payment of wages, salaries, and profits.

It is the labour embodied in it?—Yes.

In your scheme of issuing money are you going to take into consideration some basis of values. Captain Rushworth mentioned production. When you are going to get your Credits Board to issue this money are they going to base it on production, or what are they going to base it on?—I think there are so many commodities, of course, and though they have their own values to-day the relative standard of those values will not be the same between the commodities themselves as it is to-day. It is a question that would have to work itself out.

What I am trying to get at is that we have some values that we can weigh and measure, butter and wool and that kind of commodity, timber and coal—we can weigh them, measure them?—That is so.

There are other values such as services, the schoolmaster, the telegraphist, the letter-carrier, and the hosts of other citizens who give service; you measure one by the goods basis; you measure the others by a time basis?—Yes.

What relationship are you going to have in your scheme to the time basis that is given by the schoolmaster to the commodity basis that is given by the farmers producing butter or wool? How

are you going to equate that ?—I do not see that it matters so much where we start it off. Say you paid in the production of a certain quantity of butter £10 in wages, salaries, and national dividend, the cost of that butter would necessarily be £10 and there would need to be £10 worth of purchasing-power to buy that. If you originally paid out £5 in the production of a certain quantity of butter and the cost is thereby £5 you would require £5 worth of purchasing-power. It depends where you start, and I do not see that it matters where you start, except that you should pay wages somewhere on a basis similar to what you are paying to-day.

I see your basis of wages here is £4 10s.—£3 plus £1 10s. national dividend ?—That again is merely a figure for illustration.

Well, we will take your argument about the £10. You are going to pay a farmer £10 because he has produced a certain amount of butter, and the other man in giving service, whether he is a schoolmaster or any one else, has given an equal value in time and service to the community, and yet you are only going to give him £4 10s. How are you going to equate between the £10 that you pay one class and the £4 10s. that you pay the other ?—In the production of the butter probably more than one person would acquire that amount. In my scheme I am allowing for the fact that machinery has displaced labour, and the production, by paying £5 worth of wages, is out of all proportion to the other. I am allowing for that in issuing a national dividend which is an issue representing all that value of the production made up of natural forces and materials.

But your national dividend is going to be issued according to age ?—That is right. That is necessary in order to provide against old age, to prevent the necessity of saving for old age. That is necessary on account of the application of the currency-tax.

In addition to the £1 10s. national dividend that the aged person is getting is he going to get any other supplementary funds ?—It has to be recognized that they are able to acquire real wealth during the time they are employed to whatever extent they like; and there is no bar upon them being employed over the retiring-age; also they can accumulate for travel purposes by acquiring savings bonds, which are not subject to tax.

Say we have a man who has £1 10s. a week coming in at forty. £4 10s. is his average wage to-day. He is willing to work. Instead of working for £4 10s. he will be able to work for a lower rate of wages and get more because he is getting a national dividend. The consequence is that you will have a competition for labour and wages will drop. A man who is getting a national dividend is getting a subsidy on wages the same as we gave the soldiers because they were crippled. We gave them a subsidy to try and make up for their being unfit, but we found that in the operation of that it affected the efficient man and put him out or reduced his wages ?—You have to issue a national dividend for those who are not wage-earners, and that fact you mentioned just now is offset by the provision of other benefits in the system.

Your national dividend is going to be issued in 5s., 10s., and £1 10s. to everybody ?—That is just a suggestion of what the amount should be.

You do not think that is a good suggestion; you think it ought to be amended ?—No. I propose that there shall be a graduated national dividend, but I do not think there would be any problems arising from the fact that wages might be adjusted accordingly. The wages plus the national dividend would be adequate nevertheless.

Have we not got that to-day ? We have men who are superannuated from the State and they are receiving superannuation and able to do various classes of work. They are able to undercut a man who has got no income whatever. They are able to give their services so much cheaper because they are getting superannuation. That happens to-day; would it not happen under your scheme ?—Everybody would be getting it, would they not. There would not be the difference as in that competition you are speaking of.

They would not be getting the same amount. One person would be getting 10s. and another £1 10s. The £1 10s. man would be able to work so much cheaper than the man getting 10s.—I would have no objection to a restriction being placed upon a man working above a certain age. That would be merely a matter of expediency.

I think so too ?—I would not like to say that he should be prevented from working, but there would be no lack of purchasing-power.

You are going to have savings bonds ?—Yes.

These bonds are not going to be subject to the currency-tax at all ?—No.

Well, how do people save ? If you have got £100 or £1,000 that you do not want that means that it is claims on goods. If you do not want it I come along and borrow it and use it; it is not saved ?—No, it is not saved.

There is no saving to-day. There is no such thing as saving to-day. We use that term, but if everybody put money aside and nobody wanted it at all there would not be any demand for money ?—Money is saved to-day to the extent that it gets into the hands of some people far more than others and is not circulated fast enough.

It is not circulated rightly, we admit that, but it is circulated, it is spent ?—Yes, I do not deny that.

While you are not using it some one else is ?—I think the term "saving" as universally understood can apply to it. It is merely accumulating with the idea that some time or other it will become useful; it is a temporary withdrawal from circulation.

Well, then, should there be an inducement for people to save if it is going to interfere with the ordinary flow of trade ?—That is why the currency-tax is used to prevent the inducement to save. The savings bonds are for saving where it is absolutely necessary; only for travel overseas and conversion into overseas currency.

The currency overseas ? Why discriminate between the ordinary usage and specific services ? If I want to buy some goods from overseas, buy a bill of exchange that belongs to an exporter to

import goods in here, if I can get currency money and avoid the currency-tax on it, I am prepared to give that person who has got that currency money so much more—the difference between what I would give him and the currency-tax—and you will find that people will be profiteering in those savings bonds because it would be an importer that would be wanting the overseas bonds. The travelling overseas, for which these bonds would be used, would be infinitesimal ?—Nobody would require to buy the savings bonds from any one else because any one would be able to buy them from the Credit Board.

That currency bond would belong to an individual ?—The savings bond you mean.

Yes ?—That is right, but they cannot use them as ordinary legal tender; they can only be used for the purposes of conversion into overseas currency.

You say in your scheme that these savings bonds are not subject to the tax and they can be used for the provision of overseas exchanges. Supposing a man has £100 or £1,000 in savings bonds and he says, "I am going to buy currency overseas." He has not paid any currency-tax on it ?—I have mentioned in the appendix to the plan that there would be a restriction on the transmission of currency otherwise than in payment for actual real wealth.

But the currency does not shift from one country to another ?—It is merely credits of course; transmission of credits.

You have two classes of credit in your own country, two classes of money. One is credit in currency bonds and the other is in ordinary money in circulation. Your savings bonds would become very valuable because they are not subject to the currency-tax ?—But they lose that value because they cannot be used internally as legal tender and only overseas can they be used to the extent that there are imports to pay for them.

Those savings bonds cannot be held by any one overseas; they have to be held by some one in New Zealand ?—Of course, in payment for goods overseas they are merely paid in and acknowledged at their face value but the credits would be in England.

But they are not used for the payment of goods overseas; the credits in London are used ?—The credit is built up in London.

The exporter of goods builds up the credits in London and they belong to the same person who has exported the goods there ?—That is a matter that would be adjusted by the Credit Board.

I suppose you will admit that you have one class of money through the savings bonds that can avoid the 16⅔ per cent. currency-tax and that it would be more valuable than the ordinary money ?—It would not be more valuable internally and the demand for money overseas would not be adequate to deal with all of it; not adequate to deal with more than a certain amount which is required for overseas payments. I think it would be perfectly legitimate to convert into savings bonds.

If you were marketing imported goods you would want to get them for as little money as possible ?—I would invest in savings bonds.

Say a person cannot invest in savings bonds and wants credit overseas, seeing that the savings bond certificate is not subject to your currency-tax he will pay more for that. He will pay a premium for the use of that credit ?—They could be made not transferable to meet that difficulty. Those are details of administration.

You stated in reply to a question that under the present banking system interest-money—usury—prohibited hoarding. The gentleman on my right made a statement that our fall in overseas market prices was £60,000,000. That is not so, the fall in overseas prices was from £56,000,000 in 1929 to £35,000,000 in 1932; that is the lowest period. The fall is £20,000,000 in round figures. The national income of New Zealand has fallen from £150,000,000 in 1929 to £80,000,000 in 1933. How has hoarding come about then ?—The explanation of the fall in national income, which is the total incomes of the people, I take it, is merely directly due to the circulation of the money—that it is much slower.

Now, the value of things, the physical value, has not changed. Land, roads, and the people are no different in 1933 than in 1929 ?—Not a bit.

Well, instead of calling it hoarding we will call it frozen assets, which is the same thing. There may have been a lot of assets in New Zealand frozen during the last two or three years ?—There must have been.

And that it goes on under the present banking system, so that the hoarding does take place, and therefore your analysis of the present system is not quite correct ?—I modified that. It was really in reference to the application of my scheme we were talking, and I think the problem of hoarding would be a greater problem than it is to-day unless some measures were used to combat it. That is what I meant to convey.

With regard to the question of land in your typewritten sheet. If the people spend the money in land they are not hoarding. Once they have spent the money they cannot hoard it ?—Those people who spend it would not.

If I bought land from you and gave you my money, I have your land and you have my money. If you spend that money where is the hoarding taking place, and why is it applied to the land ?—I am not applying hoarding particularly to the land. Hoarding, unless special measures were used to combat it such as the currency-tax, would be a continuous process under my scheme.

Do you think that your currency-tax is a superior and more just form of taxation than income-tax ?—Undoubtedly, far more just. Whereas a man had a certain amount, say, £1,000, to pay tax on when the redemption date fell due, he might have had an income during that period of £10,000 or again £100,000. I do not say that is a practical amount on an average, but it might have circulated any number of times.

But the income is the income that the person has received in the year or in the form of a business, the amount of profit that he has created during his operations over that period ?—The income-tax would be charged upon the £100,000 or the £10,000, as the case may be, and it would penalize him the more, the more the currency circulated, whereas the currency-tax does the opposite.

Take a man in business, he may possibly turn over, say, £10,000 to make £1,000 worth of profit. He is not taxed on the £10,000 but he is taxed on the £1,000 ?—Nevertheless it is penalizing him on the circulation. He is taxed more if his income is bigger.

Yes, agreed.

Mr. Clinkard.] You say that the subsidy would be to the producer and recovered from the community ? That is your method ?—That is so. It is really a payment to the people because it is issued in consideration of the reduced prices to them.

Can you have any guarantee that the prices will be reduced ?—There will have to be a definite bargain made with the Credit Board.

It would amount to a form of price fixation. The subsidy would be issued on his giving a guarantee ?—Yes.

You believe that the total amount of money would be increased to at least twice, I understood you to say ?—Yes, that is my personal opinion, that it should be increased. I want to emphasize that it is a separate consideration from the actual working of my scheme. The scheme, if it was introduced on the same amount of currency that is in existence to-day, I think, would result in a general fall in prices and wage levels.

You are satisfied that the amount of currency would have to be increased. If not, an adjustment would automatically take places in the level of prices and wages ?—I do not think that is desirable, and to offset that, I think it desirable that the amount of currency should be increased.

You start off with the assumption that prices would be based on to-day's prices ?—It would be convenient to introduce the scheme that way.

Is it not a general experience that an increase of currency invariably increases prices ?—Under the present system, yes ; but not under my proposals.

Why not ?—The use for the currency would be greater under this scheme, and the subsidy to the manufacturers would be a check on it ; also the currency-tax would be a check.

Why would the use of currency be greater ?—The currency would be more readily distributed. Every one would have a certain amount. Greater distribution would mean a greater use of it. The circulation of currency would be greater and the distribution of real wealth greater, and there would be greater prosperity in consequence.

Currency in the form of coin or bank-notes would take the place of the cheque which is the principal form of currency to-day ?—No, I am using the term " currency " really to apply to all money. Under this new scheme, it is a matter of convenience whether " currency " is in the form of coin, tokens, cheques, or bank-notes. The Credit Board would at any time convert cheques into notes or coin just as to-day. The full amount of money would be available in any form ; of course, it would be in process of circulation.

In answer to one question, you said that the increase in currency would be adjusted by prices ; at least, in your opinion, it would be increased twice, but this, you said, would be adjusted by prices ?—I think I said, or meant to have said, that prices would adjust this increase.

That is exactly my point ; is it not the invariable result of increased currency for prices to rise ?—I did not mean to say that prices would rise in consequence of the increase up to a certain point, but that it is where a basis of value would commence, where you would start the whole thing, the exact fixed point to which the introduction of the business would be fastened, and I intended to convey there that it did not matter where you started. If you introduce the wrong amount of currency, twice the amount you should introduce, it would mean that prices would adjust themselves to this extent.

If the result was to increase the price, would not that increase the amount of exchange as between a currency in New Zealand and a currency overseas as for imported goods ?—That would not depend upon the actual value of commodities here.

I do not see why ?—The value of commodities would not be necessarily altered beyond some necessary automatic adjustments. The prosperity would keep pace with the increase in currency that was brought in.

Yes, but prosperity would increase prices, and that would mean increased currency, and there is an economic rule that you can control currency by price in your own country, but not exchange at the same time ?—An increase in currency would not mean increased expenditure in regard to any particular product ; it would mean decreased expenditure actually.

You say that this would stimulate expenditure, that was in connection with the tax on currency. Do you not recognize this fact : That while it would inspire the man holding the currency to get rid of it, it would to an equal extent inspire an individual to hold goods to repay them after the expiration of the period ; one-half of the community would be reluctant just as the other half was desirous ?—If I was a vendor, I should not hesitate in the least.

Then you take away the inspiration of the other individual to spend equally because the price has already gone up, so why should he spend ?—After his savings have reached a certain amount they will automatically melt away if he does not spend.

There is not much inspiration to —— ?—He will have an inducement to keep the accumulated savings below a certain amount.

Would you suggest that the vendor after the six-monthly period would proceed to reduce his prices again ?—I would not suggest that, but I would not like to say what he would do in the matter ; he would be more likely to keep a flat rate. It would not matter if we had a permanent rise in prices equal to the mean difference ; it would not affect the working of the scheme.

You say a house would cost less owing to a reduction in taxation. In view of the fact that you are going, in some form or other, to tax the community so as to pay for privileges not enjoyed at the present moment—insurance and so on—would not the total taxation on the community be greater than it is now, although the incidence may be different ?—It would be greater, but it would not be any hardship as the taxation is to-day.

My point is: Would the house be cheaper on account of that reduced taxation? If the aggregate of taxation is going to be more, there is no reason why the house should be less in cost owing to reduced taxation?—I would not dogmatize about the level of values, which would adjust themselves. These impediments of circulation to-day, and the fact that we take away purchasing-power, do increase prices considerably; but under this scheme we would not do so.

Mr. Lye.] Under any scheme of monetary reform, would you lay it down as a basic principle that inflation was to be avoided?—It depends on exactly what you mean by inflation. Assuming it to mean an increase of purchasing-power over and above an increase in production, I would say that it is to be avoided, and I do not propose it.

Inflation is really an increase of the quantity of purchasing-power, is it not?—I do not use the term to apply to that unless it is unaccompanied by an increase in demandable production.

Where there is an increased issue of purchasing-power by way of inflation which is unjustified, the purchasing-power materially falls, in so far as you are not able to buy the same quantity of goods?—I grant that that is so.

You propose in your scheme here, first, to establish a National Credit Board, and then you propose to issue £60,000,000 sterling to provide for Government expenditure, the payment of a national dividend, and a sales subsidy?—I am not saying that that amount is the exact amount; it is merely used for illustration.

Yes. You say after its inception, the issues of the Credit Board would naturally exceed the recall; if you issue this money, will you admit that this, in the meantime (that issue of £60,000,000), in temporary inflation?—No; if there was any danger of it being in excess of the increase in prosperity, I would advise the lesser national dividend to start with.

Must it not be inflation when you issue it immediately?—Oh, yes.

Say, for six months?—No, I would not say beyond one month. At the inception of such a scheme, there would be an increased demand.

It would be some time before you could get the currency from the tax?—Immediately that national dividend was issued it would be received by the people who would be in much greater want, and the prosperity and the use of the money would be immediately improved.

If you are going to give, say, £20,000,000 by way of a national dividend immediately—if you are going to give a large proportion of that to these people—it must follow that it comes out of the pocket of these people; otherwise it comes by absolute inflation?—I do not grant that, because the amount of real wealth that is purchased will be in keeping.

It comes from somewhere; you cannot get something for nothing; it comes from their assets or security or from some direction or another; from these people to give to those people?—I do not consider that would be the case, because to-day we have potential prosperity that we are not making use of.

Your scheme provides for the issue of £60,000,000. You recover that by a currency-tax of £30,000,000, and then you recover the balance by striking a percentage tax on the unexpended incomes of primary producers and others. If you are collecting £30,000,000 from the primary producers, what provision is made in your plan to reimburse the primary producers who in the first instance have got to be security for the £30,000,000?—That money is not expected to be paid by them to the Credit Board until they have actually recovered it, and only to the extent that they recover it are they required to pay it to the Credit Board.

Is there any provision in your plan to ensure that the primary producer, who under your scheme has got to find £30,000,000, will be in a position to do so? Is there anything to help to determine the price-level which the primary producer is going to get for his goods?—He is not required to find £30,000,000 exactly. I think you will find I explained that. He is actually told that a certain percentage is to be added by him and recovered by him. Any discrepancy in one period would be made up by the Credit Board in the next.

Let us pass to another phase: Will you agree that the lack of purchasing-power of to-day is the net outcome of the deflationary period through which the world has passed since the war, for instance, or since 1924?—The lack of purchasing-power to-day is due to deflationary phenomena, some deliberately on the part of the banks and some inherent in the present system.

You make a statement there that is frequently made: "deliberately on the part of the banks"; can you give us an indication of what you mean by that?—I am not going to say that the banks are exactly out to upset things, but they do deliberately recall overdrafts, &c.

They restrict and expand credit from time to time?—Yes. I am not saying they have any malicious intention.

You will agree that the lack of purchasing-power is another matter. What has brought it about is largely the result that to-day, between the cost of production and selling-prices there is no margin left?—The depression is not entirely due to that phenomena.

That is largely the fact to-day; that between the cost of producing and the selling-prices there is little or no purchasing-power left?—That is true.

I agree with that also. Take, as an instance, the experience of this country which, as the result of a rise in the price-level, finds that at the end of their financial year they have a fair margin of profit on the year's work; then the phenomena known as the velocity of circulation will take place. If the people have more to spend they will spend it: the people, through the rise of the price-level, then have purchasing-power, and with the velocity of circulation the capacity to exchange goods and services freely takes place. I am trying to ask questions which can be simply answered by "Yes" or "No." Do you not think it is reasonable to proceed along safe and orthodox lines of finance rather than to embark upon any scheme which in the first instance necessitates inflation?—I do not agree that this scheme necessitates inflation, and I only suggest increasing the amount of currency;

I do not even insist upon that except to the extent that it is warranted by the increase in the aggregate income.

Do you suggest that it is necessary to have an amount of currency in circulation equal to the amount of goods which are distributed ?—No ; I would multiply the amount of currency by the number of times it would normally be expected to circulate.

Then your scheme does take into account the velocity of circulation, whereas the Douglas method does not attach any importance to that ?—I think there is a lot of misunderstanding about the Douglas scheme, but in my scheme I certainly take it into account.

Did you not in your opening remarks remark on that ?—I do not think so. The statement made by some Douglasites that the velocity of circulation does not matter is in connection with the fact that as the money circulates more purchasing-power becomes available, and also to an equal extent costs increase.

Seeing that you propose to pay a national dividend in New Zealand, and also a sales subsidy, and a " recall " from the primary producers, and a currency-tax will have to be levied, does your plan in any way make provision to secure a satisfactory price-level to the producers, or, on the other hand, does it make provision for the payment of our overseas indebtedness ?—To this extent, that our financial obligations overseas are ultimately payable only in goods or gold, and as our prosperity would be greater and our production would be increased, we would be more able to pay them, so long as the debts were acceptable in that way. If not, nothing could be done about it.

Could you give the Committee any idea exactly, in as few words as possible, how your sales subsidy would operate ? I may add that many of us have an insight into the proposed methods of Major Douglas ?—It would be a subsidy that would be considered by the Credit Board adequate, and would be paid to the manufacturer by an arrangement with him by which he would agree to restrict his profit.

I see ; would the manufacturer be the only one who would have any transactions with the Credit Board under the system ?—No. The retailer also ; I consider the currency-tax is adequate without it, but it might be necessary to apply the sales subsidy to the retailer.

You would not say, if money either in large or small sums was used in investments, that that was " hoarded capital," would you ? If some one was making use of it, for instance, a bank or other institution which lends it out would you say that was " hoarded money " ?—The phenomena of usury which is also undesirable comes in.

What do you mean by that ?—Payment of interest on loans.

You do not believe in that ?—I believe that under the present system it is necessary to a certain extent, but under my scheme the necessity for it does not exist.

Would you disagree if I were to say that there was ample credit for New Zealand investments to-day, and that investors are looking for investment for their capital ?—Investors no doubt are looking for it, but, of course, without purchasing-power in the hands of the people there is nothing in which to invest. The wages of industry do not go round.

Have you considered what the moral effect of the payment of a national dividend, the effect of the establishment of a principle of giving something for nothing, might be upon the people ?—Our whole purpose in making production easier by the use of machinery has been in vain if we do not do it. We inevitably reach a stage where we have to issue a dividend. Natural forces are doing the work to such an enormous extent that it becomes necessary to distribute the purchasing-power.

Do you not think it would have the effect of destroying private enterprise ?—I do not think so. It would simply mean you would get, say, £1 10s. if you could not get a job, as against £4 10s. if you could.

If you establish the principle that £1 10s. a week is quite sound, why stop at £1 10s. ?—It would be perfectly possible to make a national dividend so large in relation to the average wage that there would be no incentive to work, but I do not propose to do that.

If any scheme of inflation, which has the effect of putting more money into circulation and thereby reducing the purchasing-power of money, is unsound, and if the payment of a national dividend of £1 10s. a week to an adult of forty years of age is unsound, then, of course, the plan must fall to the ground ?—If it (the payment of the dividend) were unsound, yes ; but I consider it is eminently sound.

If it is sound, and you can pay them £1 10s., why not make it £3 ?—Simply because the amount must depend on the extent to which labour is displaced by machinery, and if the proportion of unemployed to the proportion of employed is small, necessarily the national dividend must be small to be fair, and if there is a big necessity for labour to be employed there must be then a big inducement to employ it. When there is a lesser necessity for it, there is a lesser inducement.

We have an illustration to-day ; that, having seventy thousand unemployed we collect 1s. in the pound, and, for argument sake, every adult has £1 10s. a week, does it not prove my argument that, in paying this to the unemployed (supposing we have no work), you are taking it from those who have to give to those who have not ?—You would if you levy the tax, but I do not propose that.

Does it not necessarily follow that if you are going to give something for nothing that is of real wealth, it must first have been produced by somebody, or somebody has worked for nothing ?—I propose to issue it because natural forces are doing the job for us, and only to the extent that they do.

Does it not come out of the same real wealth that has been accumulated in some form or other ?—It is money representing the value of the contribution by natural forces to the production of real wealth.

Mr. Schramm.] How would this Credit Board which you refer to be founded ; what would constitute it ?—Well, I would not dogmatize on the exact method of appointing it. It would be most

desirable that it should be a Board, we will say, divorced from the possibility of too much political interference; but if it were not possible to establish the Board immediately, it may be possible to reorganize the Reserve Bank to act as the Board, or something of that nature. I am just laying down the principles, but a Credit Board properly constituted and completely free from interference would be the best thing.

Yes, that term "a Board divorced from political interference" is frequently used, especially by politicians. And do you think there is such a thing possible as a Board free from political interference?—No, I doubt if there would be.

No. And really any Board that would be appointed would be a Board to represent the views of the Government in power, no matter how much talk there was about it being free from political interference?—I do not see how it would be possible to avoid that to a certain extent, but I do believe that we should lay down definite mathematical principles, as I have to a certain extent suggested, and that they would simply have to adhere to them.

Now, under this scheme of yours, what would become of the present banks?—They could all be retained, if desirable, as agents for the Board. It would not really be desirable to retain them all, because their efforts are duplicated to a large extent.

Do you not think there would be overlapping under your scheme if all these banks were to function? It would be like having twelve milkmen in one street where only one would be needed?—I think out of consideration to them it might be desirable to abolish them slowly, but I would not dogmatize on that either.

You say you have to get rid of them slowly. How would you treat the ones that had shares in them at the present time?—They probably would either have to be reimbursed on a flat payment at the inauguration of the scheme, which, I think, would be most desirable, or they would have to be paid dividends for a while.

Under your scheme, how would we pay the interest and the principal of the national debt?—It is paid to-day only by the value of our exports over the value of our imports, and that could be made possible to a greater extent owing to our enhanced prosperity. Beyond that, if it could not be paid it could not.

You say you would prohibit usury. You would prevent by legislation the functioning of finance and loan companies and these other institutions?—They would, of course, have no investment market to carry on with.

But you would go further. You would actually prohibit them by legislation?—I would advise completely abolishing usury by legislation. That is just a sort of additional suggestion, but it would be largely obviated, in any case, by the working of the scheme.

There would be no necessity for the Land Tax Department, the Income Tax Department, the Sales Tax Department, or the Unemployment Tax Department, would there?—None whatever.

You will have a lot of men chasing you with a gun I think?—They would, of course, have to be reabsorbed in other ways, and I think the additional prosperity would facilitate that. And, of course, there would be the national dividend.

You would not want the Treasury either, would you?—Not as at present constituted.

Of course, you agree, I suppose, that whatever happens there must be a radical change, that the present system should be totally abolished?—Well, it is most desirable that it should be done completely at the inception of any currency reform. Otherwise a certain amount of prosperity might delay the issue, and I think we are drifting to calamity unless we do something real.

Professor Soddy has laid down the case of Parliament taking control or else there being a crash. Do you agree with that statement?—I think that there must inevitably be a crash unless something is done.

And would you allow any private individuals to have a say in the control of the banking and financial system of the country?—The Credit Board would be completely a State institution, and any banks retained would be completely under their control.

And you would gradually eliminate the control by private individuals of the affairs of financial institutions?—Yes. In fact, as fast as possible.

That is, you would gradually eliminate their share capital and pay them back in some way?—Yes.

Mr. Munro.] Would a central bank, such as has been established by the Government in New Zealand—would that operate as your Credit Board?—It would have to be completely reconstituted to make it possible, of course.

You say that your scheme, in its fullest operation, would gradually eliminate all forms of interest?—Yes.

And hoarding?—Yes. Hoarding would be impossible.

What would happen, for instance, to a big business firm that is in operation to-day, a manufacturing firm, making large profits. They are not to-day, but if they were making large profits, what would become of those profits?—Well, if they did not spend it, it could not be hoarded above a certain point commensurate with their income. Otherwise the hoarding would inevitably reach a stage at which the currency-tax upon it was equal to the income.

Would that not take away all incentive for any manufacturers to carry on manufacturing?—No, I do not consider so at all. If they ceased to manufacture, of course, they would have no income at all. They would be using the money whilst they were manufacturing. It would go through the various channels in payment of wages and salaries, &c., and profits to the manufacturer himself. He would be utilizing it and getting real wealth for it.

We will take an illustration: Supposing I was a manufacturer in Wellington to-day, and my income was £10,000 a year from the operation of that business. I would not be able to spend all that money. I would not be able to hoard it. I would not be able to invest it. Do you not think that

would kill the incentive and the ambition for a business man ?—I should think you would spend it in that case and increase your business.

But what would be the incentive for me to increase my business ?—If there was no market you would not have the incentive.

But if I could not use the profits as I desired, where would be the incentive for me carrying on the business ?—If you increased your income, as you would do by developing the business, you would increase the point to which you could hoard.

But supposing I was making £10,000 a year and then I carried on by expanding my business from the profits. I could not spend £10,000 on my personal expenditure. If I carried on that £10,000 it would become £20,000 in two or three years' time. What would happen to the £20,000 ? I could not hoard it and I could not let it out at interest, so the incentive to carrying on that business would be taken away ?—I should think you would go on developing it so long as there was a market. The incentive to spend is quite considerable, I should think, anyway, and beyond that point if you did not have any incentive to go further, well, I should think that would be most desirable.

But what I am trying to get at is, that the individual can only spend a certain amount on himself and his family personally, and so the profits from business to-day are loaded with interest or something like that. Well, you would practically prohibit that, so that my future exploitation would be taken away from me, and I take it that the ideals of the present business man would have to be altered altogether. He would be carrying on that business largely for the welfare of the community ?—I do not think so. I think in the majority of cases the income from the business would be disbursed considerably in salaries and wages, &c., and the profits would in few cases be so enormous that a man would simply have to hoard it or let it melt away on him but for the currency-tax.

It would be taken from him in currency-tax. For instance, suppose we increased our income-tax to-day to such a point that after a certain demand the whole of a man's income was taken from him. That would destroy his incentive to carry on and try and make an income ?—Yes.

I can visualize your scheme pretty well, and it would bring about a state of semi-socialism, would it not ?—There would be no undesirable features of what is commonly known as socialism incorporated in my scheme. And private ownership would still exist, of course, completely, and private free agency greater than to-day.

Hon. Mr. Downie Stewart.] When this scheme comes to full fruit, do I understand from the advantages set out on page 7 that I get a regular yearly income, I get my mortgages paid off, I get free travel, free pension, free insurance, radio, a free yacht, and I get transport free and I am free of all taxes other than this currency-tax ?—Some of those things, of course, are merely suggestions of an ultimate development of it, such as free radio and free transport, and the yacht I merely mention as a form of real wealth that would not be subject to taxation.

It sounds very alluring. But several difficulties have been raised, and I do not want to go over the questions that have been asked before, but in the foreword you say the currency-tax necessitated pensions to all above a certain age. Why is that ?—That was the way I was working it in the scheme before I developed it to this stage. This scheme makes provision for that difficulty by graduating the national dividend, and that is necessitated by the fact that a person could not save for old age to the extent that they could to-day.

Can you save at all ?—You could save for travel by acquiring savings bonds and you could save real wealth. A house has no rates upon it and land has no taxes and other forms of real wealth are not taxed in any way, so that they can be acquired.

Well, it depends upon what you put your money into whether you are liable to taxation or not ?—Oh, no. I propose that no tax shall be levied except the currency-tax, and that recall from producers that I show in my scheme.

When you are dealing with this subsidy you say that it is to be used for approved enterprises and thus will be a check on unapproved and therefore unsubsidized enterprises ?—Yes.

Well, if the subsidy must be used to reduce the prices by the amount of the subsidy, how will that check the other enterprises which are on a level footing with it if they sell without the subsidy ?—Suppose the subsidy was 20 per cent. on the otherwise selling-price. The persons receiving the subsidy would then be able to sell at 18 per cent. of the cost. The others would have to sell at 100 per cent. and be discouraged from competing. Those whom it is not desired should compete, as bringing about excessive production, would not be issued loans by the Credit Board.

Yes. But those that are not approved of do not get the subsidy ?—That is so.

Who decides what industries will be approved of and which are not ?—The Credit Board.

They have got to undertake the whole problem of deciding with reference to every industry in New Zealand whether it is warranted or not ?—I am not saying that there should not be a properly constituted committee or something of that sort to go into those aspects of the matter. This is just an illustration.

You say that £30,000,000 is to be recovered from the net incomes or the expected net incomes of the primary producers. What happens when there is no income at all ?—They do not pay anything.

Well, where do you get your funds to recoup the Credit Board ?—That would mean that the currency had not circulated. That amount of currency would be somewhere in the country. It would be merely circulating slower so that the recovery would be made in smaller amounts and it would also be issued in smaller amounts. The national dividend would be correspondingly less.

But you have already struck that and paid it out. How do you recover it if there is no recovery on the part of the Board ?—I do not consider that the initial issue would have to be recovered in full, because there would be no harm done owing to the increase in prosperity in the amount of currency at present being increased.

It is a very vague idea as to how much currency is going to be issued, is it not ?—Yes. There would be a definite amount issued as national dividend in the first instance, and naturally some of it would be recovered right away.

If the Credit Board controls the issue of the currency, who controls the Credit Board ?—They would be constituted in the first place by the Government and would then have a free hand.

You say that under a certain amount of pressure it would be recovered. How are you going to regulate the amount of pressure required ?—They would be subject to definite regulations laid down for them to follow.

Yes, but every time that has been attempted in the history of currency, to regulate it by a certain amount, it has always been abandoned under pressure ?—Well, it could be thrown out again if it came to that. There is really no guarantee that it would be done, but I think, if carried out on the lines that I suggest, it would be so obvious that it would hardly be done in that case.

You say that the primary producers ought to add what they have got to pay to their prices. How do they add to their prices if the prices are fixed overseas ?—The necessity of adding that to their prices would be offset by the fact that the present taxation was abolished and taxation was made in that way. Taxation to-day has to be stood by them, and that is in their prices already. You would not really be adding. You would only be adding in one way what you were taking off in another.

When you say that taxation as at present would be abolished you are substituting one consolidated taxation ?—That is so. What I mean to say is that you are taking it off in one way and putting it on in another.

Taxation is always taxation, whether you call it currency-tax or not ?—That is so.

Well, it still has to bear that burden, and when you say you pass it on to the consumer or purchaser how do they do it ?—I am assuming that they will load that in their costs.

But they would not have anything added to their costs ?—Even the amount of the national dividend I think would go into the costs to-day, owing to inefficiency under the present system and owing to taxation for what you might call charity.

Well, you are not at all alarmed at the idea of the Credit Board issuing £60,000,000, and then finding that they cannot get back the half of it ?—I am not suggesting for a moment that they should issue £60,000,000 at the inception of my scheme. Those figures are purely for illustration, and while I think that an amount getting on towards that might ultimately be issued, I do not suggest that it be issued suddenly. Small amounts should be issued first.

Well, you say that they are going to recover some of this from the secondary industries and middlemen ?—Oh, no, only from the primary producers.

Yes, but the primary producers have a wage and profit bill of £50,000,000, and they are to pay £80,000,000, and £70,000,000 from the secondary industries and middlemen. Well, how do you arrive at that allocation as between the retailers and the secondary industries ?—No doubt the differentiation would have to be arbitrary.

Yes, but I mean why do you make it £70,000,000 for one and £80,000,000 for the other ?—I am just assuming for the purpose of illustration that their wages and profits come to £70,000,000. I do not say for a moment that it would.

Assuming, then, that you give them the power to recover from their sales and they set out to sell to recover that, they cannot collect it in a lump sum can they ? They have got to rely on the individual income of every manufacturer who is going to be charged ?—That is so.

Well, say they assess at £70,000,000 and by the time they have collected half of it they come to a dead end, the manufacturers have no more. Half the manufacturers have made no profit ?—Well, as I said, it would merely mean that the currency was circulating slower, and there would be a smaller issue necessary the next time they issued.

Yes, but you are faced with the fact that you have already issued it ?—Yes, but at the inception of the scheme an increase in the currency is possible.

Well, after its inception the issues by the Credit Board would naturally exceed the recall, but do they issue to the Government ?—They issue some of the amount as Government expenditures, payment of wages to Government employees, and payments of all materials required in the public works, and part of it is national dividend and portion of it is subsidy to manufacturers and possibly producers.

Yes, but in the actual issue to the private citizen, assuming that you recall the existing notes of £100, you issue him £100 of these new notes do you ? If my neighbour had had £1,000 he would get an issue of £1,000 ?—That is so.

It maintains the present disparity of wealth ?—At first, but it would adjust itself.

How ?—Owing to the currency-tax largely, and owing to the issue of the national dividend.

You say that one of the points about this national dividend is that it encourages the waster to stop out of industry. Why do you want to keep him out if it ? Do you not want to get him into it ? Get him working ?—Well, I think it is inevitable, perhaps not right at the inception of the scheme, but within a comparatively short space of time afterwards, I think it is inevitable that we are going to have an unemployment problem, and if we are going to have an unemployment problem the unemployed might just as well contain all the wasters as far as possible, and there are people of that type who if they can get £1 10s. would not work. They would be content with very little. There are not many I think.

You do not want to absorb them into industry ?—I do not think it is desirable to absorb them into industry. Let them subsist on a lesser standard of living. Let them have a pension. The pension would be less than what those who are employed are getting.

What are these free gifts ?—Well, all production to-day is the result of human effort, natural materials, and natural forces. And when you are using machinery we have increased the contribution

of natural forces enormously, so that the displacement of human labour is very obvious and in that displacement we have reduced costs by not paying wages to the persons who would otherwise be employed. Even after taking into account the employment in manufacturing machinery, mining metal, and so on, there is still a contribution by natural forces.

But I do not understand this contribution of materials and natural forces, because that is the whole basis of your national dividend?—I consider that a monetary value should be placed upon that.

But what is this natural force and material?—Water power, electrical energy, germination of crops, &c.

But those are not natural forces. Those have been brought to fruition by human labour?—Not entirely. I mean, to the extent that human effort has done that, human effort should be remunerated for its work.

Assuming, for an illustration, that you assess this natural force at one-fifth of the total value of production. What if, after you have made that assessment and made your distribution, the revenue does not come in, the prices fall owing to changes in fashion or a thousand and one things. What happens then? You have already made commitments that you cannot meet?—I do not consider that it is conceivable that the circulation would not increase enormously and that recovery would not be made by the primary industrialists and producers, because there are so many people that are badly in want that if they get the purchasing-power they will certainly spend it.

But you are engaged in a huge gamble, are you not, because you are committing yourself to huge monetary obligations, gambling on the chance of prices holding, and that internal prices will hold, and, if they do not hold, your whole scheme is shot to pieces?—Prices could not conceivably fall.

Why not? They have been falling for years past?—Well, there would be such an extreme demand. Our potential demand is, I think, admittedly enormous, and our production is very great, so that I cannot see that it is going to cause much harm if there is a delay in recovery.

You say here that this currency-tax would stop increasing when it reached the figure at which the currency-tax was equal to the income. What does that mean? That the whole income might be absorbed by the tax? Supposing I had £1,000 a year income. When I had accumulated an amount of £6,000 if the currency-tax was $16\frac{2}{3}$ per cent., the tax on that £6,000 would be £1,000?—It would mean that the accumulation could not be increased beyond that £6,000 unless the income exceeded £1,000.

You say that currency-tax would be levied by redemption—by whom?—By the Credit Board or its agent.

Out of what?—It would simply make a new issue of notes and discount accounts with the Credit Board or with the banks acting for it.

And why does it redeem that at a discount?—Well, that is the way the currency-tax is levied. I think it is the most convenient way of doing it.

And do you propose to levy this currency-tax on all forms of what you call currency, including cheques and notes and all the vast transactions that go through a merchant's books, many of them credits and debits cancelling out each other? Do all of these have to bear the currency-tax, irrespective of whether they are set-offs or not?—Only actual currency, either on account with the Credit Board or the banks acting for it, or notes or coin.

You think it would be possible to elaborate a scheme to do all that?—Undoubtedly. I think that there would be far less machinery necessary for the working of the scheme than there is for the working of the present system.

But under the scheme would the private producer still carry on as he does at present and have to make a profit in order to live?—Oh, yes. He would still produce in exactly the same way and sell in the same way and make a profit.

And if he is content with a small pittance he can live on the national dividend?—Yes.

Mr. Massey.] I would like to ask, seeing that we sell most of our produce overseas and export a huge proportion of it, and we are paid in British sterling, how is that going to affect your scheme in New Zealand?—The question of our overseas trade does actually boil down to barter; in the last analysis we only pay in goods or gold. We would be more able to do so because our production would be increased.

How would you increase your production?—Well, the production would respond automatically to the vastly increased demand.

Where, in New Zealand?—Yes, in New Zealand; owing to the greater distribution of purchasing-power. The prices that we could get for produce overseas, of course, would depend on the demand overseas and we could not alter that, but we could alter the margin of profit by reducing our costs.

What is the proportion of meat that is consumed in New Zealand to the proportion that is shipped overseas?—I am not sure about that.

Well, take wool. What is the proportion of wool which is consumed in New Zealand?—Most of it goes overseas.

Well, take butter?—Even more so.

Very well, then. How are you going to improve the position of the primary producer in New Zealand?—Well, the primary producer in New Zealand would have a vastly increased local market and that would be a great advantage to him in itself. The primary producer also would be in receipt of national dividend personally, which would help him, and the primary producer would, I think, find his costs considerably less than they are to-day, owing to the greater efficiency in the working of the system, so that he would make a bigger margin on the same prices.

What is the basis of this figure of yours? You have taken £150,000,000 in one item produced in one year. I presume that is probably about 1925?—No. I have not taken any basis. I simply

used those figures for illustration, and those figures would give an idea of the relative values of the different facts. They do not necessarily mean anything in particular otherwise. I have explained in the draft of my proposals how the national dividend would be estimated. Of course, that and everything else would depend ultimately on the price-level or the wage-level determined upon.

Can you tell me the total value of the exports of New Zealand for last year ?—I would not like to be sure.

Well, we will say approximately £36,000,000, and of those exports what was classed as primary exports, primary produce ?—Butter, wool, cheese.

Making in all approximately 98 per cent ?—Yes.

And you think that you are going to increase production by taxing the farmers of New Zealand to the extent of approximately £30,000,000 ?—Well, I am not saying that it should be £30,000,000. Those are only figures for the illustration of the scheme. The amount would have to be calculated, and they would not be taxed, excepting to the extent that they sold goods.

How would you pay the primary producers of New Zealand for the goods that they shipped overseas under your scheme ?—I would not consider that it was essential that the tax be applied to overseas shipments. Whether that should be the case or not, I would not like to say for certain. That aspect would require further consideration, but the subsidy also could be applied overseas if necessary.

Then we will assume, for the sake of argument, that 70 per cent. of the produce that is produced in New Zealand is shipped overseas. That 70 per cent. would not be taxed ?—In that case.

It might mean distributing the tax in that case ?—I think in that case it would probably be necessary to spread the tax over the secondary industries also.

And would you continue the system of exchange ?—That is an entirely separate consideration. I would not continue that so far as we are concerned, but the exchange, in so far as other factors are concerned, must look after itself.

And yet at the back of your mind it is your intention to increase production ?—Only to the extent that there is an actual demand for it. I myself do not consider that it matters much to what extent it increases. I believe that the results of the introduction of this scheme would show a vastly increased production.

How would you improve the position of the primary producer in New Zealand ?—You would improve his position by the fact that he has probably fairly considerably reduced costs, and that he has a very much larger local market, and that he receives a national dividend which would be received by all the other people in New Zealand.

Where is his increased market in New Zealand ?—Owing to the fact that the national dividend is issued to a lot of people who have to-day no purchasing-power whatever, and a lot more people would be in employment and receiving wages, thereby increasing the purchasing-power.

What is the consumption per head of population in New Zealand as compared with Great Britain—I mean in regard to foodstuffs ?—Very small, of course.

Per head ?—Greater, I should say. I do not know the exact figures.

Would it be possible to increase the consumption of foodstuffs within New Zealand to any great extent ?—Undoubtedly, considering the amount of people who are not consuming anything like the amount they would wish. It is not only through the ability to purchase more foodstuffs that the advantage would be gained, but there would be a fillip to new manufacturers by the greater demand that would be set up, and unquestionably those people who are in want to-day would have more purchasing-power, and without any inflation in the true sense of the term.

Then you would aim at an increased population for a start ?—I do not think so. An increased population would mean slightly greater efficiency, but, beyond that, I do not see that it matters one way or the other. Under the present system that would not solve our problems, because it would increase unemployment to the same extent.

Take the position of the primary producer in New Zealand to-day. He cannot pay his way at the moment. Are you going to increase his prices ?—He is indebted to the banks to an enormous extent to-day, absolutely mortgaged to the banks, and I would raise those mortgages under my scheme. The Credit Board would function there.

Supposing the farmers in New Zealand simply cannot pay either rent or interest or only a small proportion of the interest he should pay. How would you put him in the position where he could do so ?—His costs would naturally be less. They would consist mainly of wages, and, of course, farm implements, &c. (these would be more of an initial cost than anything else). To-day he has to pay interest on mortgages and taxation of various kinds. It would be a vast improvement on the present state of affairs as far as he is concerned.

I suppose you are aware of the fact that the small farmer in New Zealand is not employing labour; he is doing the work himself with the assistance of his family ?—Very largely. No doubt there is a lot of that.

His main charge is really payment of interest ?—Yes.

How are you going to meet that ?—He would not have the interest. He would not be under a load of mortgage. That would be fixed up by the Credit Board at the inception of the scheme.

AUCKLAND, TUESDAY, 13TH MARCH, 1934.

Witness: Mr. G. V. MULLENGER.

Mr. Mullenger: It gives me great pleasure to have this opportunity of putting before you personally this original scheme for the reconstruction of New Zealand's economic life. In commencing, I would like to draw your attention to two extracts from an article published in *The New Zealand Herald* of 5th February of this year, which I believe express the general opinion of the press throughout the

country. The two extracts I have here with me, and I will read them out. The first is "As regards the monetary inquiry, as to the probable outcome of the inquiry, a unanimous finding is impossible from the very outset." The second is this: "Whether the Government hopes for anything from the inquiry only the Government can say, but if the country expects any true light or diagnosis it is extremely likely to be disappointed." Well, gentlemen, far from that depressing me at all, it gives me a certain amount of heart, because on several occasions we have had the flags flying and great wonders have been expected, like the great Economic Conference, and they have all turned out a fiasco. Things often turn out very differently to what is anticipated, so I hope that I will be able to put my plan before you and explain it so as to gain, if possible, unanimity or as near an approach to it as possible, in the hope that some true light and guidance may come from this Committee. I here pray to God that you men will heed this simple story that I tell. This world will then be changed indeed, and be no more a miniature hell. This plan is the greatest scheme of the twentieth century for the uplift of humanity, and I feel sure that should this Committee endorse it it will have the honour of solving the greatest problem of the age and thereby gaining undying fame. I do not consider it an impossible problem; it only needs to get men who are strong enough and who have unbiased minds to attack the subject. The majority of the people are of that mind, and to my way of thinking it requires ten times the effort to pick the winner of the Auckland Cup than what it does to grasp this problem, so I would ask you gentlemen to approach this subject with unbiased minds freed, as far as possible, from past traditions. My plan covers the majority of things; sanctity of contracts will be restored, that is one of the things; unemployment will be abolished; every advance of science and every labour-saving machine will mean a higher standard of living, and New Zealand will be enabled to meet the whole of her debt obligations without undue hardship on her people. I think you will agree that that has a wide scope. You will excuse my crudeness, but my ambition is to make myself understood, so I have brought along a couple of charts which I hope will be helpful. I wish to make no appeal to sentiment. I am only asking for you to consider cold facts and logic. This plan is not socialistic any more than the idea of the Post Office being socialistic. It is so constructed that whilst enhancing the security of the individual it gives the necessary incentive to private enterprise which, for the sake of efficiency, it is so necessary to foster. The world, in the advanced stage it is in to-day has been carried there chiefly by private enterprise and while the well-to-do man is left in possession of his wealth, the opportunity of earning and thereby obtaining in full measure the necessities and amenities of life is given to every individual in the community. This plan, as well as being specially designed for New Zealand conditions, can be applied with equal force and logic and reason in every part of the world. Man is at heart very much the same the world over. Other systems aim at forcing man to fit their ideals, but this plan takes man as he is with his natural inclinations, and whilst curbing them so that they cannot operate to the common detriment, it plays on those inclinations and uses them to the advantage of all. Thus this plan, being based on natural law, has the soundest of foundations, and gives to this farthest outpost of civilization the opportunity of changing its position from the outside rim and becoming the focus of interest and admiration. The cause of the depression to-day has been variously attributed to war debts, reparation tariffs, the advance of science, and the use of labour-saving machinery. Although each of these may have been contributory, the real cause has been the failure of the monetary system to stand the strain. It is like a house, built for fair-weather conditions, that blows over when a storm arrives. Just when it is needed most it fails. This world has never given of its bounteous store more generously than to-day. You will probably grant me that. Yet never before have so many millions been living on the borderline of starvation. Think of that in this world of plenty, yet there are millions living on the borderline of starvation. The monetary system we have to-day is not a designed scientific one. It is obsolete and riddled with dogmas and superstitions of a past age. A national stabilized currency on the Mullenger Plan is designed to weather any economic storm and continually render available to mankind in a full measure all the advances of science and machinery. At this juncture I think it desirable to get a real idea of what is money. Money is a means of exchange to facilitate the interchange of goods. Goods originally were exchanged on a barter basis. This was quite frequently found inconvenient. Then it was found that if the goods were exchanged for valuable metals such as silver or gold which are incorrodable and easily divisible, these metals would again be exchanged for other goods when desired. The division of these metals gave rise to coins which for convenience of trade were given names and made of a standard weight of metal. After a while, when trade began increasing, bankers developed the habit of passing notes which represented a certain value of metal instead of the real metal. Thus was instituted the bank-note, which for many years carried out the functions of trade, but it has outlived its usefulness, as the note-issue has to be governed by the amount of metal available in the bank. I ask you gentlemen to understand that I wrote this over twelve months ago.

Mr. Langstone.] That is not true to-day?—It is as far as our new bank is concerned. The Reserve Bank has to keep its note-issue to a 25 per cent. basis of its securities.

What new bank do you mean?—The central Reserve Bank.

Dr. Sutch.] It is not to be a metal basis?—It is not a metal basis, but it has to keep its notes down to that level. It has not to exceed its securities which may be other than gold, but still it has to keep its note-issue down to its securities, so that is, of course, a very wrong idea; I contend it is.

You would not suggest that keeping a basis of securities would prevent the bank issuing as many notes as it wants to?—Under the Reserve Bank Bill I understand the bank is penalized if it does.

It is just a question of acquiring more reserves?—It may have a difficulty at that particular time to acquire the extra reserves.

Sterling exchange is part of the reserves which can be held?—Supposing there was a big run on sterling and our reserves were absorbed?

In that case there is power in the Act for the Minister of Finance to suspend the requirements ?—I understood it was only for a short time, and during that time the bank has to pay interest to the Treasury.

Mr. Langstone.] If they sold the sterling they would have more money ?—But when their sterling reserves are absorbed they have not the sterling to sell.

Then how can they sell it ?—They have to reduce their note-issue in conformity with it.

If they sold their sterling and get something for it, if they issued notes, then they could not issue them again ?—They get something for it, but if the importers were to take up all the sterling——

They would pay the banks for it ?—They would have paid the banks here in New Zealand, and the banks could not pay twice.

But the banks have already bought sterling in London, say, £10,000,000. They sell that sterling, bills for the importer, well, the banks only get what they have already paid for it but the importer pays the banks, and the banks pay the exporter ?—When the bank sells those to the importers the importers have immediately exchanged those for goods. That sterling has gone.

You have the goods and they are sold to the people in New Zealand ?—The currency is, according to the Reserve Bank Bill, not based on those goods coming in.

Mr. Lye.] The goods have to be paid for ?—Yes.

Mr. Langstone.] Where did the importer get the money from to pay for the goods ? He bought sterling. That sterling is used to buy goods ; the goods come to New Zealand and he sells them to the people ?—Yes.

And he gets reimbursed from the people ?—But he does not get sterling from the people.

You cannot get sterling, that is the London price-level ?—Yes.

Therefore, if an exporter sends goods away they are sold in London and form a sterling fund there ?—Yes.

It is frozen if the importer does not want it or if the Government does not want it. It is there to-day, that is one of our troubles. There are millions of money in London, sterling. The Government and other users of money in Great Britain are giving 5 per cent., 6 per cent., and 7 per cent. per annum. They are getting the advantage of sterling in London, because the Government and the importers are not wanting it. If they sell it to the importer that immediately transfers it from there to London in the form of goods. The banks have had to pay the exporter for it ; they have given the exporter the money for it. It belongs to the banks. They sell it to the importer, the importer gets goods, and thus it balances the goods that have already gone away ?—Yes, but that is sterling, when it has been used. The question was that sterling is a basis for our currency here.

It has already been the basis, because if the banks have paid the exporter for his exports it has been spent on those goods and he has paid the sterling value for them ?—The Act says that the note-issue has to be governed by the securities held here. If those securities are absorbed by importers buying goods, it will be absorbed as you will admit, then the note-issue here has to be reduced in accordance with the Act and the Act allows a little latitude for extending that. My contention is that the note-issue does not require any material backing.

Would you be in favour of giving every one a cheque-book and letting them operate on it ?—No.

Mr. Lye.] How do you mean " material backing " ?—Professor Murphy can put it better than I can. In " The Outline of Economics," page 413, latest edition, this is what he writes : " Once, however, the use of money has become general and the economic system of a country has become founded on a permanent and stable basis commodity value in the monetary substance is no longer essential to sustain its value for monetary purposes." Commodity value, however, was essential to give money its start in public estimation."

Mr. Clinkard.] There are a lot of qualifications to that ?—I do not altogether see them, but money value, however, was essential to give money its start in public estimation. Originally it was necessary to have this backing.

And confidence afterwards ?—Yes, though as economic development proceeds its value depends to an increasing extent on convention, custom, and law. That is Professor Murphy's view.

Mr. Langstone.] That is a point ?—If my contention is not right, can any of you gentlemen tell me what is the basis of sterling in London ? My contention is that it is not necessary to have a material backing for the currency.

Dr. Sutch.] That is not Professor Murphy's contention ?—He says so. He says, " Though as economic development proceeds its value depends to an increasing extent on convention, custom, and law."

He is talking about metallic money—gold and silver ?

Mr. Langstone.] Cheques take the place of these. If people have an account in the bank they operate on cheques, therefore the more business done by cheque the less need there is for metallic currency ?—I am keeping to the currency question at the present time. The commodity value in the monetary substance is no longer essential to sustain its value in the community.

Dr. Sutch : That is true enough, but he is talking about gold and silver.

The Reserve Bank recognizes that.

Mr. Langstone.] When they minted shillings in Australia there was 5d. of real intrinsic value in the 1s. and the Government of Australia got 1s. for it, therefore it was not the intrinsic value of the currency, just the same as the pound-note may not cost one farthing, but it is accepted ?—It is not necessary to have value in the monetary substance.

Mr. Schramm : No. A piece of paper will do the job as long as it is accepted and has the legal backing.

Mr. Clinkard : Provided you do not destroy confidence in the currency.

Mr. Langstone.] It would not be acceptable then ?—That is the point I am trying to make. It is not necessary to have a material backing, the Government of England has been guaranteeing the

note-issue of the Bank of England up to £260,000,000, but that is ahead of where I am. When the war was on England issued "Bradburies" to the extent of £200,000,000.

The Chairman.] I want to point out that your plan has been circulated, therefore there is no necessity to read it through. If you stop to read it through there will not be any time to ask you questions?—Well, there is something that has not been put in that plan which has cropped up this afternoon and that is the question of credit. Some people believe that credit is more essential than currency. Well, the point is that the credit is dependent on the currency and cheques are not necessarily credit, but they are a means by which the velocity of the currency can be increased. They are also a safe and more convenient means of currency to move. Another thing is, that before any proposition is considered credit worthy, its possible return in currency has to be determined so the whole structure of credit is dependent upon currency. Again, 90 per cent. of the final transactions, such as purchase of goods, clothing, payment of wages, rent, rates; railway, bus, and tram fares; gas accounts, liquor, and tobacco, are cash transactions, so I wish to make the point that currency is of greater importance than what the question of credit is.

Dr. Sutch.] You mean note-issue by currency?—Yes.

It is difficult to define your terms because each witness calls currency a different thing. Cheques are included in currency in your definition?—Yes, part of currency. There is a little point I would like to make here that the note-issue in New Zealand has been unredeemable in gold since 1914. There has been no gold content represented in the Commonwealth note of Australia since 1929, and now the United States of America has had to abandon the gold, as that great delusion was strangling her economic life. Her dollar note no more represents gold than it does wool, butter, or cotton, &c. The gold has had to come down off its pedestal and take its place among the other commodities. Thus it is seen that the currency no longer requires to have a material backing. In fact, it is sounder without. All that is necessary is that the currency note shall be legal tender, and trade within the community can proceed unhindered.

You assume, because metallic gold backing is not necessary, that a material backing is not necessary?

Mr. Schramm.] Do you go as far as that?—That is so. The State can do that; they have backed it now since 1914.

Dr. Sutch.] The Committee are familiar with the gold question?—The first principle I worked out was that "New Zealand does not require one penny of foreign money for the full development and conduct of New Zealand's economic life." Well, we have been living on borrowed money, as a great number of you understand, for a long time, and that supply has been cut off, hence the depression we have in this country. Our late Prime Minister, Sir Joseph Ward, had an idea of borrowing £70,000,000 at the last election——

Mr. Schramm.] Do you think that was sound economics?—No, I do not; but that was his idea, and he was considered the greatest New Zealand financier; but he did not realize that it would not be necessary, so far as New Zealand was concerned, to have one penny of foreign money.

Mr. Langstone.] At that point, suppose you have borrowed money at home and goods come out to New Zealand—not money, goods—those goods come here to develop hydro-electric power or to do various other things, therefore they ought to have assisted in more wealth production in the Dominion?—Assisted in more wealth production, yes.

Therefore it puts you in a better position to meet your obligations?—Certainly, it is desirable in that instance; but if we want a concrete road built in this country we have the materials and labour power to do it, why go and mortgage our lives and children's lives for generations to come with foreign money-lenders because we want to built a concrete road and we have everything here for doing it.

Mr. Schramm.] Is your point for the Government to issue its own credit?—The Government should take control of the currency.

Mr. Langstone.] You believe that it is for the nation to make its own income and live within that income and cut out borrowing from outside?—It is not necessary to borrow, you see. I presume you have read my plan and I have given you a whole list of foods, clothing, &c. I think you will find they are quite in order as far as that is concerned. Again, warmth, light, and shelter we have in abundance. If we had a means of distributing those things I have mentioned then we would have all the necessities of life, and after producing all those goods and consuming as much as we want we would still have a surplus left over that we could send overseas and with the credit supplied through the sale of those surplus commodities we could buy the luxuries we want. I maintain that is the position. I presume you have also checked over the figures I have quoted.

Your plan seems to want a foundation to work upon. Have you got some taking-off place? Can you show us how you would go about it, taking existing conditions as they are, and property, and so on? What form of mechanism are you going through to bring that about? Could you show that to us with your plan?—The relief camps financed by direct note-issue from the Reserve Bank.

Mr. Schramm.] How the present banks functioning in New Zealand come into it for a start?—Of course a great deal of this work has been taken over by the Reserve Bank. It will be issuing its own notes in October of this year.

It has the sole right of note-issue?—Yes. That means that the State will put its mark on a piece of paper and say that is a pound-note and no one can gainsay it within this Dominion. That is my proposition; that the Government puts its mark on a piece of paper and it has the Government behind it. The Government has guaranteed the note-issue of the associated banks since 1914 and if it can do that it can guarantee its own note-issue. I contend that a sufficiency of notes in circulation will maintain the economic life of the community. This will be the primary duty of the Reserve Bank, and as it will be of no advantage to the trading banks to hoard the notes they will have to keep them in circulation. Thus the internal economic life will not, though occasionally disturbed, be disrupted by external conditions.

That is an evidence of something that has been done ; either goods have been produced or services rendered ?—Yes.

What is going to determine the value of your note in relationship to goods and services ?—If such a thing as a basis is required (I said there was not a metallic basis), if a basis is wanted, I suggest that for the pound it be eight work-hours.

Each hour is worth 2s. 6d. ?—Yes, a tradesman's hour.

For every one ?—Yes.

You would have more pounds ?—That is the basis. The bottom basis of all workmen to be 2s. 6d. an hour, and eight to a pound. That means that if a worker takes on a long-term contract to pay £1 10s. a week for his house, he pays twelve work-hours. No matter what comes or goes, he has only got to work twelve hours and that carries him right through his contract. That is where the sanctity of contracts comes in.

The Chairman.] How would that work out on a farm ?—Farmers are a little bit differently placed. When a man goes out of the working-ranks into private enterprise, he has got to battle on his own and take his own chance. If he can make a success of his farming and can earn 5s. or 10s. an hour, I am quite willing.

Mr. Murdoch.] Suppose he only earned 1s., what about that ?—I know a plumber who has gone farming. If he could get 2s. 6d. at his trade he would not take long to pack up.

Mr. Langstone.] If you had a farm, could you just say, I have finished with this. Is it as simple as that ? You would have pigs to feed and the cows to milk ?—There would quite possibly be a boiling-down works handy if the cows were too poor to sell. I will just give you an idea of what the wording of my note might be (handed to Chairman). I have endeavoured to make my first point, that New Zealand does not require 1d. of money for the conduct of her economic life in New Zealand. I hope I have made that point clear.

Hon. Mr. Downie Stewart.] On page 4 you set out a national stabilized currency under five headings ; what is the difference between that and the present system ?—First, the note-issue, instead of being restricted to a material basis is based on the economic necessity of the people ; secondly, clause 12 of the Central Bank Bill is quite nebulous, whereas the corresponding clause No. 5 of my plan is quite definite.

The Chairman.] When you mention the State central bank, do you mean such a State central bank as was set up last year, only the private individual has the lion's share ?—Well, I do not believe that there was the necessity for private shareholders to have any say in it.

When you say a State central bank, you mean one wholly owned and controlled by the Government ?—Yes, but controlled inasmuch as I believe we have the Government Life Insurance ; it cannot be controlled by Parliament.

Hon. Mr. Downie Stewart.] That is a minor point. On page 4 you set out that this bank is to have the sole right of note-issue, control the rate of exchange, overseas trade pool, pay New Zealand's loan obligations, pay importers, pay for public works ; all that is done now. What is the difference between that and what is done now ?—The difference is with my plan the quantity of local currency would not be affected by overseas conditions. When I wrote that, the central bank was not operating, and Mr. Coates could not meet his obligations then. I should like to expound my views on the point on page 3, "Labour alone costs money." Another principle is that money must circulate.

We will accept that ?—We have heard from time to time that the banks are hanging on to money ; I contend that the banks are not hanging on to money. As reported in the *Herald*, Mr. Polson, M.P., was taken to task on the question of the banks hanging on to money, but a Wellington banker replied and showed that the banks had £60,000,000 of deposits, £41,000,000 of which were lent out to private investors and £19,000,000 paid out on Treasury bills, so that the banks are not holding on to money. Money must circulate ; it cannot be stagnant. Quite possibly you will grant me those two points ; labour alone costs money, and money must circulate. Money cannot be hung up.

The Chairman.] You mean the banks cannot produce the amount of money in circulation ?—No, the banks do not hang on to it. A man told me that people were hanging on to their money ; that that was what the trouble was. He was a moneyed man. I said, Was he doing so, and he said that he had his money in the bank which paid him interest. "How do you think they are paying interest if it is not in circulation ?" I said, "It has got to be out." As far as page 4 is concerned, it is really much the same as we have at present time. "Why Nationalize"—I do not know whether it is necessary for me to go over that ?

Mr. Murdoch.] No. 4 of "Why Nationalized" : "New Zealand cannot recover until more money is put into circulation. The banks will not advance until they can see a return for their investment and the return cannot be created till the people have the money. The Government cannot borrow, nor should they be allowed to, as the burden of indebtedness is now too great ; therefore, the only sane, sensible, and best course is to nationalize the currency." Could you clarify that a bit ?

Hon. Mr. Downie Stewart.] The point is, that you have just said there was no lack of money in circulation ; now you say you cannot recover until money is in circulation ?—I do not remember saying there was no lack of money in circulation. There is a lack of money in circulation.

Dr. Sutch.] You make a point that circulation of note-issue has decreased since 1920 by several millions ?—If any one has the impression that I said there was no lack of money, I must withdraw it. I said that the banks were not hanging on to the money ; I said what money they have—one of your witnesses said there was plenty of money there for working purposes.

Mr. Langstone.] You think they lend their deposits ; what evidence have you got that banks lend their deposits ?—This extract in criticism of the money-market in New Zealand. Mr. W. J. Polson is reported to have said that interest-rates were too high. He also referred to the amount of money in the banks to-day ; and said the Government made the money dear, but the point is that the banks

lend their deposits. Here it is shown that to the end of January the banks advances totalled £41,000,000, and their total deposits £60,000,000, showing an excess of deposits over advances of £19,000,000. There were excess deposits of £19,000,000 excluding the Government balances.

EXTRACT FROM *Auckland Herald.*

"In his criticism of the money market in New Zealand, Mr. W. J. Polson, M.P., president of the Farmer's Union executive, is reported to have said that interest-rates were too high. He also referred to the amount of money in the banks to-day as indicating that money was too dear. Who made it so?" Asked a banker to-day. He answered his own question: "The Government."

"Mr. Polson has made an important omission," said the banker, "but I am not surprised at that. He has failed to take into account the Treasury bills held by the banks. Mr. Polson will find what they amount to in the Government's statement of receipts and expenditure for nine months, which has just been published. There he will see that these Treasury bills so held amount to nearly £20,000,000, or £19,313,294 to be exact. To the end of January the banks' advances totalled £41,800,000 of their total deposits of £60,800,000, showing an excess of deposits over advances of £19,000,000, excluding the Government balance.

"*Conclusion Unsound.*

"Therein is the answer to Mr. Polson's criticism that the amount of money in the banks indicates that money is too dear. Had Mr. Polson consulted the *Gazette* he would have seen what the banks have advanced to the Government. His conclusion that there is a surplus of money in the banks is unsound, and he could have assured himself of the facts before speaking, had he taken the trouble to do so. He preferred to speak first."

It was also stated, on banking authority, that there is no difficulty to-day in obtaining advances for credit-worthy purposes. As a matter of fact, it was added, the banks are continuing to "carry" farmers and other clients who are in difficulties, and they have been doing so all along.

They have bought £19,000,000 worth of Treasury bills; what portion of deposits have been in that £19,000,000?—£19,000,000.

Is not that advanced against the revenue that is to come in?—But that is how the banks have to make their profit on it.

Mr. Schramm.] The Treasury bills the Government have hypothecated to the bank.

Mr. Langstone.] That is a recognition that they owed the banks £19,000,000 and the banks have given the Government a credit. They are only short-term; some only for a month, then they are cancelled and further ones issued in their place, but we will take that figure: when they have given a credit for £19,000,000, does that reduce the deposits in the banks by £19,000,000?—No, it does not reduce the deposits; a lot of that is long-term money and the bank has the handling of it.

If you lend me £5, you have not got it—I have it. If I lend it to Mr. Schramm, he has got it, and I have not. If you accept a deposit and then you lend that deposit, where has it gone to?—When you lend it to Mr. Schramm, you knew I was not coming back for it next day. If you know I am coming back in a fortnight's time for it, you make arrangements with Mr. Schramm to give you that £5 back so that you can give it back to me. You pay interest on it to me, and he pays interest on it to you.

When this £19,000,000 is paid out by the Government in the form of wages, contracts, and various other things, then the people who have it paid to them deposit it in the banks. They create deposits. If that is so, the bank loan must return in the form of bank deposits; that must reflect itself again?—Some of it might go back as deposits, but some might not.

You think people would keep some of it in a stocking at home?—The banker here shows that the banks lend their deposits, and I think it is more or less generally recognized.

You accept that?—Yes.

Dr. Sutch.] The section "Why Currency must be stabilized" is quite clear?—Another reason why currency should be stabilized is that in time of war the safety of the country may at any moment be jeopardized by shortage of finance. It is therefore very desirable that the currency be nationalized in time of war, because it is very undesirable that the country should be jeopardized owing to the fact that private interests have control of the currency. Lloyd George is reputed to have said after the war that he could have carried the last war on at no cost by the issue of Bradburys. With my scheme, the point is this: the Government supply the finance, it goes right out into the circulation system and they keep on taking their tithe out of it all the time.

Dr. Sutch.] Do they collect back what they give out; if they issue £5,000,000 to the people, is it cancelled out?—It is never cancelled. The bank can control it; if there is any sign of inflation taking place the bank has control of the issue and can reduce it, but I should not say inflation. There cannot be inflation with my scheme, because there is nothing to inflate. Each note has its genuine face value. "Why it must be stabilized": I think that is a very big point. The worker does not have to ask for an increase in wages as it is an automatic increase; the value of the money rises.

Mr. Langstone.] That means a reduction in the value of goods?—Yes.

Hon. Mr. Downie Stewart.] His purchasing-power is not stabilized?—His purchasing-power might increase.

I thought you were going to stabilize it?—It is the same quantity of money, but the value may rise or may fall.

Mr. Langstone.] It is not stabilization, then?—The quantity is, but not the quality. That means that the condition would not arise where it would be possible to have a man thrown on to £1 10s. a week after expecting to have £5 a week.

Is not that what took place in Germany?—They never controlled the quantity of it. When unemployment begins to manifest itself it shows that insufficient money is in circulation. This is a feature of my central bank which is not in the present bank. It may be read into it in clause 12, but the reason why there is unemployment in New Zealand is because there is insufficient money in circulation—not sufficient to give every man £5 a week.

Dr. Sutch.] You think there are no other causes at the back of this insufficient lack of purchasing-power ?—None, except that we are inclined to hang on to money and make our currency move or keep stable with the English currency. I believe the banks' representative said it was outside the control of New Zealand "(the question of prosperity)," owing to the fall in the price of commodities.

You do not believe that ?—No. I would like to ask that gentleman through the Committee what would happen supposing England gave us nothing for our butter; we would have to starve.

Mr. Schramm.] We could have prosperity here with the rest of the world blotted out ?—Yes, prosperity in the simple things of life; of course we can have greater prosperity by keeping to the plan. The point of stabilization: is that quite clear ?

Mr. Langstone.] I would like to know: money must bear some relationship to goods and services—— ?—I gave you the services, not the goods.

You referred to the work-day ?—That is only going to be for men who are working for wages. If you cannot get 2s. 6d. by doing something for yourself, and can only make, say, 1s., you are going to throw the job up and get 2s. 6d.

Take a farmer producing butterfat, would he be paid 2s. 6d. an hour or only butterfat ?—Butter would be produced only in accordance with what will give him a return of 2s. 6d. an hour. Other than that he would go off the land. If he gets below that, it shows that more butter is being produced than required.

Dr. Sutch.] He should be made to go bankrupt ?—He could sell out to some one else. My scheme is that private enterprise has to stand on its own feet. I do not quarrel with a man making £100,000; it is no good to him unless he spends it on labour, and that is giving some one a job.

Mr. J. N. Massey.] How are you going to pay the farming community 2s. 6d. an hour on present prices of produce ?—How long does it take for a man to produce a pound of butter ?

If you will examine the figures, the average dairy-farmer has to work probably sixteen hours a day just to try and balance accounts; unfortunately, he cannot even do that; at the moment he is practically working for nothing ?—He would not be there if he could get 2s. 6d. an hour.

He is not going to stay there if he can get 2s. 6d. an hour ?—I know one farmer who got a better job; he became Prime Minister.

We are all out for a better job than we have ?—If a man cannot carry on at his own particular job, he changes it.

Would you place a doctor on the same basis, 2s. 6d. an hour ?—Some are not worth 2s. 6d. an hour.

Is the average wage-earner worth 2s. 6d. an hour ?—I would make that a standard. It is necessary for a high standard to be maintained. New Zealand has incurred a considerable amount of debt, chiefly the local debt at the present time, and if the workers' wages are reduced from 2s. 6d. to 1s. 3d. it means that that debt burden is doubled. There is £500,000 debt, say, on account of a local body and the rates in connection with it are based on a wage of 2s. 6d. If wages are reduced to 1s. 3d. it means that the debt burden which was incurred on a 2s. 6d. basis is doubled.

If you stick to your man-day basis, and you produce wool and meat and butterfat for export, what would be the cost of production ?—I cannot altogether see your point.

What would it cost to produce wool, meat, butter, cheese, or any other commodity produced in New Zealand ?—A man will soon find out after he has been there six months.

We know what it costs now ?—If you can tell me that, I may be able to give some enlightenment.

One man estimated costs at 1s. 4d. per pound to produce butter; that was his estimate; supposing it cost 1s. ? Under your scheme we are to pay the farmer 2s. 6d. an hour and every one employed on the farm, for 365 days a year; what would it cost ?—I really could not tell you what it would cost.

If you are going to pay 2s. 6d. an hour for all farm labourers, I think you will admit that we are up against it in New Zealand to-day, because of the fact that the world price-levels for our commodities is exceedingly low ?—That is not it. What we are up against is we have been so foolish as to reduce our monetary system here and keep in step with the fallen market. There was no necessity to do that, and we are to-day paying the farmer 1s. 3d. where he only gets 1s. If the worker was replaced in full employment at £5 per week there would be such a demand on our overseas credits that the rate of exchange would have to be raised to a probable rate of 100 per cent. Thus the farmer would receive double London price for his product. Again, with the extra money in circulation money would become cheaper. Probably mortgage finance would fall to 3 per cent., thus the farmer would be able to refinance his farm, the local rates would be converted, and the farmer's equity in his land would be restored. Also remember under this new plan the Government does not compete with private enterprise for the available loan-moneys, thus the cost of capital funds would fall. Another aid to the farmer.

What are you paying him 1s. 3d. for ?—For his butter.

Yes. 1s. 3d. for the butter that only fetches 1s. ?—You are paying him 1s. 3d. to-day.

The last cheque that I know somebody received was based on 6½d. ?—The butter that the Englishman only pays 1s. for, the New Zealand farmer is paid 1s. 3d. for.

How do you work that out ?—Well, the exchange has gone up by 25 per cent. We were talking about New Zealand were we not ?

Yes ?—Well, that is the point.

Mr. Langstone: With butter at 6d. he would only get 1½d.

Mr. Schramm: No. He is talking about 1s. ?—A quantity of butter that fetches 1s. in London—I did not mean a pound. £100 worth of butter in London is paid out to the farmer to-day at £125.

You mean the 25 per cent. is a tax on the rest of the community to pay to the farmer ?—Well, it may be a tax or it may not be a tax. A tax is not a strain when one has the funds to pay the tax.

Is that what you mean, though ?—It works out in accordance with the credits that are available in London. If you are interested in how to work the quota, get on with this proposition and then

write Home to John Bull and tell him he can fix a quota at whatever he likes because we will pay our producer here in New Zealand the same whether he puts a quota on or whether he does not. We can pay our farmer here in accordance with the credits secured in London, and if the credits secured in London enable us to pay an exchange-rate here of 150, you can quite easily pay our natural exchange-rate of 150.

Mr. J. N. Massey.] How are you going to pay your debts in London ?—We pay them with goods.

How are you going to produce your goods ?—With New Zealand labour. John Bull buys those. He gives us the money to pay himself the money that we owe him.

Dr. Sutch.] Not this year or last year ?—He did this year. I think you know all about that. Mr. Coates the other day paid £10,000,000 of interest charges with the London surpluses.

That was from New Zealand exports ?—Yes. That is what I am telling you. John Bull found that money to pay himself the money that we owe him and if he cuts us out it does not matter. If a farmer is relying on his horse to plough his ground and give him his livelihood and prices fall, the last thing he can do is to let that horse starve, and it is not helping John Bull for us to have eighty thousand unemployed in this country.

The point is that if we cannot get anything for our butter over there it is up to John Bull to cut down our national debt ?—He could please himself about that, but we cannot pay him except in goods.

I think we both mean the same thing ?—And it is no use to us if he is going to demand this money back from us. It means that we can only buy that much less from him.

Hon. Mr. Downie Stewart.] It just means this: That whether he buys our butter or not you are still going to pay the farmer 1s. a pound or whatever figure you fix ?—I would not fix it. It would be according to a natural level, not an artificial level, in accordance with the credits in London.

But you have no credits if you cannot sell the goods ?—No. The rate of exchange would then be very high, because we have got nothing to offer our importers and the 2 lb. of butter that he takes (he does not take any at all, practically) that might mean £1,000 (New Zealand) for 2 lb. of butter.

It would be very hard to export under that scheme ?—Yes. It is only a trade-for-trade basis and John Bull is not going to cut us out because, for one thing, he rather likes to keep friendly with us, and he might want some assistance at any time.

Mr. Langstone.] I saw in the paper the other day that in Holland they are destroying four thousand cows per week for twelve months to try and limit supplies, and in America they are killing hogs, they are burning wheat, they are ploughing in every third row of cotton. Is that a decent way, do you think, to stabilize prices ?—My great concern is that everybody in New Zealand should have full and plenty, and if each one of us had full and plenty and there is a bit of surplus left over and nobody will accept it, I do not see anything else to do but let it rot or anything happen to it. But do not starve ourselves. Do not go short of clothing. We can clothe ourselves from head to heel and we can fill ourselves with three meals a day. We can have light and warmth in abundance. We do not require a penny of their money. When it comes to outside transactions then we use credits and that is all we have ever been able to use.

In society to-day we have got like two forms. We base some of our money on the production of goods—that is, a farmer produces butter and the banks or somebody else advance against that production to the dairy company. The dairy company's secretary at the end of the month—that is, the pay-day for the farmers—writes out to each farmer a cheque from the dairy company according to the production that he has given, the amount of goods that he has given to the dairy company. It is his own company, of course. Now, you have got other people who render service that cannot be measured in goods. The schoolmaster; you could not say he gave a pound of education or a yard of education, so you pay him in time. You say, "We will pay you a salary for giving us a certain amount of your service in educating our children." The same with all of our other services. Now, if you are going to base your services on a half-crown per hour, you will have to have some method of being able to base the payment for butter and for wool and for other things that will equal the half-crown per hour. How are you going to get at that. I am not talking of world prices. I want it to be done here in New Zealand. What method would you adopt to do that ?—I would let everything run naturally, as I said before, and while the farmer can have 3s. an hour or 3s. 6d. an hour or 5s. an hour he would stay on his farm, but when he gets down to 2s. 6d. an hour I would let him come back to industry. The quantity of wool and butter produced under my plan would fall until those engaged in the industry received 2s. 6d. an hour or £1 per day.

But suppose that the same thing applies in industry that is applying on the farm, that you have got too many boots the same as you have got too much butter, and you have got too many socks and too many suits, you mean to say then they will go back to the farm ?—I do not know exactly how there could be too many boots. You might say there is a capital class. If the manufacturer makes more boots than can be sold, then of course, he would cease making them. Supposing too many boots were produced the worker would have been paid his wages, but the price of the boots would fall below costs, thus the purchasers would have more money to spend on other articles, and thus would be absorbed the surplus labour from the boot trade, bearing in mind that "labour alone costs money."

Mr. Murdoch.] But you are putting in more machines. You say here, increasing your machinery all the time, and if you increase your machinery you must increase your manufactures ?—It may not increase his output. Here is how it would work. With a factory that is employing twelve hands and he is paying each one of these £5 a week, about £60. Then he has a brain wave and he says, "I will put in machines and I will do away with nine hands, and I will only employ three hands. That will be £15 a week, and I will save £45." Now the public gain, because they have got a cheaper or a better article, because if it could not be a cheaper or a better article the manufacturer would not put in his machines.

Mr. Langstone.] What are you going to do with those fellows who have been put off. Are they going to get wages ?—There is where his (the manufacturer's) problem comes in. What is he going

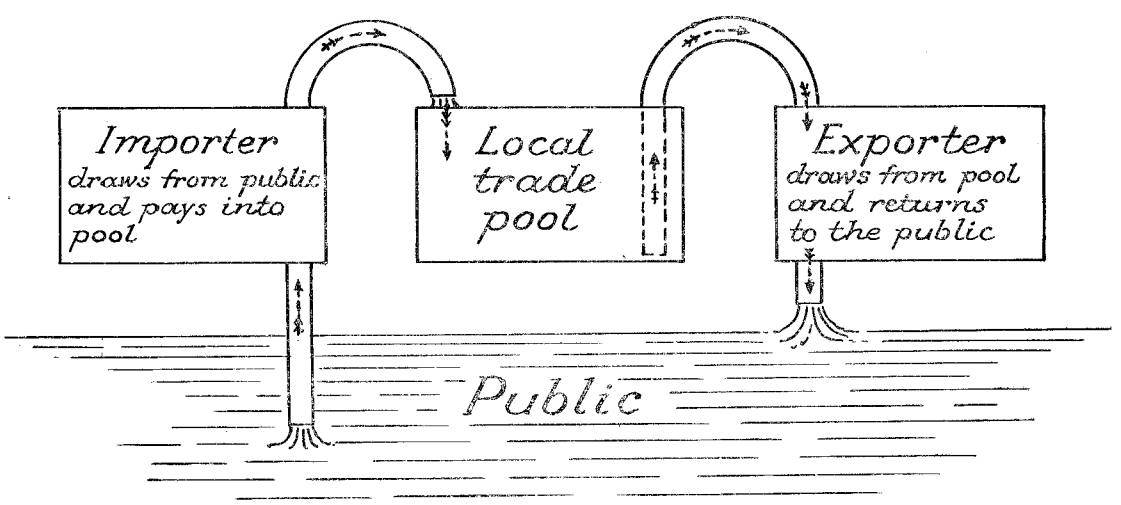
to do with it? He has got to return that £45 to industry again. His wife gets dissatisfied with all this extra money. She wants a new house.

Mr. Schramm.] But she could only live in one house or one seaside residence perhaps?—She need not necessarily live in one place all the time. He will have somebody to come in and cut his lawn for him.

The Chairman.] But there are plenty of cases where they would not leave the house. They would like to stay in the old home?—Yes. And in a number of homes in Remuera here with the increase of taxation they have done away with the chauffeur, and done away with the gardener, and even done away with the servants; but when they have that money they are not going to wash up their own dishes. They have got to put that £45 back into circulation. You might say, "He buys a motor-car and the money goes out of the country." When he buys a motor-car he puts that money into the local pool. That puts the local credits up and if it is anything considerable then the local credit is up and the farmer gets a bigger return, because the importers want to buy more. The value of sterling rises.

Do you propose to deal with your charts at all? I think you might explain them?—This is practically the same as is on page 4 here. The Government is financed by revenue. I do not know whether that is made sufficiently clear. It costs twice as much to run the Government on borrowed money. Supposing we had run this unemployment on a borrowed-money basis instead of collecting the £4,000,000 with the levy.

Mr. Langstone.] But the Hon. Mr. Downie Stewart has already told you that that is what is taking place now. How are you going to improve it? You say that there is something wrong to-day or you would not be here giving evidence. That is in operation to-day, what you have got there. Now how, if you are going to pursue exactly the same thing, in what way are you going to benefit, or is there something you have left out of there, that you have not told us yet?—The primary reason for the central bank is to attend the economic necessity of New Zealand. Now, that is the primary reason, yet that is the most vague clause in the whole Bill. Everything else is all down in detail, but the most important thing of all is left in a nebulous stage. Now, the economic necessity of New Zealand is to have sufficient money in circulation continually to enable the economic machine to function perfectly all the time. In times gone by when there has been unemployment, what did we do? We took money out of circulation for relief work. We robbed Peter to pay Paul and pauperized both of them. The reason why there is relief work is because there is insufficient money in circulation, and to rob Peter and pay Paul is never going to put it right, so the central bank here makes a free grant of money for unemployment works. It does not take it from the people. When that is in circulation they spread it round and they are only getting £1 10s., a week on an average in the camp, and when they come out to civil life again and get £5 a week that is the solution of the unemployment problem. The cental bank in New Zealand would establish a local trade pool as shown in sketch below:—



Remember the local currency is a fixed stabilized quantity. When the importer pays in he buys from the bank sterling credits, the price of which is determined by the amount of credits available in London and the demand for same in New Zealand. When the exporter receives payment from the central bank he is paid in accordance with the factor:

$$\text{London sterling price} \times \frac{\text{Number of New Zealand pounds to £100 sterling}}{100}$$

Thus the importer supplies the money to pay the exporter for his goods. When the exporter is paid by the bank for his goods the goods then belong to the bank, and likewise the sterling credits received by the sale of those goods belong to the bank, which then offers them for sale to the local importer, accepting local currency for same. Now, should it be desired to accumulate sterling credits in London all the bank has got to do is to load the importer with an extra charge to compensate the pay-out to the exporter. Thus, assuming London credits total £37,000,000, remittances, imports, plus interest charges (£23,000,000 + £10,000,000) = £33,000,000 (assuming rate of exchange is par) the desired accumulation of credit, £4,000,000. Therefore all remittances must be loaded by $\frac{4}{33}$, approximately 12½ per cent. Thus the remittances paid into the trade pool would be £33,000,000 + 12½ per cent. (= £33,000,000 + £4,125,000) = £37,125,000. The results are: First, the exporter receives from pool £37,000,000;

second, the bank has secured a surplus of £4,000,000 sterling which is now available to buy machinery and plant for public works in New Zealand.

Those will be public works then ? They will not be relief works ; they will be public works, will they ?—Yes.

Well, what are you going to do with your public works in that first column ?—These are overseas credits. This is determined in London. We send our produce over there as I showed. We had £37,000,000 credited to us. We met our interest charges, £10,000,000. We imported goods to the extent of £23,000,000 and we had £4,000,000 surplus left over. With that surplus we bought hydro-electric machinery or anything of that sort that is required for public works. But you do not buy labour. We only buy those materials and that is what is referred to as public works.

Hon. Mr. Downie Stewart.] How do you acquire that £4,000,000 ?—By the sale of our products in London.

But those products belong to the farmer, not to the Government ?—No. The central bank pays for those products here.

The Government have to borrow, then, to pay the farmer. How does that £4,000,000 pass into the Government's hands if they do not export anything. You say the central bank bought the funds for them. Well, they must have had some money to buy them ?—Yes. The importer supplies the money here. The importer in New Zealand supplies the money in New Zealand to pay the exporter for his goods.

Mr. Langstone.] No. Only up to the portion that he gives back. You have got £4,000,000 over that the importer did not want. If the interest charges are £10,000,000, the importers get £23,000,000—that is £33,000,000, and you have got £4,000,000 left over. £37,000,000 is the total that you have got, so the importers have not paid for the £4,000,000. They have paid for the £23,000,000, but not for the £4,000,000 ?—The Government could pay in to the pool if it was necessary, if the rate of exchange was not fixed at par, and by building up that balance the rate of exchange could be fixed, as has been done in times gone by to secure money for our commitments.

The point we wanted is where is the Government going to get that £4,000,000 or £3,000,000 from to pay into the central bank ?—This central bank can fix the rate of exchange.

But supposing there is no rate of exchange at all ?—There has got to be a rate of exchange, because this is only local currency we are raising.

Supposing your £4,000,000 to-day, with the rate of exchange at 25 per cent., that would leave it still £3,000,000 ; 25 per cent. is only £1,000,000. That would give you £3,000,000 overseas. No rate of exchange at all. Where does this money come from ?—The 25 per cent. rate of exchange.

Hon. Mr. Downie Stewart.] Never mind the exchange. If you look at page 4 you will have what you had on the map there. You say that the exports are the Government's responsibility. It has a balance of £4,000,000 to buy railway plant. You are assuming that once it goes into the pool and is released in London it belongs to the Government, but they never credit the assets. Those exports that went out were the farmers', not the Government's ?—The central bank in New Zealand has bought those goods from the farmer here in New Zealand. Then those goods belong to the central bank.

Is that your proposal, that the central bank should become the purchaser of goods and export them themselves ?—Yes. It buys them up on the rate of exchange.

Dr. Sutch.] So that really the Government borrows locally instead of in England ?—This bank would be operated so that funds accumulate in London or else the Government could pay into this local pool and buy up exchange with local currency to pay out again to the producers.

So what you are doing is substituting local borrowing for overseas borrowing, but you are still importing the amount of goods you previously imported with overseas borrowing ?—Substituting overseas borrowing for local borrowing ?

Local borrowing for overseas borrowing ?—The Government need not borrow to pay into that pool.

They just take it ?—No. Out of revenue.

Hon. Mr. Downie Stewart.] Where do they get the revenue ?—They will have plenty of revenue. They had plenty of revenue before when everybody had £5 a week coming in.

Mr. Langstone.] But if the Government or the central bank created that money for the Government by the exports and sent it overseas, then that will mean that only the exporters will be taxed, because they will be taxed and no other part of the community. They will be taxed the difference between what was sold to the country and what is used for bringing public-works material and other stuff here on behalf of the Government ?—I do not see your point. The ones who will be taxed to a certain extent are the importers.

Mr. Clinkard : Our trouble is to see your point.

Mr. Langstone : If there is £37,000,000, the bank buys £37,000,000 and pays the farmer £37,000,000 for it ?—No.

Well, what do they do. That is the value of your exports. You say they have bought the lot. The central bank send them overseas ?—If the importer here has to pay on a rate of exchange at 25 per cent., when he buys £1,000,000 worth of goods he will have to pay in £1,250,000. Now that £1,250,000 is available to pay the exporter.

That is not the point. Your point, as I see it, is that the central bank takes over the whole lot and pays the farmer here. Therefore, they send the goods overseas. Now, when the goods are overseas they have got £37,000,000 there in London. There is £10,000,000 used to pay local-body and Government indebtedness. That leaves £27,000,000. The importers buy £23,000,000 worth of goods and fetch them back into New Zealand to be sold to the rest of the people. That leaves £4,000,000 belonging to the exporter ?—No.

Who does it belong to then ?—It belongs to them.

But where do they get it from ?—They have paid the exporter for it.

Yes I know that ?—They have bought them from the exporter.

I am admitting that, but that money was the value of the product and they have paid the farmer. Therefore, if they get £4,000,000 that means that they have taxed the farmer, the exporting community, £4,000,000. It means that they are giving them £4,000,000 back less than they gave to the Government. They have taken £37,000,000 away from them. In fact, there is more than that, because the farmers are not the total population and if we were to subtract the share of their interest it would not be £10,000,000. If we were to do it on a population basis we could not charge the farmers up with all the rates of interest on all the money that has been borrowed. You could not do that with one section of the community and you are proposing, under your scheme, to take the farmers' produce away from him and take at least £4,000,000 plus at least another £2,000,000 which is incorporated in the £10,000,000. That should not be, because the farmer is not responsible for all of the debt that has been incurred in New Zealand, but he is the only exporter. The local manufacturer and the services, schoolmasters, and people in the Post Office, &c., they do not export anything. We only export produce from the land ?—The exporter, the producer here, is paid with the funds that are paid in here by the importers.

Only for the £23,000,000. Not for any more ?—The Government could pay in the other money into that pool.

Where will they get that £4,000,000 from ?—The Government have been paying interest out of revenue, have they not ?

Well, where are they going to get the revenue ?—From the whole of the people.

They are going to tax ?—Yes.

Is not that what they do to-day ?—Yes.

Well, there is no difference. That is exactly what they do to-day. The Government levy taxation, collect it, then when they have got money in their revenue Department and they want to buy money at Home, after they have collected the tax from the people they pay it in here and then that gives them the right to the money at Home, and they use the exchange at Home for reducing their national debt or paying interest on their national debt or doing things like that. That is exactly what they are doing now. Where is your scheme different ?—Well, it is liable to interpretation that way.

That is the mechanics of it, not the interpretation ?—The trouble is that we have been cutting down our pay-out in New Zealand in accordance with the pay-out in London, with what has been received in London.

We have put our pay-out up 25 per cent. ?—Yes, but we have not been keeping in step. We have put it up now, but with my scheme it would run naturally and when people here in New Zealand are put back on to £5 a week basis there are a lot of goods they will want in London that they cannot buy now. Well, when they want that the importer will pay it in to the pool here.

Hon. Mr. Downie Stewart.] But if the imports expand, and instead of importing £23,000,000 they import £27,000,000, then there is nothing left for the public works ?—Well, the rate of exchange could be manipulated as it has been done in the past until the funds have accumulated in London.

Mr. Langstone.] Have you discussed this plan with any of the economists, any of the professors or anybody else ? Have you gone to the trouble to get their opinion on it ?—The majority of them are rather chary about giving an opinion. I presented it to one man, quite a prominent man, a professor, and he said that where he and I differed was that he was wedded to gold.

He was wedded to gold ?—Yes. And when I gave it to him, before he read it over (and this prevents me to a certain extent from divulging his name) he told me point blank that he would not give me an opinion, so I cannot pass on as to who it was, but he was quite a prominent man.

You must realize this, that if you have got a plan it must be acceptable to the great bulk of the people or it could not be put into operation. It is not good enough for you and I just to have an idea and think everybody is going to accept it. It must meet the approval of the general bulk of the people or it cannot be operated ?—Well, schemes are operated without having the general approval of the people.

Mr. Schramm.] You mean unsound schemes ?—When that rate of exchange was put up there was not the opinion of the people behind it.

Mr. Langstone.] The Government has powers that you and I as an individual do not possess, and if a Government saw fit to do a thing which turned out to be wrong they would take the responsibility of it. That is one of the chances that we have got to take unfortunately ?—Yes.

But what I wanted to know, and we are concerned in the monetary question, but we are also concerned that when people come forward with a scheme that they have discussed it with their fellow citizens and people who are interested, so that they can meet every argument against it; it has got to be 100 per cent. sound ?—I have put it before this other economist and Professor Belshaw here. He has read it over and where he differed from me was that he contended that New Zealand required foreign money for the development of New Zealand, and of course my contention was that we did not require one penny.

Mr. Murdoch.] In other words, you would create a currency here for New Zealand independent of outside sources ?—Yes.

It is unaffected by foreign conditions—that is, the quantity ?—Of course if a credit accumulated in London then the value of our money would go up and every one would have an automatic rise.

Mr. Langstone.] I think we cannot control the London price-level ?—No.

That is important to us ?—Yes.

If we send anything overseas we have to accept their market price ?—Yes.

And whatever credit we have there will only buy a quantity of goods at a price-level that is existing there ?—Yes.

And that price-level that we get for goods overseas is something in relationship to the goods that we are going to buy with the credit we have there ?—Yes.

It is the world market. We sell in the world market and buy in the world market ?—Yes.

But when those goods come to New Zealand, owing to all sorts of charges—freights, insurance, sales-tax, exchange-rate, importers' costs, rent, lighting, telephones, &c., and then distributors' and retailers' charges in distributing those goods—that have to be recovered in the price, the internal price of the goods may be 100 per cent. or 150 per cent. more than the price we pay for them ?—It may be, but you brought in a proviso a little while ago that there was a relationship and that relationship may vary. It may be possible for the rate of exchange to be in New Zealand's favour.

I say that the London——?—If the rate of exchange was in New Zealand's favour, supposing £80 represented £100 sterling, then the goods could be sold in New Zealand at less price than the London price.

The rate of exchange cancels itself. The rate of exchange is given by the importer here to the exporter ?—Yes.

When goods come into New Zealand that rate of exchange is added on to the price of goods here by the importer so that if you put it on one side of the ledger where it goes out and the other side where it comes in you cancel it out ?—Yes.

That is what happens whether the rate of exchange is high or low, so I want you to leave the rate of exchange out. What I want to get at is this: The price for butter overseas buys goods there, sheeting, cotton pieces, linoleums, &c. When we buy £100 worth of goods in London with the proceeds of the sale of butter there the farmer has only got in New Zealand £100, plus £25, £125. That is his total income; that £100 will only buy £100 worth of goods in London, that is all. When they come into New Zealand that £100 worth of goods is £250, but if the farmer has only £125 to buy the £250 worth of goods he cannot buy them, can he? He is short, therefore I think what you want to do is to make the price-level in New Zealand so that the farmer gets £250 instead of £125 for his butter. Is that what you want to do ?—This is what I want to do. The exports here of our produce come, we will say, to £10,000,000. That is what our credits in London are.

The Chairman: I think we had better go on, because of the nature of the evidence that has been given this afternoon in regard to the charts; but perhaps Mr. Mullenger will close down on his statement and allow the members to put a few questions to him.

Mr. Lye.] I suppose you understand that the evidence you are giving this afternoon will be taken down and recorded in the official notes of the evidence ?—Yes.

And it is of importance for members of the Committee to question some of the statements that you have made this afternoon, both verbally and in writing. You say in regard to the cause of the world depression that this has been variously attributed to war debts, reparation tariffs, the advance of science, and the use of labour-saving machinery; and that, although each of those may have been contributory, the real cause has been the failure of the monetary system to stand the strain. You believe that, do you ?—Yes.

Have you read the Macmillan report? Lord Macmillan was head of the Committee set up by the Chancellor of the Exchequer and after an exhaustive inquiry, comprising all the banks and economists, they presented their report in 1931 to the House of Commons, and that is in direct contradiction to the statement that you make and which you support. I will read out this paragraph to you not for the purpose of having it put into the evidence, but for your information. It has already been incorporated in the evidence. It says,—

> It seems to us equally clear that the economic difficulties of the post-war decade are primarily due not to any wanton misbehaviour on the part of the monetary factors themselves, but to unusually large and rapid changes on the part of what are rightly described as non-monetary phenomena, these non-monetary factors again themselves producing monetary changes. In particular, war and post-war non-monetary causes led to the great and unwanted flow of gold to the United States from which such vital consequences have ensued. For example, in the foregoing summary of events we have attributed great importance (1) to the unusual instability in the demand for capital, resulting from the losses and interruptions consequent on the war; (2) to the changes in the established relationships between debtor and creditor countries consequent on the war debts; (3) to the rapidity of technical changes in manufacture and agriculture; (4) to the shifting character of demand resulting in a want of balance between the demand and supply of services as against manufactured products, of new types of manufacture as against old, and of manufacture as a whole against agriculture; (5) to the rigidity of wage-rates and insufficiency of currency to meet them; (6) to the growth of tariffs reducing the currency; (7) to the embarrassments of Budgets (insufficiency of currency); and (8) to violent changes in speculative activity in New York and elsewhere.

The Macmillan report is generally accepted by the economists of the world as a very sound document and a very valuable contribution as to the cause of the depression from which the whole of the world is suffering, but I want to ask you this question: Millions of money was used up in the form of goods during the war period and were destroyed and yet remain a first charge upon the industry of the people. Can you not agree that as there are no assets left to reproduce interest or principal to repay these war debts they must have a reflection upon the purchasing-power, by virtue of the fact that the first charge upon the industry of the debtor country is to pay its obligations in respect of war debts created. Here is a debt which is a first charge on the people, does it not become a first charge on the industry of the people when there is no longer any asset to provide interest and sinking fund ?—They demand payment in goods. The war debts were for goods supplied, and can only be repaid in goods. A debtor nation is not helped to meet its obligations by having unemployed in its midst and making its workers subsist on half-rations.

Then it becomes a first charge on the export trade of the people ?—Yes.

Is that not a contributing factor ? There must be so much less left for those who produce the goods and that which is left may be described as their available " foreign " purchasing-power ?—Yes, that is right.

I think you have given very intelligent and satisfactory answers up to now. You say, " The private control of currency has failed even with its generations of experience to maintain on an even basis the economic life of the people " ; and then you go on to say, " In times of crisis the Government has always to come to the rescue of the banks, as illustrated here in the ' nineties ' and again since 1914." I want to deal with that : By virtue of the fact that the Bank of New Zealand did get into difficulties in the " nineties " would you say that the present banking system had failed because on that occasion the State had to come to the rescue of the banks ? Would you condemn the whole of the banking system because of that one failure ?—I would not condemn it on one failure, but the Government has had to stand at the back of the banks, and if the Government was to move away from there the banks would close in four days.

You use the expression " generations of experience." When the Bank of New Zealand did get into difficulties and the State came to its rescue it gained an experience, and I suggest that this was the experience it gained, that it was false economy and bad policy on the part of the bank to advance moneys on long-term securities which, when a sudden demand set in, they found not realizable and not easily turned into cash, and when they were finally required to meet a sudden and urgent demand they were placed in the position that they could not meet their obligations. That was right, was it not ?—Yes, that is right ; but that is not the meaning that I am trying to put forward there.

I want to follow that line of thought. You say " with its generations of experience." The bank having gained that experience, has, since the " nineties " not been guilty of tying its finance up in a non-liquid state so that it would not be able to meet any sudden demand. Is that correct, also ? Banking practice has undergone a change for the better, has it not ?—With its experience it has reduced the pay-out here in New Zealand, and it must have known that that would have brought about the depression.

You say that again in 1914 the banks failed. What happened in 1914 ?—Gold could not be demanded for notes.

That was no failure on the part of the banks to pay. What actually happened was that bank-notes became legal tender, and New Zealand, in common with Great Britain, went off the gold standard, but there was never any failure on the part of the banks to meet their obligations was there ?—Well, the Government had to stand at the back of them.

No, excuse my interrupting, but this is a direct contradiction, the banks resources stood behind the bank issue of notes, not the Government. The only thing was that the Government legalized the thing and made it legal tender ?—The Government certainly legalized it and made it legal tender from 1914.

That is all that happened ; the banks did not fail in the matter of meeting its obligations ?—It failed to support the economic life of the country though.

How ?—Well, we have a depression here.

Yes, very well, we have a depression, but can you legitimately claim that the banks are responsible for that ? In asking that question I join it with another question : Is not our purchasing-power, or our capacity to meet our obligations determined in this country not upon the banks, but upon the exchange value of our goods and services sent overseas ?—It has been, but it should not have been.

Wherein did the banks fail then ?—They failed inasmuch as they reduced the pay-out when they found that our credits were lowering in London. They reduced the pay-out here in New Zealand, and that meant that our long-term contracts became very burdensome in hard times.

That was not failure of the banks ?—It was failure of the banks to maintain the economic life of the community, and that is why the Reserve Bank Bill was brought in.

No, it was not ?—The Reserve Bank Bill was brought in to maintain the economic life of the community ; that is the primary cause of the getting up of the Reserve Bank.

The Reserve Bank Bill was not brought in to give something for our exports which was not justified or, in other words, to give higher returns to the man in New Zealand than what he was justified in getting in comparison to the price in London ?—The Reserve Bank was brought in so that the producer would receive a commensurate return for his efforts, not for the price in London, but a commensurate return for his efforts.

The Bill was brought in as a reform of the present banking system and for the purpose of stabilizing within New Zealand the currency and the price-level, and to supervise the reserves of the banks operating in New Zealand outside the Reserve Bank ?—That is not according to clause 12 regarding the primary function of the Bank.

That is the function of all central reserve banks all over the world as declared in the Macmillan report, and it is a report delivered by experts. However, we will not argue about that. Now, you consider that the establishment of the central Reserve Bank in New Zealand is in the interests of the public ?—It should be in accordance with clause 12—that is the primary reason for it.

How would you stabilize currency and the price-level, because you cannot effectively stabilize one without the other ? How would you proceed under your scheme to stabilize the price-level and currency ?—I have not put forward anything to stabilize the price-level.

I want to say that personally I believe that it is necessary through the operation of the central Reserve Bank to, as far as possible, stabilize currency and the price-level, so that in future when an individual citizen borrows money, either from a bank or from a private individual, he will only repay back the same amount of value that he actually borrowed in the first instance. Can you agree that that is really the function of the central Reserve Bank in the public interest ?—When you say, stabilize the price-level, that is something that I have not put in my scheme at all.

You mention the question of stabilization of the currency ?—Yes. As I explained before, I do not put a brake on private enterprise at all, and if a man entered into a contract for business purposes to pay a certain amount of money, then he has got to take his chances ; but when the worker enters into a contract he is working on what he terms a basis of £1 a day or 2s. 6d. an hour, and as long as he receives that 2s. 6d. an hour then it is only due and right that he should perform his contract.

Quite so. How would you, under your scheme, limit or increase the issue of currency—that is, bank-notes—seeing that we are off the gold standard ? What would be the controlling factor in increasing or decreasing the amount of currency in circulation ?—Unemployment is a disease, that is all it is. It is like a man with anæmia. When a man has a disease he sends for the doctor to find out what is the cause and he finds it is a scarcity of blood. Unemployment is a scarcity of the economic life-blood of the community ; there is not enough money in circulation to give every man £5 a week.

How would you supply the deficiency ?—By restoring the Arbitration Court or fixing the standard wage of all workmen at £5 a week and as long as there are unemployed it shows that there is not sufficient money for that standard to be maintained. As soon as the unemployed are absorbed, then there would be no more issues of currency and from then on currency cannot be issued under my scheme.

If the exchange value of the goods and services produced by the men put into employment, who are now unemployed, did not warrant or justify in value the £5 a week, how would you get on. Would you give them something for nothing, because before any one can get something for nothing some one must be producing for nothing ?—Well, I certainly would not give them something for nothing and, of course, if the return was not coming out in industry that industry would relinquish immediately.

And then you would have more unemployment ?—No, because if an industry stopped, then that would mean that the import pool would rise, and it would be more profitable to export and those that were employed in that industry would be exporters.

I personally am quite willing to try the experiment of increasing the wage-rate in this country, but the point I want to get at is this : How would you pay £5 a week and put every one into employment when the net return from the worker did not justify the payment of £5 a week ? Would you inflate the currency or how would you do it ?—I would not inflate the currency, and it would be impossible for any work to continue that did not return that.

Very well, would you not get back to the position that work could not continue at uneconomic rates of wages ? It would come to a stop and you would have unemployment again ?—No, those men would change over to other work. That would mean that some other sphere was going to be more prosperous. If we were importing all our iron—for instance, the ironworks shut down in Nelson because iron could be brought in cheaper than it could be produced here——

Mr. Murdoch.] They shut down because they had not enough capital ?—If they shut down the ironworks and a thousand men are out of work that means that the iron they were supplying is imported. That means that if we are paying into an export pool, overseas trade pool, when that extra demand for credit is called for the prices of our primary products will rise.

What is credit ?—If we send 1,000 tons of butter to England and receive £100,000 for it, that is our credit.

Exactly, then if these men who are now unemployed are placed into industry, which is not returning an economic figure sufficient to justify £5 a week, there would not be a credit available to pay for that salary ?—It is when industry expands as it would with the extra purchasing-power that the unemployed leave the relief works, and returning to industry, receive £5 per week.

I cannot get clarity on this question ; I think I will leave it. I think we have threshed it enough. Let me pass to another matter. Every note issued by a central Reserve Bank or any other bank of issue is a claim upon that bank, and it creates a responsibility on the part of some person to give something in the shape of assets, services, or securities in exchange for that pound-note ?—Not necessarily.

Are you going to give them something for nothing ?—No ; that is legal tender. My notes say that there is no promise to pay ; it is legal tender.

Let me put another question : What creates the acceptability of the pound-note issued by any bank of issue ?—The Government behind it.

No, it is the wealth or security that is behind it ?—No, it is the Government behind it, as Professor Murphy says. It is law and custom and convention.

Supposing you had no wealth at all, say you only had a Government, how would you get on ?—I cannot conceive a Government without wealth. The bank-note in my plan is not wealth in itself. It is only a recognized medium of exchange for the convenient interchange of goods and services.

Well, let me put another question : If the issue of credit—— ?—Keep to currency, if you please.

If the issue of currency of any description is not in the first instance a debt charge upon some security, then if it is so simple why did thirty banks fail in America, because you can easily get the printing-press to work. Why could they not print notes if they did not require to have at the back of their currency some real wealth ?—Roosevelt supplied that answer ; he came in and stood at the back of the banks.

That is an experiment in regard to which we have not yet seen the ultimate issue ?—We have Great Britain at present standing at the back of the Bank of England notes to the extent of £260,000,000.

When a bank issues loans, puts currency into circulation through the issue of a loan, does it not create a debt or a charge upon some industry or security or can it simply get the printing-press to work and run out notes without regard to the banks' reserves ?—If the banks only lend deposits they can go the length of those deposits quite easily.

But the bank does not only lend deposits, it lends its reserves too ?—You show me the bank that lends much more than deposits in New Zealand.

They all do ?—Much more ? On an occasion they might exceed it by 2½ per cent., but other than that, no. You go over the banking figures in this country for the last ten years and you will find that

they have only varied about 5 per cent., and, generally speaking, the advances have been less than the deposits.

Which proves that the banks have to have assets and securities and reserves in order to function. Although it is a controversial point with some people that banks do not lend their deposits, I believe that immediately a bank accepts a deposit under the financial system then the deposit becomes the bank's resources and they cannot pay 3½ per cent. or 4 per cent. on them without putting them back to industry to recoup themselves ?—I quite agree on that point.

Would you say that our purchasing-power is determined by the exchange value of our goods overseas ?—Our external purchasing-power is determined by that.

Mr. Lye.] Seeing that we are linked to sterling, although we are 25 per cent. above sterling, do you think that, relatively speaking, our general price-level is determined by the market ?—As long as the Zulu puts his faith in the hands of his medicine man, he is dependent on him, but if we do not hang on to sterling we do not put our faith in it. We do not need to continue on it.

Mr. J. N. Massey.] I presume that you agree that the world's price-level has a decided effect ?—Yes, it has an effect, but in proper proportion in New Zealand it should have only one-quarter of the effect, as the internal trade is three times as much as the export trade.

You have been talking about registered unemployed in New Zealand. On the 1928 figures there were about eighteen hundred unemployed in New Zealand. I presume that you will agree that that was by reason of the fact that we were getting a reasonable price for our produce which was sold overseas ?—Yes; it does not necessarily say that we were, but there was sufficient money in circulation then to keep those people in employment.

There was less money on fixed deposit in the banks in 1928 than what there is to-day ?—The question of money deposits in the banks is not the point at issue. It is the question of the amount of money in circulation. I would refer you to your statement: "Assuming on a 1920 basis that it was necessary in order to maintain economic life to have £7,890,000 notes in circulation, then allowing for the increase of population, £9,855,000 should now be in circulation, instead of £5,831,000. It is the quantity of money; it is not the amount of money on deposit."

The price-level is one of the deciding factors ?—Yes. We have made it a deciding factor, but we should not have made it a deciding factor as regards the prosperity in this country.

In 1928 there were approximately eighteen hundred registered unemployed, and the price-level that year was reasonably good. If you compare the bank figures with last year's figures, you will find there was more money lying at call and on fixed deposit last year than in 1928; is that correct ?—Yes, if you want to know the real cause of that you look up the banks' debits each week and you will find how much more money there was turned over in 1928 than 1933. That shows the velocity of money.

Then, if it is true that there were very few registered unemployed in New Zealand in 1928 as compared with last year, and the amount of money on fixed deposit and at call in 1928 was a long way less than last year, it is reasonable to assume that the price-level is one of the deciding factors ?—We have made it so. I contend that we should not make it so; we should not starve ourselves because the price-level has fallen. If we did not, we would consume more ourselves; there would be less exported overseas.

How can we consume more ?—If a worker has only got £1 10s. a week he cannot consume as much as on £5 a week.

Ninety-seven per cent. of the wool produced in New Zealand is sold overseas; we could not consume more, could we ?—No; not appreciably.

Approximately 95 per cent. of the lamb produced in New Zealand is sold overseas ?—I agree.

Approximately 80 per cent. of the milk-products are sold overseas ?—I did not think it was so much.

Yes, approximately 80 per cent., and the world's price-level must have a decided effect ?—It has a decided effect inasmuch as we have an increase; if we have a proper monetary system in circulation here with the same amount of money, people here, instead of getting £5 a week, with the falling credits in London and the demand for imports, it would have meant that the rate of exchange would have naturally risen and the producer would have been maintained on that level.

Can you tell us how to take wages out of industry if the wages are not in the industry ?—You cannot take it out if it is not in.

Exactly ?—But I am trying to put the return into industry.

How are you going to do it ?—Increase the purchasing-power.

In New Zealand ?—Yes.

Will you accept the figures I have given you; 97 per cent. of the wool is sold overseas ? How are you going to put it back into industry in New Zealand; put the purchasing-power back so that the farmers will be able to pay out the 2s. 6d. you speak of. Why put the farmer on a different footing to the others ?—It so happens that for the proper working of the scheme he has got to take his chance. I do not mind if he makes 5s. an hour. If the economic life here is maintained and we have every one here on a £5-week basis, then they are wanting to buy goods on the foreign market. The credits are reduced. I was going to give figures assuming that there is only £10,000,000 of credit available in London and the people here are wanting to import English goods and we have to put up the rate of exchange—say that there is £1,250,000 paid in here to buy £1,000,000 goods. With that £1,250,000 we can maintain the price-level of the exporter.

You are prepared to pay the 2s. 6d. per hour to all wage-earners ?—Yes.

I know one farmer who has at the moment five men working for him milking cows; you would pay those men 2s. 6d. per hour ?—Yes.

How would you pay them ?—Did the farmer pay them 2s. 6d. an hour before, when times were good ?

No ?—Some of them get more on share milking.

In the winter ?—That is a different problem. When the farmer was getting 2s. 6d. a pound for his butter, he was quite prepared to let out his milking on share milking.

The unfortunate position is this: That the great majority of farmers have to milk their own cows, but they prefer to employ labour. How are these farmers going to pay 2s. 6d. an hour for milking cows ?—They cannot pay it unless they are getting at least 1s. 3d. a pound for butter ? Under my plan they will not be farming if they are not earning more than 2s. 6d. an hour; and, further, they will not be able to get labour unless they pay the equivalent of 2s. 6d. an hour or £1 per day.

No, they could not do it on that ?—If they got 1s. 6d. ?

No ?—They could not pay £1 a day to their workers if they got 2s. 6d. a pound for butter ?

They might at 2s. 6d. ?—When this quota comes on it will reduce our credits in London.

The Chairman.] Which quota ?—The proposed quota. It will reduce our credit in London, and if we have our economic life here maintained, in the endeavour to buy up English goods, we are quite prepared to pay in extra money which could be paid out for the reduced quantity of produce.

Then you will agree that if it is impossible to get that 2s. 6d. per hour for the wage-earner out of the industry, your scheme would not prove successful ?—I would not like to see dairy-farming continued if they cannot pay wages at 2s. 6d. per hour. Of course, the men get board free, and allowance might be made for that.

Have you ever thought out what your scheme means ? Dairying is one of the main industries in the country. You work out your own figures at 2s. 6d. an hour and reckon the dairy-farmer will average twelve hours a day, seven days a week, and 365 days a year ?—The dairy-farmer, from my experience of it when I was working on a farm, got up at 4 o'clock in the morning, but did nothing all day until milking-time again in the afternoon.

Mr. Murdoch: He did not grow the grass ?

The Chairman.] Did he sleep in between milking-times ?—He was hanging around the house.

Do you think all farmers do that ?—This man had been a sheep-farmer, and was not very keen about it. I must tell you he had a wonderful growth of grass.

You would not give him 2s. 6d. an hour ?—For every hour he worked.

How much did you get ?—About 1s.

How many hours a day ?—Twelve hours.

Mr. J. N. Massey.] You must not forget the point that the farmer has got to find capital also ?—The return he gets will give him his capital. When I said I got 1s. an hour and worked twelve hours a day, I was working for myself; I was not working for any one else.

You have had a little experience, therefore you admit that it is impossible for the dairy-farmer to pay 2s. 6d. an hour to his wage-earners at present prices ?—Yes. If he cannot pay that, the thing to do is to stop dairy-farming.

How are we going to get the £37,000,000 you refer to ?—We are not overconcerned about getting that, because we have got everything in our own country, and England has to buy goods from us.

Mr. Schramm.] Do you think it is possible to fix internal prices in New Zealand by law ?—By Arbitration Court awards, say ?

Or by the Board of Trade. They fixed the price of milk in Wellington; it is possible to stabilize wages or to fix them by the Arbitration Court awards ?—Yes.

Therefore it is possible to fix the price-level in New Zealand, and the wage-level, too, is it not ?—It can be done, but I would not say that the price-level can be fixed on the whole of industry.

On the great bulk ?—I would not even say that, in every industry.

Is it possible to fix the price of butter in New Zealand ?—I would not like to see it fixed, because as science progresses I would like to see the price of butter come down, which would be for the benefit of the wage-earner.

A question was asked about the banks in America; is it not a fact that some of the banks in America failed because their assets were frozen ?—Yes.

You stated earlier that you had a claim on the bank for £1 note that was issued. What is the claim ? It is a negative claim; you would get another note if you went to the bank, or two 10s. notes for £1, or £1 of silver ?—Yes.

You refer to the fact that behind the credit of the banks in most cases is the power of the Government. You refer to the Government coming to the aid of the bank in the crash and also in 1914 ?—Yes. The Reserve Bank is guaranteed by the State, and the private shareholders have only £500,000.

Mr. Murdoch.] I take it that you would like to see the balance kept between the country and the town ?—I would like to see the two co-operate.

So would we all. You said a little while ago, if an industry stopped, if they could not sell their product, the industry would stop, and the people from that industry would go into some other industry ?—Yes, some other industry which would be more productive.

Assuming that the butter industry which is a big one stopped—they could not carry on; the butter-producers would then go into some other industry, we will say in town; to manufactures in town ?—They might change over to wool.

Perhaps that would not be convenient. Assuming they came into town and flooded the manufacturing industries, what would be the result ? You know the manufacturers here to-day are complaining that the import duties are not sufficiently high——?—If the farming industry collapsed, then credits would be squashed overseas. The goods imported from overseas would have to be made here; those men would have to be absorbed in that industry that would be created here.

You would be able to employ them all in that indusrty ?—Yes.

Where would you get your butter; would you import that ?—If only two farmers were left in New Zealand making butter they would be able to make a living out of it.

I would not think so. If it is not competent for the farmers to carry on at the price paid to-day, you are not going to get any one to stay ?—We do not want farmers ruining their lives when they can be employed in other avenues of industry.

Dr. Sutch.] My questions are rather on the philosophy of your statements. One of your remarks was that private enterprise has brought the world to where it is to-day, and therefore it should be given a further chance ; you still agree with that, I suppose ?—Yes, except of course, as regards the Reserve Bank.

But otherwise you would let things flow naturally ?—When private enterprise fails in a field I think it would be reasonable for the State to step in.

The State can step in and render that function. I was just wondering what you meant by saying "run naturally." If people go bankrupt and wage-rates are lowered, many things might happen which we would consider undesirable ; you would interfere, I take it ?—If an industry cannot pay its wages, it must cease.

You say New Zealand does not require one penny of foreign money for full development ; did it ever require 1d. of foreign money ?—It has used a lot of foreign money.

Yes, I know ; but under your scheme do you think New Zealand could have developed without overseas borrowing ?—Yes, I think it could. We have natural resources ; we had gum here at one time.

The whole of the cost of an article is the payment for human effort expended ; the value is determined by human effort ?—The value is not determined by human effort ; the value is determined by the price received.

You say that you do not like the metallic basis, and also you say the State central bank would have to buy gold ; why ?—Because it is there whenever it is wanted ; if I want gold I want the others to sell it.

But you have already pointed out you do not want it for monetary purposes ?—It has other value.

Why force the central bank to buy it ?—It has the power to sell it overseas.

If a thing is produced in New Zealand, that is the only criterion for buying it ; everything that is produced, you buy ?—It is bought at world parity and plus or minus the exchange-rate.

You say here that if Australia sells us twice as much as we sell Australia, we should adjust that balance ?—We can adjust it to our own benefit so that we will have balance of trade.

So that what we sell to Australia should equal what we buy from Australia ?—That is the desired thing.

Why do you desire that ?—Well, I do not believe in this one-sided business—wanting to take everything and give nothing. I believe in fairness.

Why do you want to do that ? Would you agree that what we export must balance in the long-run what we import ?—We can overcome that at the expense of Great Britain.

So Great Britain is going to come into this ?—That is what we have been doing ; I do not see why we should not take advantage of the situation and send butter over to Australia.

And you would have Great Britain do the same thing—sell to New Zealand the amount she bought from New Zealand ?—Yes.

Or change it to buy from New Zealand what she sold to New Zealand ?—Yes.

Have you realized what that would mean to New Zealand ?—If she imported as much as she exported ?

No, if England decided to import from New Zealand only the amount she exported to New Zealand ?—I think that would be all right for England. Only England could not be paid her interest-charges like that.

Yes, but what about New Zealand ? England sells us so much, but we sell England very much more. If England is going to have this proportion we are going to lose a great deal of our exports to England. You say it is only the currency issue that matters as far as purchasing-power is concerned. We brought this question up before the banks and we understood that it was the amount of advances and the velocity of circulation. That was a huge factor in the purchasing-power in New Zealand. We also asked, "Does the currency issued determine the amount of advances issued," and were told that the reverse was the case. We learned that the amount of advances determines to a great extent the amount of currency issued ?—The amount of advances ?

If advances increased, we could say beforehand that the possibility was that the currency medium was going to increase too ?—Does that mean to say that the currency is related to the credits of the bank ?

But the advances are the cause, not the currency.—No.

You would deny what the bankers say is correct ?—I appeal to your reasoning-power, appeal to your logic. If our credits increased overseas, then the bank has to pay out more money. That is not what you call advances, is it ?

Deposits. That is what the banks contend would be correct ?—That is not a definite advance, is it ? Not an advance by way of loan ?

Advances by way of loans would be in it too ?—This is the controlling factor, is it ?

If the credits increased overseas, the currency would also increase here ?—Yes.

WELLINGTON, WEDNESDAY, 11TH APRIL, 1934.

Witness : Mr. H. SCHREIBER.

Mr. Schreiber : Mr. Chairman and gentlemen, I would like to make reference to certain things before commencing direct. For instance, I have placed this before the New Zealand Treasury. I just want to point out how it can be misunderstood. A portion of the letter from

the Treasury reads as follows: "The policy of the Government is to refrain as far as possible from additional borrowing at the present juncture, with the twofold object of keeping the rate of interest down and avoiding further taxation in order to meet the interest. Should the taxpayer be faced with an additiona interest bill, as would be the case under the proposed arrangement, . . ." As you gentlemen have a copy, you will see that I propose to use a certain portion of the unemployed finance, the money which is collected for unemployment, to safeguard that Department against loss for the specific purpose to which it was intended, by borrowing money. I set out £1,000,000 of that fund to pay interest and sinking fund on a loan of £20,000,000, 75 per cent. of which has got to be used for the purpose of paying labour that would relieve the unemployed to our requirements. To my way of thinking, it stands to reason, if the volume of capital was put out to be expended in labour there would be practically no need for the unemployed relief. Therefore, why should it be said that it would increase taxation, because you would be using the money for the purpose of paying interest instead of as principal. You would use £1,000,000 to pay interest and sinking fund, and 75 per cent. of the loan would be used for the purpose of practically the whole of the labour. So, therefore, you could safely reduce the unemployed tax by £2,500,000 and then be on the safe side immediately this was put into operation. Now, from that I would like to make mention of what Mr. Bruce, of Australia, said only a year ago at the Ottawa Conference. His four points which have been published are: Abundant credit, cheap money, wide expansion of open-market operations, and active use of increased credit by public and Government. That, gentlemen, is practically embodied in this scheme. It is cheap money, and it is stated here to avoid the inflation of money, to avoid raising the rate of interest. Now, gentlemen, that affects one party concerned only, and that is the man who has got to pay the interest. We do not object to the money-lender receiving a fair rate of interest for his money at all. I do not think any borrower in the country objects to that, and if a man can borrow money at 2½ per cent. that surely is low enough in prosperous times, and I propose that we pay 4 per cent., and that is surely a low enough rate of interest to pay to the money-lender for money in prosperous times, and if, by circulating the volume of finance, it does not make prosperous times, well, I have never followed the subject. The scheme is drafted, gentlemen, with a view to being fair to all concerned—to satisfy the money-lender; to satisfy the men who borrow the money; to satisfy the unemployed; to reduce taxation; to assist all industries at present in existence, not the new ones, but all industries at present in existence, and bring them back to a normally payable standard. It is practically bound up in a method of finance which I expressed in the words of a compound financial cycle. I might mention that full detail was not given in the first instance. I have added to the scheme. I have been working upon it for three years, off and on, and I have added to the scheme as time has gone on. And you will note by the copy I sent you that the volume of finance is large. It was originally drafted for the purpose of having one schedule of compound only. Now I will deal with the clauses. The first one mentions the administrative head. Now, we can easily spend somebody else's money if we are not responsible. I have said a central bank in conjunction with the Government. The Government should be interested. They would be finding the initial rate of interest. The central bank or the present Reserve Bank with suitable powers could do that part. They would be jointly responsible with the Government because they spend. A Central Committee who has the final say in applications. I have not mentioned the personnel, but obviously when the scheme was first drafted I suggested it. I now suggest as a Central Committee because it is practically for a different purpose and that is the Intermediate Credit Board, the Rural Credit Board, the Unemployment Board, the Central Bank, and an officer from the Minister of Finance's Office. They have one representative each and the final say in the allocation of the money. The bank would act upon their advice. Then, Mr. Chairman, I think I had better follow on and give you particulars about the Local Committee. In every case it would require a Local Committee which would be distributed the same as they are to-day with various other organizations. The Rural Credits and so forth. The wording I have used is, "A Local Committee shall have local knowledge of the applicant and his security." That means to say, if none of the members know the applicant personally they should call in some one in whom they have faith and satisfy themselves as to the integrity of the individual, and also the advisability of recommending the expenditure. Then, in turn, they would advise the equivalent to a Government Supervisor, who would certainly have staff added to his Department. The applicant would put in plans and specifications and full details of what he wanted expending. The Supervisor would come and see to the work, and then that recommendation would be sent to the Central Committee, who would give a final decision upon it. The work would be put in hand, tenders called, it could be done in blocks, the various contracts would be let, the work put in hand, and the work paid for and then charged up to the applicant. He never receives the money. It would have a twofold purpose. He would not have to pay interest for that money before it was earning interest for him, and the Government would be certain of the fact that the money was expended in the purpose to which it was intended. This method of finance is somewhat different to what we usually deal with. It would be Government-guaranteed. Therefore it would take precedence over every first mortgage, and therefore the first mortgagee should receive consideration and should be consulted. I suggest that he is not the only one in the picture, but he should receive proper consideration because he has probably a large sum of finance at stake. He should be given the opportunity of supplying further finance which is required. If he cannot, does not see fit to, then the Government or this finance scheme would provide that finance. Then the question arises: He has certain rights under the first mortgage. Those rights are to foreclose if he is not satisfied—that is, providing the interest and everything else is not kept up. This does not prevent him from taking such steps, but it prevents him from trading. He has got, first of all, to repay the loan in full. It does not matter when it is. The balance of the loan-money has got to be paid in full if the security is transferred, because the money was not intended for trading purposes. It was intended to lift us out of the depression. And there is another feature about it, and that is it would earn its working-expenses quite easily as you will see embodied in clause 15. Should the borrower dispose of

his security within seven years he does not get his money at 2½ per cent. I put seven years. That may be thought a bit long, but I am not adapted to shifting about myself, and that is probably why I made it seven years. He has got to pay 5 per cent. interest for his money.

The Chairman.] Pay him out ?—Yes

Is that because you have made a profit out of the sale ?—No. It is not intended for trading purposes. It is intended to lift us out of the depression ; but should he take advantage and dispose of the security he is surely in a position to be able to repay the money which he has got so very cheaply, so some other unfortunate individual can get the advantage.

But suppose he sold out at the amount that he had and there was not sufficient to pay the 5 per cent., what then ?—He cannot get a transfer.

He has got to stop there. Then you would have to shift him out if he could not go on ?—The margin of security is small, but it is not likely that he would be granted an amount of money if that risk was there. If there was such a risk I do not think the applicant could be granted more than a few pounds.

But suppose he bought it in 1929. He had got this advance, and he got into this depression. How could any one foresee it ?—That is so. But it is revalued. He has got to have an equity of 20 per cent. at the present time or 20 per cent. and a previous residential term of five years.

Mr. Langstone.] There would not be much lending done then ?—Say 30 per cent., or the guarantor. He has got a guarantor, even if there was no margin. But if he is standing on his own he has got 30 per cent. margin, which is deemed sufficient. That clause would provide capital for working-expenses. Now, I think the main aspect is the method of handling this finance, of obtaining it. You have got to pay 4 per cent. for it when you get it, and you lend it at 2½ per cent. I worked the cycle out upon the original draft which was not intended for the cycle, and still left it at £20,000,000 ; but you could cut it in quarters. Now, if you borrow for four consecutive years and relend for four consecutive years, and then compound your interest for eight consecutive years, in cycle finance you start a second schedule in the fifth year. Let that run the same period. A third schedule is commenced in the ninth year. In the thirteenth year of each or either schedule it is self-supporting at 2½ per cent. interest. Interest at 2½ per cent. is sufficient income to pay 4 per cent. on the original amount borrowed, or thereabouts.

Do you borrow the money in New Zealand or outside ?—In New Zealand if at all possible, and I understand at the present time there is——

And you tax the workers to pay the interest on it ?—It would hardly be necessary to tax the workers to pay the interest on it when the money is lent and not given away as at the present time. That is what is being done at present. The workers are being taxed and free grants are being made to local bodies, and, as a matter of fact, I myself had a chap on 4A Scheme and the advantage of 10s. a week for that period ; but surely because we are in a depression we cannot afford to do something we could not do in prosperous times. So the workers would not be taxed to pay this.

But you are taking £1,000,000 from your Unemployment Fund to pay the interest on your £20,000,000 loan ?—Well, there is a tax to the tune of over £4,000,000 to-day.

And they would still be taxed to that amount, only you take £1,000,000 off to be used to pay the interest on the £20,000,000 loan ?—And what would you require the other £3,000,000 for if you distributed £20,000,000 and 75 per cent. of that was expended in labour ?

The Chairman.] I think your idea is to get the money spent and to give work, to give labour to provide for it ?—It distinctly states that all labour must be obtained from the Labour Bureau, and no borrower or his previous employee can participate in that finance, can earn that labourer's wages. The idea is to make work available for the unemployed and to make money available to the right place where it is required, because right through there is insufficient finance provided for the requirements. It may be contended that this might affect the banks adversely, or might affect stock and station firms adversely, but from my personal experience it would put a great percentage of country people in a position to be able to deal with the banks and the stock and station firms because a large number of them cannot. The only concession they will give is, " Please yourself where you get your stuff ; we cannot give you any more credit, but we will not press you," which is a great consideration. The Government is vitally interested in land in New Zealand, and I think that there has been insufficient finance provided to suit the requirements of the land, not the individual, because we might want all sorts, but if the Government cuts up an estate I think that it should be financed to the requirements of the land to make it a payable proposition.

Mr. Langstone.] Would loan capital make dairy-farming a payable proposition to-day ?—It would reduce the overhead expenses in many cases.

But you are only going to lend them £500, and that would not reduce their overhead very much ?—It would. I can show you actual cases where if money could be got for a specific purpose—you cannot get money to-day——

Why ? No equity ?—Not altogether that ; but there is one thing which I think everyone knows and that is if you are not solvent the risk is so great that if you are insolvent you come under the criminal code if you get money which you have no reasonable prospect of repaying, and should a man launch out at the present time and get £50 or £100 worth of credit and we get a bigger slump than ever, he would be helpless.

But how many farmers or others have 20 per cent. or 30 per cent. equity in New Zealand ?—I agree with you that to-day that is not there, but you will agree with me that if the Government decided to distribute £28,000,000 the equity would be in to-morrow morning.

The condition on which you are going to put it in is they have got to have 20 per cent. or 30 per cent. of equity ; they cannot get it. Very few people in New Zealand have 20 per cent. or 30 per cent. equity ; only those few people can get the benefit of your scheme ?—What is the reason for the equity not being there ? It is that there is no available capital in the country ; it is tied up.

No, prices have fallen. That is why your equity has evaporated ?—And in your opinion if the Government decided to spend nearly £29,000,000 it would not effect the equity of securities in New Zealand ?

Under your scheme you cannot do it, because you have admitted that those who have not got the equity, cannot get the loan ?—I maintain that they can get the loan and have the equity directly the scheme is decided on. You have got nothing to develop it to-day. I mean money spent judicially ; this money must be spent for a purpose where it is required. I will give you an instance : you take the pig industry of New Zealand. That could be largely developed. How can a dairy-farmer to-day lay out £50 or £100 in the development of his pig industry. £50 or £100 on my farm would be all that would be required for the pig industry. It can stand that money any day I can get it. I am only one of thousands, not hundreds ; but when you do get your finance to-day it is a short-dated finance. This is something much different : £300 would cost £10 10s. a year.

Supposing you all develop pigs and you get the same position as you have to-day : How would you get on ?—If we look for trouble we can quite easily get it. Denmark in 1923 sold more pigs to England than what we sell butter and cheese. In butter, eggs, and the pig product in 1923 over £40,000,000, and their expenditure with England was £9,000,000. Now, if there is £20,000,000 for Denmark in the pig industry, surely there is a little more for New Zealand. We want a reasonable share.

Are they not going to use their own pigs in England ?—They may do, but if they are going to feed the multi-millions that they have got there, would they run them in the parks ?

England is as big as New Zealand.

Captain Rushworth.] Have not they just done a deal between pigs and whisky with the United States ?—They have done a deal, but I cannot give you details of it. Is it a continuous supply of ham for a continuous supply of whisky ?

Apparently ?—Well it is a pity New Zealand could not have participated. We have got plenty of places to grow the barley, and I believe in some places they make the whisky, too.

Mr. Munro.] They get punished if they are caught ?—That reminds me of another point. The uncertainty of to-day is greater than a lot of people realize. If a man has £1,000 the Government can tax it to practically what they like. What they pass is law. If a man has been industrious enough to put aside £1,000, it is his money, and I do not see any difference in the act of passing a law and taking it or of taking it without passing a law. If you take it without, you go to jail ; if you pass a law and take it, you do not ; but the act is precisely the same, and that fear is placing us in a very insecure position, and I think if our unemployed scheme is going to continue, if we cannot evolve some scheme that the unemployed are not required, our position is going to get very bad indeed. A point I would like to make clear is this method of finance. It certainly could be reduced : it is worked out on a high scale. If a certain amount is provided per annum by the State by utilizing the compounding-scale it is a great advantage to the country.

Mr. J. N. Massey.] Can you tell this Committee why, in your opinion, we are receiving such low prices for our produce in New Zealand ?—Such low prices for our produce in New Zeland, or do you mean the exports ?

Either exports or the goods which we consume in New Zealand, or both ?—With regard to the exports, it hinges to a great extent upon the method of marketing. We cannot get more than market prices. Denmark is getting ever so much higher prices than we are, and there is a great fault in the marketing. In saying that I am not reflecting upon the people who are acting as our agents. I reflect upon the industry itself, and what I mean is this : the butter is sent Home, taken out of the freezer, and put on the counter. If we are to do anything else than that private enterprise does it for us. I maintain that the industry should start a factory to rework our butter at Home, and, as a matter of fact, I brought that under the notice of the Dairy Board some time ago, but we cannot expect a higher price than the ruling price at the time. The ruling price at Home is not a fair reflection of what we should be getting. It has not been in the past. I put that down to the method adopted of marketing. Denmark has a much more efficient method than we have. I do not mean to reflect upon the agents.

Mr. Clinkard.] Can you compare marketing conditions of New Zealand with that of Denmark ? Are not all the conditions entirely different ? They are close to a weekly market, whereas we are months away. Can you make a fair comparision between the two ?—Well, I will give you an illustration. You take the cheese industry instead of the butter. Cheese requires to mature, and Canada can beat us by 10s. per cwt. In regard to butter the difference in the two circumstances is the cost of maintaining your supply in the freezer and interest on the money while you are waiting for it.

Is it not a fact that having to put it into the freezer interferes with its marketing qualities ?—Undoubtedly. But do Denmark freeze or chill ? How do they convey their butter over the North Sea ?

They could convey ordinary dairy-butter which will keep for a fortnight here ?—If we reworked our butter at Home it would improve it out of sight.

Mr. J. N. Massey.] You mention that you would borrow money at 4 per cent. ?—Yes

Are you a farmer ?—Yes.

What you make will not pay to-day at present values and borrowing money at 4 per cent. ?—No. The farmer pays 2½ per cent. back. You reduce the interest from 4 per cent. to 2½ per cent.

How would you provide for money that has been borrowed overseas at high rates of interest and relent to farmers ?—It would not reduce the value of the security. If that security required a certain amount of money and could not obtain it, if the Government provided the amount of money that the security required, 75 per cent. of this is applied in the improving of the security on which the money is loaned. So that the farmer receives any extra income on his farm, the security itself has brought it up within 25 per cent., then the only advantage the farmer needs to receive after spending the money is the advantage of the 25 per cent.

Would you suggest making this money additional to the money that is already available for the farming community ?—Yes. It is not only the farming community, but for every industry in the country —wherever it could be used.

You have mentioned the State Advances Department and the Intermediate Credit Board and other institutions, do you not think it would be far better if all these more or less Government lending institutions were amalgamated ?—That is the word I used in my first draft of the scheme, and to reduce the rate of interest. The rate of interest is too high, and it is impossible to obtain relief to-day under the ordinary method of finance in the country.

How would you inject this additional credit into the country ?—I do not quite comprehend the meaning.

Having obtained it, how would you inject it into the country ?—It would be lent to everybody who wished to borrow.

Regardless of security ?—Yes, because the Committee would get the advice of valuers who would determine if the security was there.

At the moment you have these Investment Boards ?—Yes.

Have they not got the power to provide additional credit at the moment ?—They may do. I have not followed that closely. Under any financial institution, private or Government, at the present time you cannot get the required capital.

At the moment there is a tremendous amount of money lying in the banks in New Zealand. That is not interest-bearing. Why is that money lying there ?—Because the country is not secure, and in this case it could be borrowed off the banks for this scheme.

There are many millions of money lying in the banks to-day at call ?—Yes.

How are you going to get that money in circulation and keep it in circulation ?—If the finances of this scheme were satisfactory it is immaterial where the money comes from, because there would be a continuous supply going into the country while the country could absorb it at 2½ per cent. and 1 per cent. sinking fund.

How are you going to provide for the money that has already been borrowed at high rates of interest ?—I do not think that you could provide for it with this scheme, but it would assist the taxpayer to pay the high rate, and if, for instance, a man had a loan and the industry required fresh capital to make it a success and he got that money at 2½ per cent. his gross overhead charge would be reduced to that amount, and to get capital at the present time when he required it would be a greater advantage than is usually the case.

You would actually loan on second mortgage at a very cheap rate of interest ?—Yes, collateral security, anything at all, because it takes precedent over every class of mortgage.

That would come in front of State Advances loans ?—Yes, in front of any loan at the present time. It would not be granted if it was going to be detrimental to any security.

Mr. Ashwin.] To what do you attribute the depression in New Zealand. I take it your scheme is intended to overcome the depression ?—Yes.

As a starting-point, to what do you attribute the slump ?—Lack of finance where it is required. I wanted to borrow off a bank which I had been dealing with for twenty-eight years. I wanted £35 for six weeks, and my creditor had an order on my factory cheque, to save £32 10s. I had a credit balance in an estate of £1,258. The manager told me that I would have to get a guarantor.

The Chairman.] Why did you not go to your dairy company ?—I went to the chairman, and he said, "I will give you a cheque now."

Mr. Ashwin.] It is generally considered here that the basic cause of our trouble is that the returns on our primary industries will not cover their costs. Do you agree with that ?—I agree with that, but by spending the required money on necessary improvements for the sake of absorbing unemployment, if an industry requires capital, it will produce cheaper.

Your idea is that with additional capital made available you could reduce farm costs ?—Yes. With additional capital, if worked on these lines.

So that the industry will be able to carry on at a profit with existing London parity prices ?—It just depends on what they are to-day,

They are 73s. cwt. for butter ?—I cannot say at 73s. cwt., not immediately, but eventually it certainly would. That is from practical experience. I have been farming all my life, and my personal experience is that.

You mean to say that your costs are higher then they ought to be because you have not sufficient capital ?—Yes. The farm that I have has insufficient capital for its requirements.

And if you had additional capital you mean you could produce more ?—I could produce more and more economically.

And if you produced more and other farmers did the same, what is going to happen to an already overloaded market ?—You refer to the dairy-produce ?

Yes ?—Of course, it would produce more in pigs. Of course, that now touches upon the working of the restricted market.

You do not contend that New Zealand could ride out of the slump on the back of a pig ?—Not altogether, but we are going to sink with the ship if we do not do something, and this will help.

I gather that your proposal is that all this large volume of capital should go mostly into rural development ?—I might tell you that I interviewed business men with a view to embodying a clause whereby business men could participate freely, but I was told so long as the country has got the money we are all right. We do not want to lose any more, but if a clause could be embodied and worked on safe lines it would be an advantage to the country to lend to everybody who would borrow.

Where are you going to get your increased market ? You contend that, given more capital, the productive capacity of the farmers could be increased and thereby you consider the farm could be made

productive, but you are still back on the other awkward question of the oversupplied market ?—Butter and cheese are not the only things that could be produced on farms, and it would be in the hands of the Committee if this finance was put into operation.

I gather that the interest on all this money is to be paid out of the Unemployment Fund ?—The 4 per cent. and the 1 per cent. is to be paid out of the Unemployment Fund.

Then you contemplate the Unemployment Fund going on indefinitely ?—Well it could be called the Consolidated Fund. If in a time of depression we can pay the amount we do to the Unemployment Fund, surely when we are prosperous we can pay £3,000,000. I drafted a clause here dealing with the national debt which might be embodied, but I do not wish to stress that part, but just to point out what could be done in that direction.

You further contend that the State should do all the lending required ?—Yes. To bring us back to a healthy state of business so as to enable the present banks and financing institutions to operate. They cannot to-day. Another thing, the class of finance is so different. The class of finance is a very long-term interest, and that of the ordinary stock-agents, &c., and of the storekeeper in the country is a short-term loan, excepting the storekeeper who gets no interest at all.

You say this is a temporary expedient to lift the country out of the depression in order that the private financing institutions may again take up their normal work, but then you propose to go on borrowing money up to about £75,000,000 ?—Yes, that is if you wish to use it to pay off the national debt. You could cut this into a quarter—it would be advisable if it was adopted to start it on a scale of about a quarter the size that this is based on, and you could have as many financial cycles as you liked so long as you used the financial cycle to reduce the rate of interest.

When do you contemplate the thing is going to stop ? When are we going to get rid of this subsidized debt ?—If we are prosperous we pay taxation and it is not called a loan. If it was out of the Consolidated Fund we would lose sight of that word altogether. It would be taxation.

As long as it is on the taxpayer it is an added burden, and how long do you think it would be imposed on him ?—If you made use of the larger sum for the purpose of paying the national debt it would be shifting the national debt to New Zealand instead of where it is, and your taxation if you paid this for ever would not be one-twentieth part of what it is to-day. You must not lose sight of the fact that in England it costs the English Government £440 a year per head, and in some cases they pay this unemployment dole for years, and if they could settle in the country their unemployed I think that they would make an agreement with the New Zealand Government to continue to pay that dole for five years. If they agreed to pay that for five years, and you took the number of immigrants set out in my statement, you would transfer your national debt to New Zealand instead of where it is overseas.

Do you think we would be better off then ?—Why do they say that we have not enough exports to pay our debts ?

I was referring to the fact of whether we could absorb people at that rate ?—A Government lives for a long time. This is not based on a man's life. When that time comes, if we do it or not I think the population will be here.

That may be ; but that is a difficult scheme to bring about on a subsidized basis ?—But if we can get rid of our national debt by doing it, it is a better proposition than that of to-day.

Your proposition is not a temporary stopgap, but a long-range thing spread over the next fifty years ?—The loans would be sufficiently long, I think a thirty-six-year loan at 1 per cent sinking fund.

At 5 per cent. that works out at thirty-six and a half years ?—The sinking fund on the capital thirty-six and a half years. Like the advances to settlers, 1 per cent. sinking fund and 1½ per cent. according to the class of security.

You bring the central bank into it. What part does it play ?—The handling of the finances : to work in conjunction with the Government.

But it is to be done by raising loans ?—Yes.

Would they raise the loans instead of the Government ?—The Government would guarantee They would have the handling of the money. The Government would conjointly guarantee that money with the Reserve Bank.

In other words, the central bank is to share the losses with the Government ?—It is only a wording, because, if you have a Government guarantee, if the Government went bankrupt there would be nothing left of the central bank.

The point is that you would carry on the bank sharing the losses with the Government ?—The bank would act conjointly with the Government for the purpose of raising a loan to make it as secure as we can do to interest the party who is lending the money and also repaying it. We say so often, " All a man has to do is to spend the money."

If you guarantee another man it means you have to stand voluntary losses ?—Yes.

You want the bank to share the losses with the Government ?—The bank and the Government give a joint guarantee for the money in the first place. This would secure the investor against any future Government passing legislation to repudiate the agreement to pay the investor 4 per cent. interest agreed upon.

Are you going to allow this money to be used to pay off existing obligations with farmers at all ?—There is a certain percentage, 10 per cent., allowed to pay a debt incurred in the previous twelve months.

Otherwise you would exclude the repayment of existing debts ?—Absolutely. It is for a specific purpose. It is not for shifting present mortgages at all. It is for improving securities so that present mortgages are worth something, because to-day they are worth nothing.

Do you suggest that in all cases that all farms can be made to produce a great deal more, and, therefore, will be able to meet not only existing wages but charges for this as well ?—Yes. I do not mean to say the first year. It will probably take two or three years.

You do not anticipate any difficulties from this enormous increase in rural production ?—If the Government is going to negotiate with the English Government over the quota that would be entirely

in the hands of the Committee who handle the application. For instance, if I wanted to increase the cows on my farm and I was milking up to the number that the Government thought was reasonable, they could refuse, but if I wanted my pig side of the industry increased, or the cropping side, the money could be provided.

If the British Government after that said we cannot take any more produce from you than now, your scheme is not workable at all ?—Not necessarily primary products. If they say they will not take any more of our stuff we will have to say the same thing: that we are sorry we cannot pay our national debt.

That is not the same point. I am talking about the possibility of taking a larger increased quantity of produce than we are taking now ?—Yes. You are right that dairy-produce is greatly increasing, and I maintain that it should be left to right itself, but we should protect the English farmer to a certain degree and protect him in a practical way.

You mean to say that we should tax our farmers to give a subsidy to the British farmer ?—It would only be a fraction for a small farmer's herd. It would not be £2 a year.

Mr. Lye.] Is this scheme of yours backed up by any school of thought, or is it just something you have personally drafted to meet the position as you think it is ?—I might mention that I first of all drafted it for the Farmers' Union—the Rongotea Branch. I was not a member at that time—I had resigned some years previously as a protest against what was only a bogus organization. I had to fight it all the way, but when I had my fight I had the others fighting faster than I was. The Manawatu executive were in favour of it to a man, and it has been brought under the notice of the Dominion president.

And has it been left entirely to you to put forward this scheme ?—I carry it on on my own. This is not a Farmers' Union thing. They sent it through to the Prime Minister, and it was put in the waste-paper basket.

The Chairman.] Did the Dominion president take it up ?—He sent it through to the Minister, but not six months afterwards I saw in the press he had forgotten all about it.

Mr. Lye.] Do you propose to raise the sum of £5,000,000 a year for a period of years ?—Yes.

And you propose lending it out to individuals and limiting the amount that may be borrowed by any one person to £500 ?—Yes.

And you propose to lend them that money at 2½ per cent. interest, plus 1 per cent. sinking fund ?—Yes.

You fondly imagine that an additional loan of £500 at 3½ per cent. interest is going to materially improve the position of the farmer who is suffering to-day from a process which does not compensate him for the cost of producing the goods for the world's market ?—It is going to materially assist him. When you say £500, that would only be required in a big herd or for a fairly big dairy-farm. We speak of that because it is the dairy-farmer that is "in the cart." There is also the sheep-farmer, but we make use of the dairy-farmer because, as I have said, the dairy-farmer is "in the cart." It is only a big dairy-farmer who could judiciously spend the £500.

Mr. Lye.] Supposing the big dairy-farmer is short of finance, has he difficulty in raising finance at 5 per cent. ?—He has in special cases.

Do you suggest that the difference between the 5½ per cent. interest at which I say a man can borrow to-day if he has an equity, and your scheme of 3½ per cent. and the facility of getting an additional £500 is going to materially improve the position ?—Yes, considering that it is a different class of loan. In the case where you say that he can get it at 5 per cent. we must not lose sight of the fact that it is a short-dated loan. In this case it is over a long term, and he has not got to find the principal.

Mr. Munro.] Do you not think that the State Advances Office could administer this scheme without going to the expense of setting up a bank. What is your idea in the first schedule on your paper here of establishing a bank ?—You already have a central bank or a Reserve Bank, and I was going to give it something to do, because I do not see what it has to do now. I think that is the duty of a central or Reserve Bank to bring New Zealand into a healthy condition so as their banks can trade.

It has been proposed on a number of occasions to this Committee that it is quite possible and quite feasible to create money through the central bank instead of borrowing the money ?—Money is worth nothing more than a printing-machine then ? It is quite possible that if you created money like that they would say in Australia, for instance, "Thanks, we have pipe lighters." It would be all right in Zealand, but practically valueless unless you could back such security with what the world's population wants, and it is usually gold.

You do not think that would be a wise scheme ?—No. I do not. I think the people who have money are frightened to let it out because things are so uncertain, and if people in New Zealand have money to lend they are an asset to the country and we should borrow their money and be absolutely sure that they get it back and interest on it.

Do you not consider that if the Government was borrowing £5,000,000 a year as suggested by your scheme that would be taking money that was required for some other purpose and it possibly would go into the circulation stream of the purchasing-power in New Zealand ?—"Required for some other purpose," I do not quite get your meaning.

Money does not lie in the banks. When money goes into the banks the banks guarantee a certain rate of interest. Consequently they must lend it out. That money is going to be loaned by the banks to business people for some other purpose. You would practically take that money for a different purpose and would have the same intent so far as the purchasing-power of the people was concerned.—If I follow you I would say this: that the banks have got that money there for a specific purpose. The banks are carrying on business in this country under private enterprise and they have to have some volume of money, and there would be no compulsion about it. It is absolutely voluntary. If the banks had more money than they required for their normal capacity of business, then they would be

pleased to get 4 per cent. interest for it. I do not believe in compelling them. It would be in the hands of the banks, and if it was going to ruin their business by lending that to the Government they would not do it. I do not think it would affect that position at all. It could not transfer such money into a wrong channel, because the banks would require a certain volume of the finances for the purpose which you mention, and they would retain that volume for their use. If they had any surplus that would go into circulation, if they loaned it to this scheme of finance.

Your contention is that if your scheme were put into operation it would help the farmers to produce more wealth from their farms ?—If there are no other industries in the country that want the money the farmers would take it. I would like to see it open to every one who could borrow. I tried to get that clause drafted in it specially for towns and cities, but I could not get it.

The banks claim that all the money that is in their banks is loaned out, and that the money is operating and doing its proper function. You would divert some of that money into another function ?—That is, you mean to say we have no money in New Zealand to lend excepting what is already lent ? What about the £37,000,000 that is on fixed deposit. Would that not be very nice in circulation at the present time. Probably the owners of that finance would be only too pleased to put it into circulation if they were on a secure footing.

You mean a fixed deposit for a long term ?—They could not touch it until the term was up.

Mr. Holland.] I take it your main plan is to absorb the unemployment ?—Yes. If we do that we obviate other difficulties.

Why should the banks guarantee the Government in a business proposition. The Government is finding the money to pay the interest, and they are taking it out of the Unemployment Fund ?—If any one is going to suffer it is the unemployed-relief worker ; while he is guaranteed that he will not suffer under this scheme. The banks guarantee that he will not suffer. The banks are guaranteeing to the Government that through their utilizing that finance they are going to absorb 100 per cent. more than the money represents.

You propose to borrow £5,000,000 a year for four years ?—Yes.

And that would increase the national debt to nearly £29,000,000.—No, £20,000,000 only. There would be a gain of nearly £9,000,000.

The gross amount lent would be £28,640,449. That is near enough to £29,000,000. Would not that increase the national debt by that amount ?—No. You borrow £20,000,000, and that is the extent of the increase of your national debt, and by compounding that money for a certain period you make a gain of the extra, and by lending the extra gain that is the method of reducing the rate of interest charged.

Then again, you propose in the fifth year to lend out the interest and sinking fund so that you have neither interest nor sinking fund to meet it with ? It refers to the 1 per cent. sinking fund and 2½ per cent. interest that the borrower is paying. That is lent and the Government continue to pay the interest and sinking fund on that money for twelve years at a gross amount of £11,500,000 to make a gain in capital of £9,000,000 and reduce the interest from 4 per cent. to 2½ per cent.

Then the Government does not get any benefit from the sinking fund if you lend it out again ?—They do, because you are taking sufficient from the unemployed fund to provide for that sinking fund. You are taking 4 per cent. interest and 1 per cent. sinking fund from the unemployed fund to get the money in the first place, and then when you relend it you compound the interest you receive when you have relent that money for a further eight years. Therefore it would be necessary for the Government to pay the interest and sinking fund for twelve years. The thirteenth year is self-supporting.

And is this scheme of yours to put additional men on the land or to start new industries, or is it just to bolster up those that are already in existence ?—It is not provided for starting new industries. I do not provide for that, because I maintain that if a firm or a business is going along and it is lacking in finance you can get a greater effect with a smaller capital by putting that business on a sound footing than by starting a new business altogether.

Referring back to that £1,000,000 that you propose to take from the Unemployment Fund, does that include the interest and sinking fund as well ?—Yes.

Because that would be another £25,000 ?—Which ?

The interest and sinking fund on this money ?—I do not quite understand.

Well, you take £1,000,000. That includes interest and sinking fund, so that really my question does not apply. You propose that the maximum loan shall be £500. How far will that go to comply with clause 17, under which it provides for up-to-date yards, sheds, milking-machines, and cleaning facilities, and a plentiful water-supply at the shed. For increasing the pig-production on a dairy-farm to the maximum and reduce the feeding-cost of such pigs by providing a small threshing-mill and gristing-mill, suitable horse and motor power and implements for the farm requirements ?—No. That gives the scope of what could be done with the finance without increasing your butter and cheese output from New Zealand. It does not say that you have got to do all that with the money, but it gives you an idea what can be done besides producing butter and cheese. It is a comparison. The wording, "for instance," is there. You could utilize the money for other purposes than for actually producing butter and cheese.

But would not all this be calculated to reduce labour ? All this machinery that is provided for in clause 17 ?—No, certainly not.

Then what is the good of getting the machinery ?—Reduce labour, did you say ?

I said it would reduce labour ?—No. It would make more labour. The farmer would have to employ an extra man and he would be able to afford to do it permanently, because to-day he has got to go without those particulars. He has got to go without meals, or if he does not he has got to pay the market rate for it.

Does the farmer go without meals ?—Without the meal for his pigs. The meal and pollard and so forth, because he cannot afford to buy it, or if he does it is at an exhorbitant rate. He can produce it.

He can grow it, and if he had the small gristing-mill—mind you, it is only a matter of pounds. You would not think that it would cost something like £25 or £50 to cover the lot of that. You could get the four-horse threshing-plant, which is very small, and you could get a one-horse gristing-mill.

You said that in your opinion the people with money were afraid to advance it, to lend it ?—Yes.

Why ? Have you any reason for saying that ?—Because of the uncertainty of the economic position of New Zealand.

Do you think the Mortgagors and Tenants Relief Act has anything to do with preventing people from lending money ?—To a certain degree it has.

Would you then advocate its repeal ?—I am not going to pass an opinion on it, because I have not studied it. With the knowledge I have of it at present, if it is not abused I think it a good thing, if it is worked as it was intended ; but these laws are put on the statute-book and then after experience they often find that it was not quite what it was really intended to be. But I think that it can be carried too far.

Dr. Sutch.] About clause 17. This is following up what Mr. Holland has just said. You say that you will provide yards, milking-machines, cleaning-facilities, and plentiful water-supply without producing any more milk, butter, or cheese ?—Just excuse my interrupting. If you read clauses 16 and 17 as one clause you would get on better.

I quite realize that this is an addendum to clause 16 ; but in so far as it is not producing any more dairy-produce, how are you going to provide the means of repaying the loan moneys ?—You are producing some more in every case. You are producing a little more, but that could be controlled by the finance committee.

They have got to decide how much of that money must be allotted to purely productive purposes, and how much to purposes as set out in clause 17 ?—Yes.

Well, assuming then that we have a certain amount of extra butter and cheese produced we still come back to the position that has been mentioned several times this afternoon of what Major Elliott is doing in England. The latest move is to guarantee a price for milk. This means that they are going to have a plentiful supply of milk and surplus milk to turn into cheese, which is going to be a blow at our cheese market, so not only are we going to be hit on the butter side but also on the cheese side. In view of what is happening there, how do you think that these goods are going to get a return that will repay their loans ?—To repay their loans ?

Yes. These loans here ?—That I propose by this scheme ? Well, to answer that, if they could not repay these loans they would lose the whole of their security, of what they have got to-day, because our dairying industry would have to be absolutely ruined before finance would be impractical. What you call cheap finance would have to be a detriment to a dairy-farmer.

It is not a matter of the cheapness of the financing. I am assuming that the 2½ per cent. is not the main factor ?—No. Being able to obtain it is the main factor.

Whether it is 2½ per cent. is a minor matter really ?—Yes.

So that your scheme is no different from the present method of extending finance except on the lower rate of interest and on the longer term for which it is borrowed ?—And the continuous supply at a very cheap rate, and principal paid by 1 per cent. sinking fund.

Do you think the bankers have wrong judgment when they cannot see how these moneys are going to be repaid ?—Which do you refer to ?

Not your moneys. Their own moneys ; bank moneys ?—Do I think that they have wrong judgment ?

Yes ?—Well, I am not going to blame them for not being able to foresee something which no man could foresee, and that was the depression. The depression has hit everything.

But now they see something ahead which is not very promising and they are not prepared to sink money in an enterprise which will mean the money will not necessarily be returned to them. That is their attitude, is it not ?—Yes, because they are a private enterprise.

Do you think that is wrong of them ?—No, I do not, for this reason ; They are working on absolutely safe lines and we could smash every bank in New Zealand through going into reckless business if they were so inclined.

How will your method of lending be different from theirs in so far as this committee that you are setting up will have exactly the same factors in mind when they decide whether to lend or not ?—The functions of the committee, their class of finance, is totally different from the bank. The committee starts off with the absolute certainty that they cannot lose their money and they are representatives of the Government and they are going to recommend that money for the good of the country quite irrespective of security. If it is going to be detrimental to our dairy-produce market they would not advance it.

I see that the security is adequate ; but many bankers now can get adequate security, but they feel that they would have to take over the farm, run it, or sell it up, and they are not willing to do that ? —No.

In short, you would have the same position except that you would have your committee ?—Who knows the applicant in the first place. The wording is, " They know the applicant," and the security comes second.

Yes. So the position is going to be this : That anybody who has borrowed money from your committee will have that as its first mortgage and will have greater difficulty in raising money in other directions. First mortgages will not count as first now. So that you are going to hinder lending by other institutions ?—You mean by stock and station agents, and banks, and so forth for intermediate banking business ?

Yes ?—It would not affect that position at all. It would be an advantage, because if this finance is going to put the country into a prosperous position you will have no trouble in getting your finance just for the sake of asking.

But they are not getting a first security now, whereas formerly they could ?—Well, a lot of financing is done on the man. You go to the bank and get an overdraft. Never mind the security. It is the individual.

Mr. Langstone.] They need the security, too ?—But in some cases the security is useless. They still want a guarantor.

Dr. Sutch.] You refer to transfers of land. Do you think that the land-transfer system in New Zealand is not a good one ?—I do. I think it is all right. I have no fault to find with it.

You do not think that the facility we have here of transferring land has led to speculation ?—Well, it may have done. I have not studied that aspect of it, but that has no relationship to the transfer mentioned here. It is for a specific purpose that we cannot loan the finance.

But you are hindering transfers here ?—That is if the finance is used for speculation purposes, yes.

But is it necessarily true that when a man sells his farm he is speculating ?—No.

Well, how are you going to distinguish (if you are going to distinguish) between a man who sells for speculative purposes and a man who sells for other purposes ?—In any case all they need to do is to repay the loan. They can please themselves, but the great percentage of the public in New Zealand are under a wrong apprehension with regard to a man selling his farm. A man gets a farm, he goes a certain distance, his capital has gone and he sells it to another man who has a little bit more capital and he starts off with a smaller security and they are both in a good position just because he is able to sell, but if it is used for that purpose it is for a good purpose.

Do you think that you will hold up the development of farm lands if you have hanging over their heads the possibility that they will not be able to transfer any farm lands they hold ?—The statement you make is not quite correct. They can transfer in every case. All they have got to do is, when they sell, get sufficient money to repay this loan-money first and the rest is their profit. They can make a profit out of being able to get cheap money. They cannot transfer in every case. All they have got to do is, if it is before seven years, pay 5 per cent. for their money and pay the principal back again. It is not their money. They have borrowed it on good conditions, and it is only right they should repay the loan.

You admit that the banks are probably correct at the present time in withholding advances in doubtful dairy-farm cases, yet at the same time you are going to advance to the same farmers a certain amount of money, at a cheaper rate certainly. How is the position different ?—Well, in one case, the bank is a private enterprise, here to make a profit first. In the second case it is the Government who are concerned with the welfare of the population first, and profit second. So that if they are out to run on safe lines so as they will not smash one another, they have got to run in unison and they are going to run on safe lines. I have not gone very deeply into it, but I would say that they are not doing wrong from their point of view.

The banks are pretty safe. But do you not think that the Government lending institutions would also have to exercise exactly the same discretion. They have got to recover their costs. They have got to repay the loans ?—Well, they would do both under this.

And if this prosperity that you envisage did not come, then this scheme would be useless ?—Yes. But the money could not be lost; if New Zealand is worth that money it would get it. We would be no worse off than we were because the money was judiciously expended with the best brains of New Zealand to sanction it and obtained when we most need it. And then if the bottom fell out of absolutely everything all we would have left would be this. If that had gone, too, well we would be in a very poor predicament.

So that you say that the main trouble with the economic position in New Zealand is lack of capital rather than lack of a market ?—No. That is not quite a fair comment. Just what would be meant by lack of market. If we got 2s. 6d. a pound for butterfat, of course we would not be worrying about it.

Well, shall I say low-selling prices then ?—No. Lack of capital makes the position worse, and when you have got low-selling prices lack of capital is more acute.

Assuming the low selling-prices, and also assuming that there is no lack of capital, is the position to be materially better ?—I do not quite get that.

We will assume that this lack of capital has been made up. Is the farming situation going to be any better ?—If the prices remain as they are ?

Yes.—Certainly. Decidedly so. If you have got money you can make money, especially if you spend it judiciously, and in this case some shrewd heads are going to see it spent. The man who borrows it does not see the money.

I think the main trouble is that all he has got to do is to pay the money back. That is going to be the difficult part for the dairy-farmer ?—If he could not pay this money back I am very sorry indeed for the first and second mortgage holders of New Zealand.

I quite agree with that ?—Because this is going to make their securities worth something; to-day they are worth practically nothing.

The Chairman.] Looking at the end of your statement, first of all I want to ask you do you support the constitution of the Dairy Control Board here in New Zealand ?—The constitution of it as at present ? I certainly approve of a Dairy Board. I certainly think we should have one, but not a Control Board. Cut the word "Control" out. Call it something else.

Produce Board ?—Yes. I certainly think we should have a Dairy Produce Board in New Zealand.

You go on to say that we should expend £20,000. You want to use that for buying butter and cheese to give away free of charge. That is all right. That is an advertisement ?—Yes. In preference to paying the printer, give the commodities.

Then you refer to a suitable speaker being selected to give illustrations with moving pictures on the top of a miniature factory. Who would you suggest in the way of a speaker. Would you send a man from New Zealand ? Have you got anybody in your mind ?—No. I certainly have not; but we spend a lot of money in advertising, and I make this suggestion as a better method than printing.

The method is all right. I am not questioning that. But who would you send ? Somebody from New Zealand ?—We would certainly have a Dairy Board, and if they cannot decide who should do the work then they should not be there.

You would leave it with them ?—Entirely.

Then you refer to a further expenditure of £25,000 to find new markets outside of England ?—Yes.

Well, that £25,000 and £20,000 makes £45,000 ?—Yes. It is a lot of money.

That is £45,000. Then you suggest that there should be a levy of $\frac{1}{32}$d. ?—That is a reference to a comparision. What I mean to say is this : those two amounts of money would cost £1 11s. 5d. to a herd of fifty cows. It sounds a lot in New Zealand.

A method of raising it ?—Yes. A method of raising it and just a demonstration how little it would affect the dairy-farmer's pocket for the advantage gained.

Well now, the levy of $\frac{1}{32}$d. You would have to raise this money to find this £45,000 for a start, would you not ?—Yes. A special levy for a special purpose.

There is at present a levy through the Dairy Produce Board of $\frac{1}{32}$d., and a recent increase that has been put on for advertising. Now, how long do you think the farmers of New Zealand would stand having to pay that levy ? Do you, as a farmer, know that the farmers all round complain of it ?—Yes. But do they know what they are talking about. £1 10s. on fifty cows. I think if the money is spent well, it is the best money they have ever spent.

But the farmer would not consider that. If it was only 5s. he would still complain of it. And do you think for one moment that they could put that additional burden upon the farming community of New Zealand in addition to what they are charging to-day ?—If the money is properly expended the dairy-farmer would be pleased.

You think he would be pleased ?—I am certain of it. If it was made public to him what it was costing him he would be ashamed to say anything about it. As I have said to many of them round there, I fight a lone hand on that subject because they are all opposed to the Dairy Control Board, and I worked this out and showed them what it would cost, and though they said they were getting no value at all it is not the fault of the Control Board. As I say, it is the fault of the personnel. But is the statement correct ? I think we are getting value and I think we want to spend more and spend it in a more effective manner.

I give you credit for being a great fighter, because I know you by reputation, but on the other hand you must agree at once that the farming community would object to a further levy by the Control Board because the Control Board were charging originally, as you know, $\frac{1}{16}$d. Then they accumulated funds and invested them in Government securities, and that money should have been spent, as you know, in advertising by other methods. But you really think that the farmers would agree to this additional levy being put upon them for this purpose ?—I am quite certain they would, providing the Dairy Board made it their business to give full publicity to how much it cost each farmer with a certain number of cows. They would be ashamed to say what they do to-day, because fancy their complaining when we have got representatives in London complaining of the expenditure of £1 11s. 5d. on a herd of fifty cows, which is practically right.

Mr. Schreiber : What does the little lolly shop spend in advertising—£1 10s. a year ?

The Chairman.] We have your opinion about it. I am sure that I could find another farmer who would strongly protest ?—On principle, not on money.

Both, I think. You do not seriously suggest that this country should pay a bonus to the English farmer, do you ?—Not this country. You perhaps misunderstand me, but I seriously suggest that, and I mean what I say at the present time. The foreign exporters to the London market have a certain percentage, something like 15 per cent., which is advantage for the Dominion. At Home they are talking about stopping us from supplying that market.

Is the bonus at Home, or here ?—The bonus is at Home. If we make it half that it would cost me about 16s. ; I prefer to pay that to have a free London market to saying, " You cannot make a living."

Do you realize that these people from whom the British people buy their butter—that the purchases of New Zealand are infinitesimal compared with what they are in other countries ? We are so small ; we are only a handful ?—But we should not lose sight of the fact. Take any nation in the world ; the first object is to acquire dominions so long as they can make themselves self-supporting. The British Isles are not self-supporting, and I think the object of acquiring these dominions was to go a long way to make her self-supporting, and for that fact we have a prior right. I think we should guard, see, that the English dairy-farmer is not penalized, but we should also not lose sight of the fact that we, as a Dominion, are, for a specific purpose, making the British Empire self-supporting. For that fact we should have precedence over foreign supplies. I suggest putting a levy on the whole lot, including margarine, a similar one on the dominions, and a special levy to compensate the English farmer for his loss.

A very eminent man who has been before this Committee made the statement that we should go on increasing our production and supplying at the present rate so that the consumers in Britain should have the advantage of getting the goods at the low prices. What do you think of that ?—Provided we can make ends meet, and provided we can produce cheaply enough.

Not at the present prices ?—We cannot. That is my suggestion.

You would say his statements were wrong, and not in the interests of the Dominion ?—By producing more under conditions with short-dated loans and stock and station agents, we would be running at a greater loss. Unless we can produce economically—can produce and pay our way at the lowest price—it would be detrimental to the Dominion.

I was just wondering what your opinion was as against his.

Mr. Langstone.] I would like to follow up that question with regard to the effect on the people in England. You would then get a lower price for your produce overseas—that is, that there would be a certain amount of price for goods overseas taken to give to the British farmers ?—Putting it that way

it does not sound very nice, but when you think it costs me about 15s. to have a free market, I would not mind. It would not affect the individual farmer.

Suppose, then, you tax the New Zealand farmer to assist the British farmer to become a greater competitor for that one market. If you are going to subsidize that through the sale of New Zealand dairy-produce, you are going to put him in a better position to become a competitor ?—Do you think we should not consider him ?

I put it to you ?—The English farmer deserves consideration, and I think the exporting countries of the world who export to London should see that the English farmer gets some consideration ; but we should not lose sight of the fact that we expect to supply that market. The Dominion should also contribute a little towards compensating the English dairy-farmer for his loss.

That is what happens in regard to rebates of railways in different oil companies in the United States. Some of the oil companies get their oil carried on the railways at a very low freight and their competitors were charged a higher freight, but that went to their competitors by way of rebate. Was that fair dealing ?—I do not think it is quite a comparison.

We will leave that. With regard to the 1,000,000 people you are going to get from England, do you propose getting them out in one year or how long ?—I worked it out on a basis of thirty-six years, but I just made mention of that fact to show how it would be possible to transfer that national debt to New Zealand in that method. First of all, get over our own financial troubles. When our labour troubles are overcome, give them consideration in that direction.

Suppose the British Government would not agree to give you £40,000,000 ?—Did not they finance in one case the farmers overseas to the extent of £200 a piece ?

They had an Empire Emigration Scheme where they were prepared to find money at a very low rate of interest, but you are going to get £200,000,000 from the British Government—£40,000,000 a year for five years ?—You would have to make the best deal you could. I am not stressing a great deal on that ; I wrote it in because the evidence had been brought up before this Committee before.

The counterpart of that is that, when these immigrants come to New Zealand, you have to find £500 for each of them ?—Not money ; it is finance, which may be money, or may be anything.

It is a money value ; you say definitely £500 ?—Finance them to that extent.

If you had 1,000,000 of them, that is £500,000,000 ?—Yes ; the immigrants pay 2½ per cent. and 1 per cent. sinking fund on it.

Then you are taking £200,000,000 from the Old Country ; spread over the thirty-six year period there is £500,000,000 you have to supply ?—Cut it in half and work it on that basis. Use the money that you can gain in England ; you can use that for the purpose of liquidating.

Provided the British Government is willing ?—Provided the British Government is prepared to pay.

Have you communicated with the British Government or any one in England ?—No.

You have taken it for granted ?—I do not say they would agree ; if they would not agree to anything, they could not do anything.

But you made a statement ; we do not know what is at the back of your mind ; all we know is that you are going to pay off the national debt in, it looks like, five years ; £40,000,000 for five years. The national debt is about £160,000,000 overseas, so that we would have about £40,000,000 of a balance ?—You can delete that subclause altogether, about the national debt, because it practically deals with the immigrants.

Is the outlook for dairy-produce very promising ?—In what manner, production or prices ?

Prices. Does it look very promising ?—Not at present. There has been a big discrepancy between other butters and our own, and also other cheeses and our own.

Have you ever given any thought to an internal price-level ; fixing it internally and not leaving it to overseas ?—I have given a fair bit of thought to fixing the internal prices, when I have been paying 1s. 2d. a pound for butter and it is sold on the London market for 9d. The association fixed the price over a period of the manufacture ; our price is fixed once a month, and in that month it was 1s. 2d., and I saw in the paper where it was retailed at 9d. on the London market.

I meant an internal price-level for all of the exports ; not relying on the London market, but to create an internal price-level and pay the farmer here for the produce, based on that produce, in New Zealand currency ?—Yes, I have given that a little thought, and since you have to deal with the outside world, if any deficiency was made and you sold your commodity in the outside world, there would be a loss made.

I noticed in the paper that butter was selling in London for about 70s. a cwt., in Belgium and Berlin for 183s. a cwt., and in Paris for 238s. a cwt., all at the one time. If those countries evidently are fixing the price-level, could not other countries do it ?—In those countries they do not export much of their butter. Because we are exporting, if we fix our price and there is a deficiency, we would have to meet it.

You think it is good business to pay 4 per cent. plus 1 per cent. sinking fund, and then lend it at 2½ per cent. plus 1 per cent. sinking fund ?—You compound it to make up the difference. I do not believe in making a loss ; you compound the finance.

That compound has got to come out of the people's pockets in some way. If the Government invests that sinking fund, some one has to pay for it, so that they can get the interest. The people will have to pay for it ?—In what manner ? They are paying to a greater extent to-day by way of unemployed tax than they would have to pay under those conditions.

I think you are only diverting it from one to the other, because you can only pay out of current production, can you not ? You cannot pay out of nothing, if you are going to make nothing, and invest money and pay interest. The interest must be paid out of current production, not out of past production. As you add to your burden compounding your interest, you have to make a greater production ?—You have so many individuals and so many more securities participating in doing so.

Provided it is a payable proposition ?—Payable or otherwise. In the second place you have a greater volume to lend to and therefore more participating in the finding of that money.

If butter remains at 6d. a pound, what will the farmer be able to pay ?—If butter remains at 6d. per pound we will probably go in for growing wheat, and the Government might then pay us so-much per bushel. We have so many millions invested in dairy-farms and many thousands of families depending on it, and it is a very serious thing when we see them crucified through a reduction in prices ?—If you travel throughout New Zealand you will find that not more than 5 per cent. of the dairy-farms in New Zealand are up to their maximum production, and they cannot get the necessary finance on a suitable term to bring the farms up to maximum production.

If you produce more, the price will become less ; is not that the position we have reached to-day ?—If you continue to produce butter and cheese only, but I gave a comparison in clause 17 where you can produce pigs to a greater advantage, and other things, and cheapen your production and become more efficient.

You quoted pigs. In 1929 and 1931 : in 1931 2,000,000 cwt. of pork went on to the British market more than what there was in 1929, equal to 16,000,000 carcasses of lamb. If you have a good sow, you will get two litters a year—possibly fourteen pigs a year—so that the multiplication of pigs if you go in for it—and every country is going in for it—is very prolific compared with other things ? —But the one who can produce most economically is going to have the advantage in the end.

But would not distance make us uneconomic ?—Not in pigs, because it is only a matter of time and cost in getting there ; the cost is very small, and it would only be the interest on the money while you are waiting for it.

Supposing they put a quota on, and there were only so many pigs allowed to go in ?—If they put a quota on everything, they can possibly say, " We cannot take anything from New Zealand at all," and that would be the end of it.

The Chairman.] I would like an expression of opinion from you as one of the leading farmers in your district : what is your personal opinion about the rate of exchange ?—My opinion is that our dairy-produce fell in comparison with the exchange.

And you would not favour the present rate of exchange ?—I never did believe in it.

You believe in stabilized exchange ?—I believe in it being free.

WELLINGTON, TUESDAY, 6TH MARCH, 1934.

Witness : Mr. WILLIAM SEDDON.

Mr. Seddon : Mr. Chairman and members of the Committee,—In the first place, I wish to thank you for the opportunity of coming before the Committee with the idea of assisting the Government in its financial embarrassment. I might state at the outset that this particular question of finance has given me considerable thought, and for some years past, at intermittent periods, my mind has been on this problem, because I felt that the time would arrive sooner or later when some particular fundamentals would have to be submitted owing to what we may term the conflicting elements that exist in society. I might state, in the first place, that my proposals at least offer some security as against the gamble in life. Further, I also claim that the proposals are orthodox in so far as my analyses are based upon a very close study, and I am firmly convinced in my own mind that they are the obvious solution. I have taken no chances, and I hope that, when I am finished, my particular evidence will be of great benefit to the Committee, the Government, and the people as a whole. I might also state that if the proposals are put into operation, those people who are to-day fortunate enough to be able to hold in control the means of production, and at the same time are unfortunate enough to be able to control the means of our currency or to stabilize same—I desire to read out my ideas in a condensed form. My greatest desire is to convey some ray of hope for the future to parents and children, particularly those who may be seriously affected by the existing economic conditions necessitating unemployment, low wages, insecurity, and fear of to-morrow, by being deprived of the right to have an equal share in the social services to society, and in lieu of a minimum standard of living comparing favourably with the advanced times inspired by the fact that they have constant fear of what the future may bring forth under existing conditions. As the outcome of very wide experience and close study as to the cause of our present economic position, we who are conversant with all the realities of life must realize that a duty lies with some one with truly humanitarian principles to sponsor proposals for a remedy. A plan can only emerge by an evolutionary method, by reciprocal trading and creating cycles of trade in definite trade channels, thereby fostering the true spirit and creating equal rights to an equivalent share of social services, and in return receive an equal standard of living. When viewed from a local standpoint progress is more rapid owing to our interests being more in common. We have learned very valuable lessons from the economic crisis, and we shall see where the weakness lies in the social system. I come to the eleven main points which in my personal opinion govern the troubles which face the Government to-day. The fact remains that we are not able at the present time to get out of the difficulties which surround us. My proposals are—

(1) Use values, commodities, and labour.
(2) Determine a conservative standard of living on the basis of an average family and in accordance with Statistician reports.
(3) Determine the aggregate consuming powers of His Majesty's subjects (all lines based upon Statistician reports).
(4) Determine the amount of currency, on a reciprocal trading basis, per head of population, allowing marginal differences for children as against adults.
(5) Determine the aggregate percentage of imports over the productive power of the country.
(6) Propose to increase the aggregate production of export commodities for trade-balancing purposes.

(7) That the total capital values of the means of production, together with the national debt, be extinguished over a period of years and upon a graduated scale of payment, and in accordance with the productivity power of the country on a reciprocal trading basis, increasing the productivity of exports over imports and based upon a graduated scale of payments.
(8) That the social services of the people be classified in their respective groups—viz., primary, secondary, transport, commercial.
(9) That a currency be determined on a percentage basis for each group.
(10) All articles of production possessing a life term to be assessed accordingly, the productive value to be repaid over the estimated useful life of the article in question to the State credit guarantee.
(11) The utility values of labour to be determined upon the excess costs of special educational training and articles and tools of trade and in accordance with their respective use values.

To fully consider each particular point would require a considerable amount of discussion, but I have endeavoured to reduce them by analysis, because I feel that your minds would travel faster than the mind of the average man on the street. First of all, we must realize that the wants of the people create demands; demands create employment; employment necessitates the rendering of social services, social services require a currency—a currency scientifically and honestly controlled. Such a currency means regularity of trade relationships, which means regularity of employment. On the assumption of our population of one million (the population is nearly one and a half million, but we will take it as one million), to supply those wants must create the necessary employment. To be given employment means the rendering of social services in lieu of the wants being supplied. The issuing of that currency for trade relationship would be based upon the average consumption. The estimated currency for consumption would be the average multiplied by your population. To give you an illustration, I may state that, first of all, the currency is only reduced by actual loss or wear. The actual trade, profession, or calling in life would adjust itself according to the wants of the people. State credits from the State Credit Boards can only be granted upon assessed marketable or serviceable values. The consumption per head of population we will assume to be £2, and the average man should receive £2 for his consuming-powers. Multiply that by the number of weeks in the year, multiplied by the estimated life of man, and you have the consuming powers of a man for the whole of his life. It works out roughly at £5,200. If we again multiply that by the total population of one million, we have the consuming value in New Zealand—£5,200,000,000. We can readily see from that that the present state of affairs is away from the law of averages. It is quite apparent to every one present that he is here by the laws of nature; he must abide by the laws of nature to be able to be clothed, shod, housed, and honestly educated, and every other social activity in life. This is really a necessary duty for Parliament, irrespective of whether a man is working or not. That currency has to be found and at the present time it is being found in such a manner that it has really no effect on our country. That being so, we have no definite reciprocal trade, and having no definite reciprocal trading business demands, we are drifting. Nature's gifts are loaned to man free of charge, and if we are to be sincere with the Ten Commandments they should be carried out accordingly. Assuming that our liabilities to those who are now only controlling the means of production including that of our national debt (and I do not suppose I shall be very far out if I assume the national debt, also the total amount of our productive values in New Zealand, at roughly £1,000,000,000). At the present time no doubt it could be considerably reduced. That statement has been made by many people who have taken a serious part in the problem. The Government wants to know how we are going to meet this national debt and how we are going to liquidate our liabilities and give effect to a currency that will be stabilized and give general satisfaction not only in the handling of the currency, but also to give men and women equal opportunity of being able to render social service in lieu of the currency which you bestow upon them. Take it as a £1,000,000,000: divide that by a population of one million and our answer is £1,000 per head of the liability. Let us assume for one moment—although it may be very large—that this national debt shall be paid off. Although those who possess it may have the legal right but no moral right, let us assume that we liquidate that debt honestly in one hundred years, five generations. It means that it works out that the average liability per head of population is £10. If we take the average liability of a family of 4·33 (going by the Statistician's report), we will find £40 per head liability. On the conditions that exist at the present time, even a liability of £40 per head per family is considerably less than the Government taxation at the present time. At the same time we can by the adoption of these proposals bring every man who is able into full employment by taking full advantage of reciprocal trade and the currency issued from our home Treasury. If we are to be sincere with this problem, we can do so. The percentage receiving compensation would be provided for, and the percentage left would pay off these obligations. In that connection the question might arise: What are the people receiving the benefit of those compensations going to do? My answer to that would be that they would be assisted, according to their proportion of the natural wealth, by withholding their natural heritage of the production. By averaging out among the people who possess these natural advantages, we could extinguish those debts in such a way that the man himself would not be impoverished in any way. He would at least receive an equivalent standard of living to those who are left to meet that legal obligation. Personally, I cannot see that there is any other way out of the difficulty, if we are to deal with it in an evolutionary manner, going deeply into these figures. The fact remains that we are creating that liability. It must be admitted that it is a legal commitment, and we are to alter the present existing state—or at least I am suggesting an improvement, because I question whether we might be able to do it in another way I suggest. If we are to bring it about at all, I cannot see how we can arrive at any other definite proposal than what I have submitted. It is quite logical; it is beyond doubt and I doubt whether any person could question the accuracy;

only the fractions could be questioned. Further than that, I might state that once we have been successful, or at least once the Government has decided that it realizes its duty to these people it is sent to represent, it will take upon itself the control of these necessary essentials, and science and culture would be unrestricted. As you are aware, science and culture at the present time are restricted in so far as we have had to give way to science in the true sense of the word. Progress would be considerably greater than what it is to-day. That being so, we would alter the existing order, allowing people by virture of their particular holdings in society to deliberately hold up any means of progress, either scientifically or otherwise; and the Government is powerless under that particular heading. Therefore, by having possession of this particular commodity, we can at least offset to a greater degree those particular liabilities that I have referred to. Although I have particularly mentioned one hundred years as the estimated time to liquidate this debt, it is quite obvious that the time may be considerably reduced, by 50 per cent. That means to say that practically within two and a half generations the New Zealand Government will have control of all the commodities and, at the same time, will have wiped off its national debt of £185,000,000 to £190,000,000, and it would have at least liquidated its debts in an honourable and straightforward manner without having done an injustice to any man. At the same time the people would have the control of their own currency and could render social services on the highest possible standard of living that can be attainable within the country. The question might be asked, How is currency to be controlled? According to the Statistician's report, which, I take it, is the only basis that we can work upon with any degree of satisfaction, we realize that 29·25 per cent. is set down to a group known as consumable goods. These consumable goods necessitate a constant flow of currency. A percentage of currency naturally must go to that particular section of groups which require payment at intermittent periods. The groups that require payment at intermittent periods naturally would not require to exchange or would not require to have that constant flow as was generally accepted under the ordinary rules of currency, but when that currency, is not allowed to flow it should, at least, be manipulated by the Treasury or by our Social Credit Bank, whichever you may determine, but it has to be in such a way that it is controlled by the people. That particular percentage of currency must necessarily be held in the respective district credit banks in such a way as we carry on our Post Office Savings-bank to-day, where a person can go and make his withdrawals, and if he wants a certain article of comfort, instead of having to rely on the present method whereby he receives his weekly wage and perhaps by other causes of life is not able to obtain those things which are necessary, that amount of credit over and above that necessary amount of credit which is fluctuating for consumable goods day by day can be called upon if he wants a suit of clothing, a pair of boots, if he wants to build a house, or anything else. The result is that knowing that he has that particular percentage laid at one side, based upon the Statistician's report as to how much is required for housing, so much of that currency must be laid to his credit similar to the Post Office Savings-bank, and if he wishes to use that particular amount of credit he is able to do so, and he knows it is there; but to-day he unfortunately gets hold of the money and, owing to the outcome of our existing conditions, many men, not realizing the responsibilities of family life, are not able, owing to the conditions that surround them, to ever obtain homes or ever obtain the necessary comforts, or decent clothing, to which they are entitled as a result of their labours. If there is anything at all arising out of that matter I will be very pleased to answer any questions.

Mr. Holland.] If a man has no money would he be able to get the suit he wants?—We shall put it there. I will explain that later, as to how that money is placed there and how you arrive at placing the money there.

The Chairman: We do not want to hurry you, Mr. Seddon, but we have only a limited time in which to hear your evidence. I suggest that you continue with your statement without any interruptions and we will take the opportunity of asking you any questions later.

Mr. Seddon: I will now come to the question of outside markets. Outside markets, as you are aware, are only necessary to offset local demands for goods outside our own reasonable demands. This applies particularly to all imports. If our resources are greater than our consumption, immigration then should be built up to a point in accordance with our development. Those, Mr. Chairman, are the basis of my proposals. I am particularly sorry that my time is limited somewhat, as I have brought with me quite a large amount of material to place before the Committee; but, in order to give the Committee an opportunity of asking me questions and also of giving me an opportunity of answering and explaining my proposals in detail, I am prepared to leave off at this particular juncture, and trust that the questions I am asked will have a bearing upon the items yet to be explained. I might state, in conclusion, that I sincerely hope the Committee will treat the matter of our financial position in all seriousness. I believe they are serious in dealing with the financial embarrassment which at present faces the Government, and I feel sure that a certain amount of wisdom will be displayed in such a way that we shall be able to get out of this particular chaotic state of affairs in an honourable and constitutional manner and with a deliberate power of determination to see it through.

The Chairman: I would like to know whether you represent any society or organization, or whether you are just speaking on your own behalf? You say you are representing the people of New Zealand—you can hardly say that?—My position might be particularly unique in that at the present moment I do not represent any organization—social, political, or otherwise. This is the outcome of my own studies. I want to refer to your other remarks regarding representing the people of New Zealand. I consider that any man at all who has any proposals that are likely to uplift the status of the people is truly a representative of the people of that particular country for which he is making a special effort.

Mr. Murdoch.] In your letter to the Committee you say the proposal, amongst other things, is "to determine the amount of currency, on a reciprocal trading basis, per head of population." What would you assess your currency on?—The currency is assessed on the actual consumptive value of your population. If we take the Statistician's report and say we have a population of one million and we require £5 a week for an average family, then £5 would be multiplied by the average family throughout New Zealand, or if we take it on the individual at £2 per week, which I have assessed, it is £2 multiplied

by the total population, and you have the amount of currency. That currency does not go out of existence at all, it goes on all the time reciprocating and never really goes out of actual circulation.

Dr. Sutch.] What do you mean by "a conservative standard of living"?—A conservative standard of living naturally is the lowest basic wage that any one can expect any family to live upon.

You have no other means of determining it?—Only from the Statistician's report.

The lowest standard you can expect people to live upon?—Yes. That is under strict morals and not subject to any criminal offences.

And in clause 3 you say, "determine the aggregate consuming-powers" of the people of New Zealand. Would that not be related to this conservative standard of living?—Naturally.

But the consuming-powers of the people are much greater than the standard of living you suggest?—That is so.

How are you going to get over that difficulty?—For the simple reason that there is a great percentage of people living below a conservative standard—really on an existence level—primarily, of course, through what we might term immoral purposes.

There is another question in connection with your "aggregates," "The aggregate percentage of imports." How do you obtain that? Is it by values or volume?—By volume.

Yes; well, seeing that these are going to be valued in money values, would the volume be important?—Yes. I want you to understand the cardinal point in this. First of all, our duty is to be able to produce sufficient for the wants of the people of our country under our own Government. All goods that are necessary to be imported naturally should be met by a surplus production to balance those imports by our exports, irrespective of volume or price. Assuming, for one moment, that we have to import 30 per cent. of our goods, no matter what the value might be as long as the value is suitable to our assessments, then if our values go back in primary production—and we must take the market into consideration—we must produce the extra production to that particular price and volume to be able to offset that particular amount of imports into the country.

So that, if the imports are more, you have to export more to make up for those imports?—Yes.

But if the prices of our exports fall in the overseas markets you will have to export more still?—Yes.

What about the farmer who is doing the exporting. Take butter, for instance. We export more and more butter every year and our total aggregate return seems to be getting less and the return to the individual farmer is certainly less. How is that going to affect his position if we follow out your ideas?—In the first place, the farmer to-day is in a gamble; there is no definite basic principle; there is nothing governing a farmer to-day; it is a gamble, nothing more. Under this particular proposal he is first of all allowed the necessary currency for his services to the community. He produces equivalent, or on an average basis, along with the rest of the farmers in New Zealand to meet the consumable demands of the people. The total amount of surplus production you would send to the outside markets, and would have no effect upon the farmer individually. The farmer individually is not affected under my scheme. First of all, he is safeguarded; these proposals will safeguard him to-day, whereas he cannot be safeguarded in the other way.

You would give the farmer a return from what he sells in New Zealand and spread the return from the surplus production over the various producers?—You must understand that the farmers will not in the first place own the farms.

I am not worrying about that, but I was wondering how you were going to fix the New Zealand price for butter when the English price determines what the New Zealand price is?—Really it makes no difference, but naturally you would be guided by markets to a certain extent if you wished it. All you have to do is to allow your currency to fluctuate, if the London market goes up 5 per cent. raise your currency price in New Zealand 5 per cent. and if it goes down 5 per cent. lower then lower your currency in New Zealand 5 per cent.

Our New Zealand price will vary with the English price?—If you wish it to do so, but, personally, I would say it has no bearing on any other country. You determine your own price according to your own currency.

It might be necessary, then, to export much more than we are exporting now, if the value of our exports fell and the value of our imports did not fall—in fact they might rise?—If you understood the proposals clearly, you would find that you are going to harness the social service in such a way that your exports will not increase over and above a certain amount, because your resources will be so distributed to find an equilibrium. You cannot determine that equilibrium until you take annual, biennial, and quinquennial averages. If you do that, you will be able to arrive at that point.

That is so; but earlier in the discussion you stated that we would have to produce more if the prices of our production fell in overseas markets?—Yes, taking it on the lines that you were suggesting, that is a question of general application. It is a question really as to whether the powers that be determine whether we should ignore the prices abroad and determine our own particular prices.

Then your scheme implies more than currency reform; it is reform of the whole economic system?—Naturally, it is a reform of the economic system.

In fact, it might even be like Soviet Russia, in that production was going to be determined beforehand and what the people were to do was going to be determined beforehand?—No. I am pleased you mentioned that. It might seem strange for me to sit here, but if any of you have ever felt an inspiration you will know what I mean, and I claim that I have come here not to represent or not to claim to be attached to any particularism at all. I am not concerned about Soviet Russia or any one else. What I am concerned about is the strictest religious morals of the people and the orthodox principles attached to them.

Mr. Ashwin.] I would like to hear more of the currency suggestions in your proposals. I gather that you are going to have a sort of State issuing authority to issue currency?—Naturally, yes.

Furthermore, I understand this currency is to be issued against what you call consuming-power ?—Yes.

And, furthermore, that you are going to place it to the credit of the people ?—Yes.

In what way are you going to do that ?—That is a question for the powers that be. They can either pay it out to the workers direct, but my personal suggestion would be to give them the necessary amount that is required for the constant flow of currency, the balance to go into the credit bank in that particular district in which the worker is engaged. Let us assume we are working in Wellington and our wages are £4 a week. Supposing £2 is required for actual constant flow of circulation of currency for consumable goods, the other £2 could be placed in the credit bank either by the Government or by the Treasury in his name so that the worker has £2 in the bank each week.

You are going to place a certain amount at the credit of every individual in New Zealand, irrespective of what he does ?—No. That comes under what I call utility values. I have not been able to get as far as that yet. Personally my position is that as far as utility values are concerned, every person has the right to a minimum standard of living, and therefore that must require a minimum standard of currency, that man is known as the manual worker. Let us come now to the skilled trades and professions. In learning these trades a certain amount of money is spent and therefore the wages of the skilled men would be so much per cent. more than the manual worker. You would carry that on to the professional men who would also get so-much per cent. more, but the fact remains that the currency would automatically reciprocate and balance itself. That is the definition of utility values.

When you were speaking of consuming values you mentioned a figure of £5,200,000,000. Are you going to issue currency to that extent ?—Currency multiplied by population on a reciprocal trading basis.

I thought it was £5,200,000,000 ?—That was over fifty years.

You assume that we would have to pay out that amount of currency ?—Personally, that is where I think a good many people do not understand this currency. What I am referring to is that currency really is not a constant paying out from the bank to the people; once a currency is determined it remains determined.

In other words, you mean currency which circulates round the community. I am coming to that point. You do not propose to cancel any of your currency then, to keep it going ?—Well, you really cannot cancel it. When I speak of the averages over certain years, you would stabilize it. Those in power would watch that currency and if there were any holding it they would know there was something wrong somewhere.

But how is the issuing authority to go on placing £5 a week or whatever the amount was to every man's credit, if the money does not come back to them ? Is the amount issued going to steadily rise and rise ?—Assuming for one moment that you give a man £4, as I say, and he is working under this particular new method of currency, he has either got it or it is in the banks.

Oh, he banks it then ?—Well, you put it in the bank for him. If he does not, then he spends it in some other particular line of commodity other than what was originally intended. Now the position is this: Supposing clothing is set down at 10 per cent. for the volume of consumption and assuming that groceries are set down at 7 per cent. Supposing groceries go from 7 per cent. to 10 per cent. and clothing goes from 10 per cent. to 7 per cent., then the volume of currency in groceries goes up 3 per cent. and the volume of currency in clothing goes down 3 per cent.

I follow that, but I fail to see how we are going to keep on issuing this currency and crediting the man's account with the money. You have got no system of recall other than it being banked ?—Well, you have this system of recall: You would never really be held up for currency, because the highest controlling power is the Government itself that would issue that credit, which costs nothing, so to speak.

If you put £5 into a bank to John Brown's account, he does not draw it, you put in £5 next week, supposing he has taken out £2, that leaves him £8, and so on and so on. But you would keep on piling it in, and supposing he has accumulated a large sum, supposing he runs up to £1,000, then he is entitled to come at any time and draw it out. Well, if a great many individuals have done that, then at any time they are in a position to come and suddenly withdraw a very large amount of money and use it to buy goods. Now what is going to happen to your prices ?—It really does not affect it seriously, because you take it on the law of averages. It would not affect it at all really.

But if you put a large amount of currency in the hands of the people to buy a given quantity of goods, your prices must rise ?—Not necessarily. They could not rise because you are guided by service values.

Are you going to fix prices ?—Well, the prices will automatically be fixed because of the determining power of your currency and your costs.

In other words, if you depreciate the value of your currency the prices have got to go up ?—It has got to be fixed up to a degree. It cannot rise any more than a certain level.

That has not been the experience of the past ?—I realize that, but we are living in a different state of things to-day.

To come back to this national debt, I gather your intention is to pay off the national debt over a period of about a hundred years ?—Yes, along with the other endowments.

You estimate there is about £1,000,000,000 to be paid off altogether in a hundred years. That is £10,000,000 a year ?—Yes.

And do you propose to issue currency for that ?—No, I do not. I only propose to be able to balance that, as I pointed out here, by a graduated scale of payments. Assuming for one moment that we set our machinery in motion to-morrow, and we produce—we know from the Statistician's report as to what goods are required for the average consumption—we immediately go ahead and produce sufficient extra surplus to be able to offset at a marketable value in the English market a portion of our national debt over there, then I presume that that would be worked in over the actual period of a hundred years along with the other Government debts.

But how does the Government obtain the basis of the value of the extra produce, assuming it is produced ?—Because of the price which controls it. It must control it to be able to buy those things.

It issues the currency to the farmers and takes the produce and uses that to pay off the debt. Is that the idea ?—Yes. That is your surplus. That currency that we have here has nothing to do with the exports.

That is what they do to-day, is it not ?—Up to a degree, yes.

But while we are doing that and increasing our productivity we are still growing poorer.

The Chairman.] In reply to a question of Dr. Sutch's you said that the farmers will not own the farms ?—Well, the land really would be taken over by the Government, and it would be a social institution.

You mean to say that all the mortgages would be paid off ?—Naturally.

What would the farmer do then ?—He would become a farmer in the actual sense, as a worker.

When he died, what then ?—He would be replaced by his offspring or by some other persons suitable.

Statement submitted by NEW ZEALAND FRUIT EXPORT CONTROL BOARD.

The influence of New Zealand exchange on the market returns of New Zealand fruitgrowers is as follows :—

1. The exchange gained on fruit proceeds during 1933 season amounted to £111,840.

2. The increase of exchange from 10 per cent. to 25 per cent. increased our ocean freight by 13⅔ per cent. or 5·6d. per case and packing-costs were increased by 0·7d. per case ; total increase, 6·3d.

3. The following tables show last year's United Kingdom average return under these rates of exchange—namely, par, 10 per cent., and 25 per cent. :—

	s. d.	s. d.	s. d.
At par—			
Market average, 1933			7 0½
Ocean freight	3 6		
Local freight, wharfages, inspection, insurance, &c.	1 3		
		4 9	
Growers' packing-costs		2 3	
			7 0
Net return to grower			0 0½
At 10 per cent.—			
Market average, 1933, 7s. 0·5d. plus 10 per cent.			7 8·95
Ocean freight	3 6		
Local freight, wharfages, inspection, insurance, &c	1 3		
		4 9	
Growers' packing-costs		2 3·4	
			7 0·4
Net return to grower			0 8·55
At 25 per cent.—			
Market average, 1933, 7s. 0·5d. plus 25 per cent.			8 9·625
Ocean freight	3 11·6		
Local freight, wharfages, inspection, insurance, &c.	1 3		
		5 2·6	
Growers' packing-costs		2 4·1	
			7 6·7
Net return to grower			1 2·925

4. The net exchange benefit goes to the grower.

5. Without the exchange benefit the industry would be ruined. Production costs are about 2s. 6d. to 2s. 9d. per case, so even with exchange benefit the grower is receiving not more than 50 per cent. of production costs.

6. Overseas values have declined extensively during the past few years. The following table gives the average c.i.f. sterling prices since 1927 :—

	s. d.		s. d.		s. d.		s. d.
1927 ..	13 11·9	1929 ..	12 9·7	1931 ..	9 4·4	1933 ..	7 0·5
1928 ..	11 0·8	1930 ..	9 8·3	1932 ..	8 10·1		

Without an increment such as exchange the industry could not continue to exist.

Statement submitted by A. E. MANDER, General Secretary of the New Zealand Manufacturers' Federation.

Exchange and Tariff.—The raising of the rate of exchange has undoubtedly in one respect been an advantage to New Zealand manufacturers. It has increased the landed cost of competing imports. Nevertheless, New Zealand manufacturers have not "taken advantage" of this to put up their own prices. Those who imagine that we fix our prices to accord with the price of competing

imports are entirely mistaken. Our aim is to *undersell* imported goods in order to obtain a larger share of the market. This is the answer to those theorists who assume that the raising of the tariff or exchange results in our New Zealand goods being increased in price to correspond.

It is true, then, that the raising of exchange has benefited many of our industries by giving them a larger share of the market. Is that a reason for complaint? Exchange was raised (rightly or wrongly) for the express purpose of benefiting producers. Would any one contend that, while all other sections of the producers may benefit, steps should be taken to deprive one great class of producers—the manufacturing industries—from any benefit which they may share incidentally with the rest?

In any case, the net benefit to New Zealand manufacturers is much smaller than commonly supposed. Three points should be specially noted:—

(1) New Zealand industries are obliged to pay exchange on all imported materials and its equivalent on all local materials, which must be bought at "export parity."

(2) It is submitted that, if high exchange continues, the whole scale of money-values and money-costs in the Dominion will eventually adjust itself to a correspondingly higher level. This process of adjustment is not yet complete; and industrial production costs for the past year do not reveal the true or final position as it will be when the effects of high exchange spread beyond imported materials (and local materials purchased at "export parity") through all the ramifications of capital charges, overhead, wages, and taxation.

(3) The fact is, that all duties *have* been reduced by one-fifth. This fact has been generally overlooked; but it only needs stating to be obvious.

Customs duties are assessed not on the value of imports in terms of the currency in which those duties are to be paid, but in terms of sterling. Imports valued for duty at £100 sterling—through actually worth £125 in New Zealand currency—pay duty on only £100. The duty is paid in New Zealand money, though assessed on the value of imports reckoned in English money. This is indeed a strange state of affairs; and it would be difficult to defend it on logical grounds. It would be almost as illogical to make an *ad valorem* duty payable in New Zealand pounds on the value of imports reckoned in dollars.

With imports valued for duty purposes at £100 English money, and subject to 20 per cent. duty payable in New Zealand money, *the true rate of duty has been lowered to 16 per cent.*—that is, the ratio of duty to value is now 16 to 100 in English money; or 20 to 125 in New Zealand money. We cannot reckon an *ad valorem* duty taking one currency for the value of the goods and another currency for the duty to be paid.

Decimal Coinage.

Statement submitted on 24th April, 1934, on the subject of decimal coinage.

The Chairman, Government Monetary Committee, Parliament Buildings, Wellington.

DEAR SIR,— Wellington, 18th April, 1934.

In view of the comprehensive nature of your order of reference directing an inquiry into various monetary systems suggested for the Dominion, we, the undersigned, desire to suggest that your Committee recommends the adoption of a decimal system of coinage, either in conjunction with the present monetary system, or as a necessary part of any new currency system that may be recommended.

It is recognized that your Committee is primarily concerned with broader currency schemes, and that coinage and bank-note structures are merely incidental to such schemes, but it is considered that an investigation into the whole question would not be complete without an examination of the decimal system of coinage, which, from the standpoint of world usage and experience, is generally regarded as the most efficient basis of all coinages.

Study and experience of decimal systems in operation in other parts of the world have convinced us that the decimal system is undoubtedly superior to the fractional system, and that our future arrangements in this connection should be so ordered as to enable this system to be inaugurated at the first convenient opportunity. As a long period of notice of change-over is usually necessary—from two to three years—we invite the Committee, meantime, to affirm and support the principles of decimal coinage, and, if possible, to give a lead as to when the change should be brought about.

We do not propose at this stage to advocate the merits or demerits of any particular decimal coinage scheme, or to emphasize the disadvantages of the present fractional system.

Up to the present no public investigation has been made into the question of adopting a decimal system of coinage for New Zealand. Last year the Coinage Committee made a preliminary and private investigation into the advisability of adopting the decimal system of coinage for the Dominion, but as the investigations were overshadowed by the urgent need for replenishing the silver coin reserve of the Dominion, its investigations were limited in time, and necessarily incomplete. The report submitted (which left the position open for the future) should form a useful basis on which the Monetary Committee could complete investigations and submit a considered report on the efficacy of the two systems—the fractional and the decimal systems of coinage.

If your Committee is not prepared to make a recommendation as to when the decimal coinage system should be introduced, it is suggested that you make a straight-out recommendation in favour of the decimal system, and leave it to some future Commission or Administration to determine when it should be introduced.

Some of the undersigned advocates of the decimal system are prepared to supplement this advocacy by oral evidence, if that is desired by the Committee. We desire to make it clear that these representations are submitted in a private capacity.

Signatories: Dr. G. Craig, LL.M., C.M.G; Willi Fels, Esq.; Dr. R. M. Campbell; Dr. H. Belshaw; Malcolm Fraser, Esq., O.B.E.; Allan Sutherland, Esq., F.R.N.S.; The Rev. D. C. Bates; S. P. Ward, Esq.; D. O. Williams, Esq.; R. M. Sunley, Esq.; Dr. E. Marsden.

SUMMARY OF SCHEMES AND SUGGESTIONS CONSIDERED BY THE MONETARY COMMITTEE, BUT ON WHICH NO ORAL EVIDENCE WAS TAKEN.

Name.	Scheme.
Adams, F., Blenheim	State bank with resources equal to capitalized value of all public buildings and properties. Mortgages to be taken over.
Aiken, E. A., Waverley	Monetary system based on the fourth dimension of fact in human reasoning, the first power being 144. "It is a natural law that no one can see their own viewpoint." Mortgage insurance on the basis of amortization, but land credit instead of bank credit.
Barker, H. C., Tauranga	£500,000,000 Treasury notes to be issued against the wealth of the Dominion; currency once issued not to be withdrawn.
Bartle, A., Napier	Imports to be paid for by paper money created against land and buildings.
Beamish, N. (Co-operative Union of New Zealand), Hastings	Spend £1,000,000 per week on guaranteed prices and wages for men, women, and young people; abolish unemployment and taxation, and pay off the national debt.
Bell, F., Midhirst	Wages to be paid in certificates redeemable in standard currency at the end of five years. Currency Stabilizing Account to be maintained.
Bristed, A. H., Christchurch ..	Resumption by the King of his sole right to issue money.
Broadbent, A. M., Carterton ..	Internal stability to achieve parity between costs and prices, the exchange-rate to be fixed at a point which will achieve this.
Buckleton, R. G., Wellington ..	Mortgages to be written down by £20,000,000 to £25,000,000, the amount written off to be charged to a Mortgage Redemption Fund to be serviced by an export-tax and primage duty.
Burdan, B. R., Eastbourne ..	Wages to be based on the amount of commodities required as remuneration for one hour of casual labour.
Burgess, J., Matakohe	Pay all public works and Government commitments in notes printed for the purpose.
Cawardine, J., Wanganui ..	Australasian State Bank with £2,000,000,000 capital. All institutions and persons to receive equities in land credit. Security of land credit to be computed on cubic miles of property. National debt to be paid off in ten years in legal tender.
Chamberlain, W. E., Gisborne ..	Stable internal guaranteed prices.
Chapple, A. H., Swanson ..	Gradually cancellable money advocated to prevent paper claims on future wealth.
Cooper, J. W., Gore	To close the gap between farming costs and prices the Government should issue circulating mortgage bonds, a stamp to be attached at each transaction.
Coulter, W. H., Auckland ..	Ten shilling prosperity bonds to be issued—a stamp to be affixed at every transaction. Unemployed to get £3 a week.
Cumber, K. M. H., Kaikohe ..	Gradual abolition of interest.
Davies, W. H., Annandale, New South Wales	All moneys to be returned to point of issue when it is likely to be frozen. If this cannot be done, notes must be issued.
Ellis, N. L., Takaka	Banks to take over "frozen" mortgages and pay mortgagee currency, mortgagor to contribute sinking fund 2 per cent. annually.
Gaffney, T., Paraparaumu ..	Spiritual guidance should be used on a basis of proven facts and equivocal truth.
Gibbs, F. G., Nelson	London Chamber of Commerce scheme.
Halibar, G., Auckland	Government to give banks £50,000,000 in Treasury bills in order to cancel existing overdrafts.
Hansen, A. K., Waipawa ..	Individual property to be credited at the bank; cheques to be drawn against this as required.
Harwood, J. L., Palmerston North	Nationalization of land; owners and mortgagees to be reimbursed by issue of currency from a State bank, while consequent expansion of volume of currency would bring about improved conditions.
Hawkes, G. A., Onerahi	Borrowing to be limited to two-thirds of the equity. Legal-tender coupons and a pass-book instead of overdraft and cheque-book. Stabilization of export values through Equalization Fund and central bank.
Hollings, L., Greymouth	Gold standard as base for nationally controlled currency; national undertakings to be financed by non-interest-bearing credit.
Jacombs, F. N., Thames	Conversion of all internal debts; a 5s. note extra to be given with every £1 converted.
Joblin, G. F., Opotiki	A State institution to keep prices stable in terms of a commodity index number.
Latham, H., Greenmeadows ..	An international gold-holding bank with an international currency run by "big deep internationally thinking men."

SUMMARY OF SCHEMES AND SUGGESTIONS CONSIDERED BY THE MONETARY COMMITTEE, BUT ON WHICH NO ORAL EVIDENCE WAS TAKEN—*continued.*

Name.	Scheme.
Long, A. F., Whangarei	Universal compulsory banking accounts with penalties for hoarding, the banks to have sole right to charge interest.
Marr de, J. H., Auckland ..	Treasury to be formed into a Currency Board to issue real-estate first-mortgage bank-notes to be legal tender. Scheme to be extended to British Empire and the rest of the world.
Martin, G., Pukekohe	Liquidation of farm mortgages on the building society principle.
Masters, L. M., Kaitaia	Abolish gold from the monetary system, which should be taken over by the State.
Mason, R. V., Masterton ..	Reduction of capital values such as mortgages in relation to the reduced purchasing-power of the currency unit.
Morpeth, W. I., Rongotea ..	Sterling should be stabilized at half its original value in gold.
McCarthy, A. P., Dunedin ..	Douglas Credit.
McClay, D. O.	Institution of State bank.
McDonald, C. R., Henderson ..	Paying off overdrafts leads to a deficiency of purchasing-power.
McLauchlan, E. J., Invercargill ..	Central bank to create credit for Government to buy farms at valuation; purchase price to be equitably divided between nominal owner and mortgagees.
McLeavey, J. A., Palmerston North	£10,000,000 of notes to be lent by Government at 1 per cent. to applicants who were in a sound position in 1929.
McLellan, J., Invercargill ..	Institute a national authority for purchase and sale of all goods; notes to be given for purchases and cancelled by sales.
McMillan, J. D., Auckland ..	Mortgage bank for liquefying "frozen" mortgages and facilitating equitable mortgage adjustments.
Nunes, R., Christchurch ..	Gold purchase of £1,000,000 annually as a basis for £5,000,000 currency to retire public internal debt, thus increasing deposits as a basis for further lending. Rigid exchange control.
Oldham, A., Auckland	Abolish interest; take control of currency from private hands. "I pray you, let us leave off this usury."—*Nehemiah.*
Picken, A., Rakauroa	Internal inflation necessary, but control the banks.
Sharp, C. A., Edendale	Cheque transactions to be encouraged, especially through Post Office Savings-bank, in order to release reserves for expansion of purchasing-power.
Sinton, W., Ngaruawahia ..	The troubles of New Zealand are to be read in the Year-book—overseas borrowing. Stop borrowing, balance the Budget, get interest-rates down, control imports to reduce overseas debts.
Smythe, M. B., Christchurch ..	Controlled inflation through public taxation and spending agencies; taxation as a remedy for overinflation.
Squires, C. H., Auckland ..	Crown to control monetary system, which is to be based on real wealth; interest to be abolished.
Stone, T. A. F., Auckland ..	Co-operation instead of capitalism, abolition of interest and its concomitants, a national dividend, and controlled prices.
Thevenard, C. W., Kimbolton ..	Local exchange on cheques is mainly profit, and should be abolished.
Thomsen, H. C., Masterton ..	Advocacy of gold convertibility to ensure stability in economic life.
Vinnicombe, H., New Plymouth ..	State control of dairying industry marketing, and development of secondary industries by controlled subsidies.
Watson, H., Wellington ..	State issue of currency; value to be based on man-hours of labour content.
Watters, R., Auckland	State central bank to lend to Government without interest for productive projects, to be repaid from 5 per cent. sinking fund. State banking to control external credits.
Weston, I. W., Canterbury ..	Reserve Bank policy should be directed to prevent negative saving, to force money into productive or consumptive uses, and to finance public works.
White, C. L., Wanganui ..	Central bank to issue "costless" credit to total value of exports. Importers' payments to be used to pay cost of pensions, relief work, defence, public works, child allowances, and liquidate internal debt.
White, C. N., Dargaville ..	Douglas Credit.

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NEW ZEALAND.

MONETARY COMMITTEE

(REPORT OF THE).

(Mr. J. A. Nash, Chairman.)

Presented to both Houses of the General Assembly by Leave.

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APPOINTMENT OF COMMITTEE AND ORDER OF REFERENCE.

Prime Minister's Office, Wellington, 10th February, 1934.

J. A. Nash, Esquire, M.P., Palmerston North.

DEAR SIR,—

The Government have decided to appoint a special Monetary Committee to hold an inquiry as set out in the following order of reference :—

> "To inquire into the monetary systems or standards which have been advocated as preferable to our present system, and, having regard to the nature of the trade and industry of the Dominion, our economic relationship with Great Britain, with other parts of the British Empire, and with foreign countries, and generally all other relevant factors, to report upon such proposed systems or standards, with particular reference to their examination or adoption by other countries, their practicability, and the probability of their adoption promoting the development of industry, and the welfare of the people of New Zealand."

I should be glad if you would accept the position of Chairman of the Committee, which comprises the following additional members :—

Mr. A. J. Murdoch,	Captain H. M. Rushworth,
Mr. J. N. Massey,	Mr. F. W. Schramm,
Mr. F. Lye,	Mr. J. W. Munro,
Mr. C. H. Clinkard,	Mr. F. Langstone,
Mr. H. Holland,	Hon. W. Downie Stewart.

I may add that the various members have been communicated with, and that each has signified his willingness to act.

Yours, &c.,

G. W. FORBES,

Prime Minister.

It was also decided by the Government that Mr. B. C. Ashwin and Dr. W. B. Sutch should be attached to the Committee as an expert Secretariat, while Mr. D. W. A. Barker, of the Treasury, was nominated as Secretary of the Committee.

REPORT OF THE MONETARY COMMITTEE.

To the Right Honourable the Prime Minister. 24th July, 1934.

INTRODUCTORY.

1. The Committee, together with the Secretariat, first met on the 13th February last to consider its order of reference and the procedure to be followed in undertaking the task set us.

2. The order of reference was discussed with yourself and the Right Hon. the Minister of Finance, when it was explained that the Committee had been set up in response to requests received from various persons and organizations desirous of pointing out the weaknesses in the existing monetary system and expounding their remedies and alternative proposals. It was agreed that the Committee could sit in such places and call such evidence as it thought necessary.

3. In order to give all interested an opportunity to place their proposals before the Committee, the following advertisement was inserted in the principal newspapers throughout the Dominion on 15th to 17th February:—

> "The Monetary Committee set up by the Government invites those interested to place before them their proposals for changes in, improvements or alternatives to, the present monetary system of the Dominion.
>
> "Those desiring to put forward proposals are requested to make application to the Secretary, Monetary Committee, Parliament Buildings, Wellington, and enclose a concise outline of their proposals for the preliminary consideration of the Committee. Those who wish to appear personally in support of their written statement should indicate accordingly, and they will be notified later as to when and where their evidence will be heard by the Committee.
>
> "J. A. NASH, Chairman."

4. Ample time was given to those desirous of taking advantage of the opportunity afforded by this invitation, but, as the Committee could not sit indefinitely, it was eventually announced through the press that no further proposals would be received after the 10th March. Thus any one interested was allowed over three weeks within which to make application to the Committee.

5. Proposals or statements were received from ninety-eight persons, whose names are listed in an appendix. Of these persons thirty-six appeared before the Committee in support of their proposals. It may be added that a special invitation was sent to Major Douglas, who happened to be in New Zealand at the time, to appear before the Committee and expound the views associated with his name. In addition, the Treasury, the Associated Banks, and three economists—Professor Tocker, Professor Belshaw, and Mr. D. O. Williams—were invited by the Committee to give evidence.

6. As the investigation was necessarily of a technical nature, it was decided at the outset to allow the Secretariat to sit throughout the inquiry with the Committee and cross-examine witnesses. The press was admitted on all occasions when witnesses were being examined.

7. To all who assisted us we desire to express our thanks. In particular we would like to record our appreciation of the invaluable services rendered by Mr. B. C. Ashwin and Dr. W. B. Sutch, as members of the Secretariat, and by Mr. Barker, as Secretary to the Committee. The Government Statistician has also given very valuable assistance in the compilation of data.

GENERAL OBSERVATIONS.

8. The proposals received by the Committee covered a wide range of subjects, some of which had little, if any, bearing upon the monetary system, but, in order that the inquiry might be as full and as wide as possible, witnesses were allowed complete freedom in elaborating their ideas. Having regard to the terms of the order of reference, however, the Committee decided that its report should be

confined to the monetary system and the financial structure of the Dominion. Even so, the task of the Committee was not an easy one. As a natural result of the world-wide depression, with all its attendant poverty and distress, there is a feeling that some definite action should be taken to meet the situation. Consequently, all our institutions, political, economic, and social, are being questioned, and a great many are disposed to blame the monetary system for most of our troubles. Others contend that there is nothing much wrong with the monetary system or its administration, and that the fault lies almost entirely in non-monetary factors.

9. As is the case in most economic problems, it is very difficult to distinguish cause and effect. There can be no doubt that our banking and credit system generally plays a vital part in the production and distribution of goods and services. Further, it is evident that a sound monetary policy suited to the needs of the country, and wise administration of that policy, can do a great deal to promote trade and industry. On the other hand, the best of monetary policies or systems cannot prevent serious disorganization and trouble arising from unsound economic policies or lack of balance in production.

10. A considerable volume of trade is international, while monetary systems are purely national. Thus monetary policies may run counter to one another, while it is not within the power of any one country, however powerful, to balance production of commodities. At the present time the welfare of the Dominion is being adversely affected by the overproduction of dairy-produce relative to effective world demand.

11. In so far as mistaken monetary policies played a part, be it great or small, in precipitating the economic crisis that exists, it is and probably always will be a debatable point how far the policy of any one nation was at fault. In our own case it is freely admitted on all sides that it was the heavy fall, within a short period, in the British prices for our exports that disorganized our economic structure and brought the depression to New Zealand. If that disastrous fall in world prices was due in part to monetary causes, it was obviously not due to failure on the part of the New Zealand monetary system. This is a fact overlooked by many who ascribe our difficulties to failure of the monetary system. We cannot dictate the monetary policy of Great Britain or of any foreign nation, though we undoubtedly have suffered from the consequences of monetary action taken in other countries. Thus it is possible that we may at any time find ourselves in serious economic difficulties without there being any fundamental weakness in our own monetary system or policy.

12. Some fully agree that this is so, but contend that our monetary policy could be so adjusted as to counteract the adverse effect on the Dominion of falling prices overseas. This is a matter that is discussed later in the report.

13. From some of the statements made by witnesses it is apparent that the normal functions of currency and credit and the basis of the value of money is not generally understood. In essence, money in all its forms is only a device to facilitate the exchange of goods and services, and in the aggregate derives its value solely from the goods and services that are exchanged. This being so, if an appreciable amount of additional credit is brought into use apart from trade and industry, it means increased purchasing-power against a relatively constant supply of goods and services, and ultimately this can lead only to increased prices, or, in other words, a fall in the value of money. This does not mean that the credit mechanism cannot be used to advantage in increasing the production of those classes of goods and services for which there is, or will be, an effective demand, but it does constitute an insuperable objection to any proposal that amounts to money for nothing.

Effects of a Fall in Export Prices.

14. Many of the witnesses drew attention to the absurdity of widespread poverty at a time when the progress of science and invention had made the productive capacity of the world immeasurably greater than in any previous period, and it was repeatedly stated that the cause of the trouble lies in the fact that the masses of the people lack the necessary purchasing-power to obtain the goods they

so badly need. It is obviously true that a great many people do lack purchasing-power, but, as real purchasing-power can consist only of goods and services, such statements mean, in effect, that these people are not in a position to exchange their services, or goods produced by them, for other goods and services required by them for consumption. This tragic state of affairs, which is reflected in the huge army of unemployed, implies that the productive capacity of the world is not being used to anything like its full extent, although we do know, to our cost, that in some directions there is a relative oversupply of certain commodities. Our primary industries, for instance, are turning out a greater volume of produce than ever before, but the aggregate return to the producers has shrunk to such an extent that they have not the purchasing-power to buy the goods and services required to carry on their farms and maintain a reasonable standard of life.

15. The resultant effect on the Dominion as a whole is demonstrated by the following series of indices compiled by the Government Statistician and included in the evidence presented by the Treasury :—

Year.	Volume of Production apart from Buildings.	Volume of Exports.	Volume of Imports.	Volume of Goods available for Consumption.
1926 ..	100	100	100	100
1927 ..	108	108	96	102
1928 ..	117	112	100	111
1929 ..	122	116	114	121
1930 ..	124	119	106	118
1931 ..	117	120	69	92
1932 ..	114	132	66	83
1933 ..	122	151	66*	82

* Figure not available, but assumed that it is the same as for 1932.

16. The figures indicate that in the aggregate the volume of production has been well maintained, but the outcome of the trading operations is summed up as follows :—

> " Between 1928 and 1932 the index figures indicate that the volume of exports increased by 18 per cent. In exchange for the greater quantity of exports, after making provision for payment of interest and other fixed claims, we received in return for 1932 34 per cent. less quantity of imports compared with the position in 1928. The net effect of this was that for 1932 the quantity of goods available for consumption in the Dominion was 25 per cent. lower than in 1928. On the same basis the shortage for 1933 was 26 per cent. This was a real loss due principally to—
>
> " (*a*) Having to set aside a larger quantity of produce to meet fixed obligations overseas ; and
>
> " (*b*) The fact that the terms of barter in Great Britain have gone against us, with the result that in exchange for a given quantity of primary products we now receive less manufactured goods than formerly—that is to say, the prices of primary products have fallen more than the prices of manufactured goods."

17. These facts, with the effects magnified through the resultant upset in the balance of economic factors internally, undoubtedly account for the shortage of real purchasing-power that exists, but the prime cause clearly lies beyond the scope of our monetary policy however much it may be a result of monetary policies overseas. There remains, however, the question as to whether anything can be accomplished by monetary action to mitigate the effects referred to and assist in economic recovery.

18. It is observed that pressure of circumstances is forcing many countries into large-scale experiments not only in the monetary sphere, but in the wider field of economic planning generally. Many far-reaching changes are being made overseas, and it may be found necessary or advisable to make fundamental changes in the Dominion. Great caution is necessary, however, in making any important changes in the monetary system, for any false steps may react disastrously on the welfare of the whole community. On this point the

Committee is impressed with the following statement contained in the report of the Royal Commission on Banking and Currency in Canada, 1933 :—

> "In such a time of difficulty experiment is justifiable. Unfortunately, there is no laboratory in which such experiments can first be tried. They can only be tried upon the lives and fortunes of human beings, and if they fail they may be productive of untold misery. The mechanism of finance is a delicate one ; the confidence upon which it is based is a slow growth, but it may be destroyed overnight, and those to whom is entrusted responsibility for the welfare of the people must proceed with caution in the adoption of changes Nor is it to be lightly assumed that methods which have succeeded in one country will necessarily succeed in another. The transplantation of institutions has not always been attended with happy results. Each country has a genius of its own, the result of its history, its traditions, its climate, the temperament of its people, its political institutions, and its economic conditions. It has, in the language of the day, its own pyschology. To this its institutions must necessarily be suited. But the experience of other countries, while it must be studied with this admonition in mind, affords some guidance in the consideration of proposed innovations."

PRESENT MONETARY SYSTEM.

19. Logically, any suggestions for altering the monetary system or substituting any alternative system should be based on observed defects or shortcomings of the present system. It would appear, however, that the economics of our present monetary system are not as well known as might be expected. It is apparently one of those things that have hitherto been taken for granted by a great many.

20. The Committee are indebted to the Treasury for a clear and concise statement which ably sets out the main features of the New Zealand banking system. Professor Tocker, of Canterbury College, Professor Belshaw, of Auckland University College, and Mr. D. O. Williams, of Massey College, all concurred generally in the conclusions expressed in this statement, which is also largely supported by the evidence obtained from the representatives of the banks.

A Sterling Exchange Standard.

21. In the statement it is demonstrated that though the original banking legislation of the Dominion was obviously drawn up to govern operations on a complete gold standard, trading conditions led to the adoption of a sterling exchange standard. Although gold reserves have been held in New Zealand by the banks and gold coin was in circulation up to 1914, it is pointed out in the statement that the only conclusions to be drawn from an examination of the facts are as follows :—

(1) That the *de facto* system is and always has been a sterling exchange standard.

(2) That it has centred round an approximate fixed par of exchange between the British and the New Zealand pound.

(3) That our external trade is cleared through London, and the London balances of the banks are the chief factor in regulating the volume of credit in New Zealand.

(4) That the banking habit is strongly developed in New Zealand and notes and coin are very subsidiary, being used for little beyond payment of wages, petty disbursements, and till-money.

(5) That the legislative restrictions on the note-issue have been quite inoperative, as the demand has always been considerably less than the maximum amount the banks were in a position to issue.

(6) That the volume of credit has regulated the note-issue, and not *vice versa*.

22. Under the sterling exchange standard, which hitherto has operated on a voluntary basis, the credit structure of the Dominion is based on funds held by the banks in London in much the same manner as under the gold standard the structure would be based on a stock of gold held within the country. It

may be added that when Great Britain was forced off the gold standard in September, 1931, and the pound sterling subsequently became depreciated about 30 per cent. in terms of gold, New Zealand exchange on London, being based on sterling and not gold, was not affected.

23. The sterling exchange system in operation is quite a simple one. It is explained in the Treasury statement, as follows:—

> "The banks maintain offices in London, and these offices receive the proceeds of the sale of our exports. The exporters receive credit for the amounts due to them, plus or minus exchange at the ruling rate, in the books of their respective bankers in New Zealand. These credits go to swell deposits. The importers, on the other hand, pay to their bankers by cheque in New Zealand the amount of their debt due abroad, plus or minus exchange on London at the ruling rate, and the British or other overseas merchant receives payment directly or indirectly out of the London funds of the banks. Such transactions result in a fall in deposits or an increase in advances in New Zealand, and a corresponding fall in the London balances of the banks.
>
> "Thus these London balances are being constantly fed by a stream of funds from the sale of exports and depleted by another stream of funds to pay for imports, the increases or decreases in the volume of either being reflected in the incidence of deposits and advances in New Zealand. The inward stream is also increased by the amount of loans raised abroad, and the outward stream by the payment of interest on such loans. In fact, all items that enter into the balance of international payments affect the position.
>
> "A credit or favourable balance in our overseas transactions widens the gap between the amount of deposits and advances. Deposits increase and advances are repaid by the credits to customers in New Zealand on account of the increase in the London funds of the banks arising out of New Zealand business. In so far as deposits are thereby increased, the community has more purchasing-power, while, on the other hand, the lowering of advances encourages the banks to grant further advances, thereby still further increasing purchasing-power. This additional purchasing-power, unless utilized to pay off debts abroad, will lead normally to an increase in imports which will tend to restore the balance in international payments.
>
> "Conversely, a debit or unfavourable balance in our overseas transactions (usually brought about by a fall in exports prices or excess imports) leads to less deposits and a greater volume of advances—*i.e.*, the margin between them is narrowed. When this happens the banks are more conservative in granting advances to importers and generally take steps by pressure and perhaps by raising overdraft rates to bring down advances, thus further decreasing the volume of credit in New Zealand. With less credit available, there is less scope for the purchase of imports and less spent on imports, which means less drain on the London balances of the banks."

Volume of Credit varies with Volume of Trade.

24. The evidence submitted showed that over a long period of years there was a close correlation between the fluctuations from year to year in the trade balance on the one hand and net bank resources consisting for the most part of the difference between deposits and advances on the other hand. In fact, the graphs produced provided a striking illustration of the fact that the volume of credit in the Dominion is based on trade and rises and falls with the volume of trade. On this point Professor Tocker stated in his evidence that investigations showed that from 1900 to 1930 the general rate of increase in the value of total production in New Zealand and also in bank advances was 4·4 per cent. per annum, while bank deposits, exports, and imports had all increased at an average annual rate of 4 per cent.

25. It was also demonstrated that under the legislation hitherto in force the trading banks had ample scope to expand the note-issue, and credit expansion when necessary or desirable was not limited on that account. Under the sterling exchange system the banks undertake to provide sterling on demand in exchange for New Zealand currency, and the credit structure must be kept within such limits in relation to the exchange reserves held in London as experience has shown to be safe. In fact, the pressure on the London funds of the banks has been the prime factor limiting the amount of credit that can be created in New Zealand. As already pointed out, however, these London funds rise and fall according to the state of our external trade, which has been also the basis on which our whole

economic structure has been built. Accordingly, given wise administration, the volume of credit should generally be sufficient to meet the needs of trade and industry.

26. Discussions with witnesses showed that there was some misapprehension and confusion of thought on the relationship between bank deposits and advances. To clarify the point, it may be explained that deposits normally arise from two sources—firstly, from the sale of exports and the transfer of the proceeds to New Zealand in the manner described above, and, secondly, as a result of the use of advances for internal business—that is to say, when a man increases his overdraft to pay a local debt, the clearing of the cheque will increase somebody else's deposit unless, of course, it merely decreases another overdraft correspondingly. Deposits are extinguished by being used in the purchase of exchange for overseas payments or as a result of repayment of advances. These operations are fully explained in the evidence of the Treasury.

27. Deposits are debts due by the bank to individuals, and advances debts due by individuals to the bank. From this it will be evident that banks do not, and in fact cannot, directly lend their deposits. This, however, does not mean that the banks could go on making advances without limit, because to increase the volume of advances involves expanding the credit structure, and if the production and sale of consumable goods internally is not increased in proportion the additional demand for goods arising from the additional credit put into circulation will generally lead to increased imports and pressure on the London balances of the banks. Restrictive action would then be necessary to restore equilibrium.

28. Increases or decreases in the margin between deposits and advances reflect similar changes in the London balances and the trading position. It is for this reason that, in considering whether advances can be increased, the banks must have regard to the position of deposits. In this sense advances are dependent upon deposits.

29. When money is placed on fixed deposit it temporarily takes claims to commodities out of circulation—advancing puts such claims into circulation. Hence the banks do a kind of revolving business, receiving and giving out claims to wealth. Offering interest for fixed deposits ensures that the banking system has some control of purchasing-power.

BANKING FIGURES AND THE STATE OF TRADE.

30. A number of witnesses urged upon the Committee the need for an expansion of purchasing-power to lift the present depression. The monetary purchasing-power available to the community consists of notes, bank deposits, and unused overdraft facilities. Concerning the latter, it may be explained that when a bank grants an application for an overdraft a limit is usually placed upon the amount which can be drawn. For instance, a business man may be allowed a limit of £1,000; if he draws £800 of this, the figure appears in the bank's balance-sheet as an advance of £800. But the £200 unused does not appear. It is the £200 of "unused overdraft facility" which counts as available purchasing-power. The business man may be continually using and paying back this section of his overdraft; it is therefore a quite important item, but there is no information as to how much it amounts to in New Zealand.

31. For that matter, it is difficult to say exactly how much of the deposits is being used as purchasing-power at any given time. Deposits are divided into Government, free, and fixed. The fixed vary in terms from three months to two years, and while in this category the resources are not normally available as purchasing-power. The free deposits are those which bear no interest and may be withdrawn by cheque at any time. Government deposits are those standing to the credit of Government accounts.

32. It is often assumed that the movement in total deposits is a good guide to the state of business prosperity; that when they increase the outlook is promising, and when they are low it means that the community has very little to spend. If the proportion of current accounts (free deposits) to total deposits remained the

same, the movement of the total would be a good guide, but if the proportion alters then the total of deposits is misleading. In fact, the volume of total deposits can remain the same, but if there is a transference from current account to fixed deposits deflation may be taking place. If business offers poor prospects, any free money will be placed on fixed deposit to earn interest. In fact, it is the current accounts which are really available purchasing-power and which are being continually turned over in business.

Free Deposits an Indicator of Business Conditions.

33. The volume of money operated on by cheque is a good index to the state of trade if the cheque-using habits of the people remain unchanged. The volume of notes in circulation generally varies with the total amount operated on by cheque, and current accounts are the main indicator in this total, even though the overdraft is used extensively in New Zealand. Savings-bank deposits generally belong to a different class, and, in any case, the transactions are reflected in the trading banks' figures.

34. The following table prepared by the Government Statistician shows, for each year ended 30th June from 1914 to 1933, the movement in total deposits of the six trading banks, and the proportion of current accounts to total deposits :—

Year ended 30th June,	Total Deposits.		Deposits in Current Account, including Government.		
	Amount.	Index No., 1924 = 100. A.	Amount.	Index No., 1924 = 100. B.	Percentage of Total Deposits. C.
	£m.		£m.		Per Cent.
1914 ..	26·5	53	15·9	51	59·9
1915 ..	29·2	59	18·3	59	62·6
1916 ..	34·6	70	22·6	73	65·2
1917 ..	40·4	81	27·1	87	67·0
1918 ..	45·2	91	31·2	101	69·1
1919 ..	46·1	93	31·7	102	68·7
1920 ..	56·7	114	41·1	132	72·4
1921 ..	55·6	112	39·2	126	70·4
1922 ..	45·7	92	29·2	94	64·0
1923 ..	48·0	97	30·7	99	63·9
1924 ..	49·7	100	31·0	100	62·5
1925 ..	50·6	102	30·4	98	60·0
1926 ..	51·3	103	30·6	98	59·6
1927 ..	48·8	98	27·5	89	56·4
1928 ..	50·5	102	25·3	82	50·1
1929 ..	56·5	114	26·9	87	47·5
1930 ..	57·2	115	26·7	86	46·7
1931 ..	54·6	110	22·0	71	40·3
1932 ..	53·2	107	18·5	60	34·8
1933 ..	54·2	109	18·5	60	34·1

35. This shows that though total deposits were 9 per cent. higher in 1933 than in 1924 (column A) current accounts were 40 per cent. lower (column B); and it is the figure for current accounts that is significant. The amount of free deposits has fallen both absolutely and proportionately, and herein lies the principal clue to the disappearance of monetary purchasing-power. The banks, however, have very little to do with this transference backward and forward between free and fixed deposits. It is done on the initiative of the trading community. The banking system on the deposit side is therefore merely reflecting, not causing this contraction of the spending fund of the community.

36. Column C, showing the proportion of free deposits to fixed deposits, is a valuable index of the state of trade. It will be observed that the proportion gradually increased from 1914 during the prosperous war and post-war years to 1920–21, when a depression arrived. Since then, although total deposits have

increased, the proportion and generally the amount of free deposits has fallen until for 1933 the proportion (34·1 per cent.) is less than half of that for 1919 (68·7 per cent.).

37. The figures also show that fixed deposits during and for some years after the war had a constant but slightly rising tendency—*i.e.*, the amount on which the community desired to earn bank interest increased by £500,000 to £1,000,000 a year. This was merely keeping pace with the growth of the community. For the six years from 1921 to 1927 fixed deposits increased by about £4,500,000, while in the six years from 1927 to 1933 they increased by roughly £14,500,000. During the last period an increasing proportion of bank credit has been put into "cold storage."

38. On this point evidence submitted by the Treasury showed that the volume of free deposits and notes in circulation, representing immediately available purchasing-power, has declined more or less in accord with the fall in the value of goods to be dealt with in internal trade. The implication is that depositors have left on current account only sufficient resources to cope with current requirements, and the balance has been placed on fixed deposit. Smaller profits would naturally lead to more attention being paid to this matter. The large volume of fixed deposits, however, represents purchasing-power that can be rapidly brought into use for production or consumption when the owners of such deposits so determine. This position definitely indicates that in the aggregate there is no shortage of monetary purchasing-power in New Zealand, provided it were brought into effective use.

39. It may be added that the fact that during the year ended in April last bank advances decreased by about £7,000,000 was quoted as evidence of a restriction of credit. That advances have been called up in a number of individual cases is well known, but it seems clear that the fall in the aggregate amount and also the concurrent increase of nearly £8,400,000 in deposits was merely a reflection of the accumulation of sterling funds in London. As already explained, this is the normal effect of an increase in sterling funds. Furthermore, it was demonstrated to the Committee that a fall in advances due to restriction internally on the part of the banks would lead to a corresponding fall in deposits. The reason for this is that holders of advances as a whole can normally repay their advances only by selling their assets to depositors, whose bank balances are decreased accordingly. Far from declining, deposits have shown a substantial increase.

40. The banks in their evidence considered that a return of confidence and conditions giving a reasonable expectation of profits in trade and industry were necessary to induce people to make greater use of their resources. To a large extent the initiative rests with the owners of bank deposits and the business community generally, but that initiative might be encouraged by making it more unprofitable to leave money idle on fixed deposit and less costly to borrow on overdraft. To this extent it is within the power of the banks to influence the position. It is pointed out by the Treasury, however, that the most enterprising banker cannot force advances upon people nor coerce them to make greater use of their deposits. Thus, if the psychological factor in the trading community is adverse, the banks would find it difficult to increase substantially the amount of credit used however much they desired to do so. Central banks can increase the credit available by buying up securities, but that does not put the extra credit to work. During the past year in most countries there has been an abundance of cheap credit available, but, in general, relatively little effective demand for it.

Velocity of Circulation.

41. While the volume of free deposits—*i.e.*, purchasing-power immediately available—is an important factor in business activity, the extent to which such free deposits are used must also be taken into consideration. It is obvious that, if the rate of turnover is doubled, an equal amount of business can be done with half the previous volume of deposits.

42. Since 1928 the Government Statistician has kept records which enable us to obtain some indication of the cheque transactions which have taken place. These records are for the six trading banks in New Zealand, and exclude other financial institutions, but the figures available are a good indication of the volume of business. These cheque transactions, otherwise known as bank debits, are charges against banking accounts, both deposit and overdraft; and an increase in their volume may point to a greater volume of transactions or a rise in the price-level with the same volume of transactions, or a combination of both. If all price-level indices are watched, it can be discerned whether or not the increase in bank debits means an increase in the amount of business.

43. To arrive at the actual turnover of money in any period we should have to eliminate any money which was, so to speak, hoarded and thus, by the very nature of it, could not circulate. If total deposits are used as the amount of bank money, at any time we could arrive at a figure which would show whether or not the resources of a country were being used effectively, but it would not show the actual rate of turnover of the money in circulation.

44. The following table shows, for the New Zealand trading banks, the relationship between total deposits and bank debits for the six years that figures have been available :—

(Bank debits include not only all cheque transactions, but also internal transfers in cases not involving the use of cheques.)

Year ended 31st March,	Total Deposits (including Government).	Amount of Debits (or Cheque Transactions).	Debits per £1 of Total Deposits.
	£,000	£m.	£
1929	55,268	1,050	19
1930	57,425	1,149	20
1931	55,593	1,001	18
1932	53,444	802	15
1933	53,309	746	14
1934	59,405	832	14

This table shows that, as the depression deepened, the volume of cheque transactions decreased and the total amount of bank money turned over fewer times. But the figure in the last column should be regarded rather as the "efficiency*" of money than its actual turnover, because the money on fixed deposit from the point of view of effective purchasing-power is being hoarded, and is not in use. As we noted above, the composition of total deposits has changed—there has been a great swing from current account to fixed deposit. The turnover of the amount on current account should rather be regarded as the "velocity of circulation," since these are the accounts upon which cheques are being drawn in the ordinary course of business.

45. It may be objected that, as a substantial proportion of cheques are drawn against overdraft accounts, the ratio of total debits to current accounts is of little use. This objection would seem to be substantiated by the fact that in New Zealand deposits and advances do not rise and fall together, and that an advance does not lead to an increase in deposits if used for payment for imports. However, it is not the total of advances which counts as purchasing-power, for this total represents money spent. It is the amount of the overdraft margin which is available purchasing-power, and it is this amount, not appearing in the bank returns, which is continually being drawn upon and paid back. It would appear, though there are no statistics available, that the use made of overdraft facilities has a close relationship to deposits, since money drawn from an overdraft account may appear as a deposit, and deposits may be depleted by repayment of overdrafts. If the proportion of unused overdraft facilities to current accounts does not vary very much, the figure for "velocity of circulation" of free deposits has some significance for comparative purposes from year to year.

* *Vide* J. M. Keynes: "Treatise on Money," Vol. II, p. 22.

46. With this condition in mind the following tables showing the ratios of various categories of deposits to debits are relevant to the discussion :—

Year ended 31st March,	I. Government			II. Other than Government			III. Total		
	Deposits.	Debits.	Ratio.	Free Deposits.	Debits.	Ratio.	Free Deposits plus Government Deposits.	Debits.	Ratio.
	£,000	£,000		£,000	£,000		£,000	£,000	
1929 ..	2,130	226,022	106	24,155	823,608	34	26,285	1,049,630	40
1930 ..	2,679	273,501	102	24,353	886,675	36	27,032	1,160,176	43
1931 ..	3,362	256,116	76	20,239	722,815	36	23,601	978,931	41
1932 ..	2,397	220,743	92	16,965	575,297	34	19,362	796,040	41
1933 ..	1,795	213,281	119	16,184	539,676	34	17,979	752,957	42
1934 ..	1,330	262,354	197	19,386	595,907	31	20,716	858,261	42

47. Too many conclusions should not be drawn from the above figures, but it is evident that if the cheques drawn on overdraft accounts bear a constant proportion to those drawn against free deposits other than Government then the ratio of the total of free deposits to total debits conceals two movements since the financial year ended 31st March, 1931. The turnover of Government deposits has increased, while the turnover of the free deposits held by the trading section of the community has gone down. This latter tendency is the one to be expected—that is, in times of depression not only will the volume of free deposits decline, but the reduced amount will be turned over fewer times in any given period.

ESTABLISHMENT OF RESERVE BANK.

48. Although gold coin was in circulation prior to the war, the sterling exchange system outlined above operated then, and it continued to operate when the gold coin was replaced by an inconvertible note-issue under war conditions. It operated, however, on a voluntary basis, for the original banking legislation framed to govern banking on a self-contained gold standard contained no provision under which any one could legally demand sterling in exchange for New Zealand money.

49. The position, however, has been changed by the passing of the Reserve Bank of New Zealand Act, 1933. This Act overrides the pre-war legislation and gives legal recognition to the sterling exchange standard. This is the effect of section 16 of the Act, which makes it mandatory for the Reserve Bank, after it commences operations, to supply on demand sterling in exchange for its own notes and gold and its own notes in exchange for sterling, both at rates of exchange to be fixed by the bank.

50. Thus the exchange-rate can be fixed at whatever level is considered necessary or desirable in the economic interests of the Dominion. Leaving the matter open in this manner was undoubtedly justified in the unsettled and abnormal conditions prevailing.

51. Under the sterling exchange system the primary liability undertaken by the bank is to provide sterling in exchange for New Zealand currency, and *vice versa*. Furthermore, it has long been the practice for all our external transactions to be cleared directly or indirectly through London. In these circumstances, the Reserve Bank of New Zealand Act rightly empowers the bank to keep its statutory reserve against notes and other demand liabilities in liquid sterling assets.

Gold should be exported.

52. For the reasons previously indicated, the gold reserves held in the Dominion have never played any real part in the monetary system, but were kept to comply with statutory requirements and support a circulation of gold coin. With the passing of the Reserve Bank of New Zealand Act, which overrides the previous legislation, the gold has ceased to be of any practical use, and it would be of considerable benefit to the Dominion if what is now a "dead" asset was

promptly exported to London and converted into liquid interest-earning assets. The Reserve Bank would then hold the funds where they would be most useful, while the substantial profit likely to accrue from the sale of the gold when credited to the Public Account in terms of section 15 of the Reserve Bank Act would assist materially in relieving the strain on the public finances at a critical time, and thus be of great benefit to the community.

No Conscious Monetary Policy.

53. In the past the fundamental weakness in our banking organization lay in the fact that its control rested in the hands of six independent boards of directors only one of which possessed a head office in New Zealand. New Zealand monetary affairs were thus largely controlled from Great Britain and Australia, where the remaining five boards are situated. Furthermore, these six banks are commercial institutions, and as such are naturally primarily concerned with earning profits for their shareholders. Four of the banks from the point of view of their operations are primarily Australian institutions, and a particular weakness arising out of this fact is referred to in the Treasury statement, as follows :—

> "Australia is operating on a sterling-exchange system very similar to that of New Zealand, and the London balances to finance the trade of both countries, so far as these four banks were concerned, really formed one fund. In fact, some of the banks themselves did not know how much of their London funds had accrued from New Zealand business and how much from Australian business. As a result, the two countries have practically been regarded as one for the purposes of exchange on London, and the approximate uniformity of rates of exchange for both Australia and New Zealand fixed in the past by the six banks in association was presumably based on the average economic conditions and outlook of the two countries combined. Now, Australia is a much larger economic unit than New Zealand, and, accordingly, this country is much more affected by Australian conditions than Australia is by New Zealand conditions. Thus the rates of exchange New Zealand on London and *vice versa* were governed to a preponderating extent by Australian conditions. The implication was that the London balances built up by the banks from the good trading years of New Zealand were used to support the Australian exchange when Australian external conditions were adverse. At times the operations were no doubt the other way round, but, as Australia is so much larger than New Zealand and liable to greater ups and downs from climatic conditions, the net result on balance worked out unfairly to the people of this Dominion.

54. In such circumstances it is clear that the trading banks could not have any definite or conscious monetary policy designed particularly to promote economic stability and the general welfare of the people of this Dominion. The banks act together in fixing rates, but there is strong competition among them for business. As a result, the tendency has been in the direction of overadvancing in prosperous times to obtain the maximum amount of revenue and too drastic curtailment to avoid losses as far as possible when conditions became adverse. Action along these lines and the general lack of a co-ordinated financial policy were obviously not in the interests of the country.

55. Recognition of the fundamental defects referred to led the Government to take action in the direction of establishing a central bank, and as soon as the bank becomes firmly established these defects should be overcome.

Reserve Bank in Strong Position.

56. It is pointed out in the Treasury statement that the Reserve Bank will be placed in a strong position from the outset if it takes over from the Government the accumulation of sterling assets in London. It is understood that it is the intention of the Government to dispose of the funds in this way and utilize the New Zealand credits obtained in exchange to pay off Treasury bills originally issued in payment for the sterling assets. These operations will lighten the interest burden on the State, and therefore benefit the whole community. At the same time, it will so increase the sterling reserve of the Reserve Bank that, if necessary or desirable, the volume of credit in New Zealand can be considerably increased. In fact, paying

off the large amount of Treasury bills outstanding will in itself supply the trading banks with ample resources on which to base an enlarged credit structure. As previously pointed out, however, the present volume of credit appears to be ample, and what is required is a means of inducing people to make greater use of the resources available.

Substantial Reduction in Overdraft Rate essential.

57. The normal method of doing this is to lower bank rates of interest. Lower deposit rates would stir depositors to seek a greater return in a more active use of their funds and would permit a further reduction in overdraft rates. The combined effect would greatly stimulate business and generally do much to assist in overcoming the present stagnation. The result could not fail to be of great benefit to the Dominion in present circumstances.

58. In this connection, it should be noted that a reduction in overdraft rates would not only induce fresh borrowing for productive purposes, but appreciably lighten the present interest load on industry. For instance, on £50,000,000 of advances a reduction of the rate by 1 per cent. would mean a saving in costs of £500,000 per annum, and the aggregate saving would be much greater than this, for the lending rates of stock and station agents and other institutions would be reduced concurrently. With idle funds accumulating in the Dominion long-term lending rates, as evidenced by the market return on Government and local-body securities, has declined sharply in recent months. The return on Government securities is now less than 3½ per cent. Owing probably to the fact that there is no organized short-term loan market in New Zealand, short-term rates have not fallen in anything like the same ratio; but the transfer of a large amount from London by the Government will give considerable impetus to the movement.

59. In any case, we consider a further substantial reduction in bank overdraft rates is essential. The Committee considers that in present circumstances the overdraft rate for first-class accounts should be reduced to 3½ per cent., with a maximum of 5 per cent. for other accounts.

Open Market Operations.

60. If a central bank finds it advisable at any time to take the initiative in increasing or decreasing the volume of credit, the normal method of doing so is for the bank to buy or sell securities in the market. This is what is usually referred to as open market operations. The purchase of securities by the central bank not only increases deposits by the amount of the purchase price, but the clearing of the central bank cheques will increase the balances of the trading banks at the central bank and thereby increase their cash resources. This, in turn, will enable the trading banks to expand credit to the extent of their normal ratio of cash to credit. If that ratio were 8 to 1, it would mean that the purchase of £1,000,000 of securities by the central bank would enable credit to be expanded by £8,000,000. Conversely, the sale of securities by the central bank would lead to the withdrawal of funds to a similar extent, and thus constitute a powerful weapon to check anything in the nature of an unhealthy boom.

61. The existence of a short-term money-market would greatly facilitate such operations, as then suitable securities could always be readily obtained. In England, the United States of America, and in many other countries there exists a market for short-term Government securities, trade bills, promissory notes, and loans at call; these are regularly bought and sold by banks, brokers, insurance companies, and merchants, and offer for them an outlet for surplus funds in need of temporary investment. This is a great convenience to the commercial world, which can function more efficiently and on smaller margins if this short-term money-market exists. From this standpoint alone, every attempt should be made to develop such a market in New Zealand. Obviously such a market can only be organized and built up gradually over a long period.

62. In the meantime the only class of securities readily obtainable in appreciable amounts is Government long-term securities. The Bank's power to buy Government securities was limited by paragraph (*h*) of section 13 (1) of the Reserve Bank of New Zealand Act, which provides as follows :—

> "13. (1) As from the date on which the Reserve Bank is entitled to commence business, as provided in section nine hereof, it shall be lawful for the Bank to do all or any of the following things, namely :—
> "(*h*) Buy and sell New Zealand Government securities or securities of the Government of the United Kingdom, but so that the amount of the securities so held with an unexpired currency of more than three months shall not at any time within the period of four years immediately succeeding the date on which the Bank has become entitled to commence business exceed an amount equal to twice the paid-up capital of the Bank and its reserves, and shall not at any time thereafter exceed the paid-up capital of the Bank and its reserves."

63. If the Bank desires to invest its capital and reserves in long-dated securities it will mean that during the first four years the Bank, for the purpose of open-market operations, will be in a position to buy an additional £1,500,000 of long-term Government securities, but at the end of the period of four years any additional securities held will have to be disposed of and the Bank will be powerless to undertake open-market operations.

64. The object of the restriction in the Act is to obviate any possibility of the Bank's funds becoming tied up in long-dated investments, but, while this is desirable, it is equally desirable, and, in fact, essential, that the Bank should have the power to undertake open market operations at any time for the purpose of directly influencing the credit position. This being so, it is considered that the Bank should be empowered to buy long-term Government securities up to say three times the amount of its paid-up capital and reserves. This would allow up to £3,000,000 for open-market operations. It is recommended that the Act be amended accordingly.

Trade and Agricultural Bills.

65. The operations of the Reserve Bank would be facilitated if more use were made of bills of exchange and promissory notes in internal trade. Furthermore, the use of negotiable documents instead of bank advances should cheapen the cost of credit for trading operations. The difficulty with the overdraft method of financing transactions for the production and sale of commodities is that the loan is not necessarily automatically paid off when the transaction is completed. In good times many banking institutions would not encourage a farmer to pay off his overdraft as long as interest was forthcoming. The result often was that the farmer and the institution got into difficulties when the apparently inevitable slump came. The method of financing production and sale of goods by overdraft was profitable for the financial institution, costly to the borrower, and often not the soundest of operations.

66. The trade and agricultural bill is more negotiable and therefore cheaper, is definitely based on production coming forward to the market, and is self-liquidating. In the interests of trade and finance the Reserve Bank will doubtless encourage the more extensive use of bills. If discount rates are cheaper than overdraft rates, and the advantages of bills become more generally appreciated, ingrained habits will be overcome, and greater use will be made of this handy form of finance.

67. The issue of bank-notes, like the issue of coin, is a prerogative of the Crown. In the past the trading banks have been granted the right to issue notes, subject to the payment of a tax which, the banks claimed, absorbed the whole of the profit arising therefrom. Under the Reserve Bank of New Zealand Act the right to issue notes is concentrated in the hands of the Reserve Bank and the trading banks are required to retire their own notes in circulation and buy all notes required by them from the Reserve Bank. This is essential to Reserve Bank control and a desirable reform in providing a uniform note-issue. When the operation is completed the trading banks will be carrying on their proper function of deposit banking only.

STOCK AND STATION AGENTS.

68. It has been pointed out that deposit banking is not confined to the six trading banks. A number of stock and station agents and other institutions not generally recognized as banks make a practice of taking deposits withdrawable by cheque or equivalent order. Further, it is understood that some of these same institutions also do exchange business. Such institutions are carrying on banking business in direct competition with the trading banks without any of the safeguards or restrictions imposed upon the latter.

69. Under the Reserve Bank of New Zealand Act "bank" has the same meaning as in the Banking Act, 1908, and in the latter Act means "any person, partnership, corporation, or company carrying on in New Zealand the business of banking." The essence of banking is deposits withdrawable by cheque, and it would appear that firms that are carrying on this class of business come within the definition quoted and accordingly should comply with the requirements of the Banking Act, 1908, and the Reserve Bank of New Zealand Act, 1933. Up to the present the legislation has been regarded as being applicable to the trading banks only, and none of the firms in question has been required to comply with the law in this respect, but now that the banking system is being co-ordinated under the Reserve Bank the matter should be reconsidered.

70. If the Reserve Bank is to carry out its functions successfully, it must have full information in regard to, and the same measure of control over, the banking operations of all institutions. Furthermore, in the interests of depositors and financial stability generally, it is desirable that such institutions should disclose their financial position and contribute to the pool of liquid resources held by the Reserve Bank in support of the banking system generally. In time of trouble the Reserve Bank would probably have to come to the assistance of any such institution, and for that reason alone it should have full knowledge of its operations.

71. The following opinion was expressed by Mr. D. O. Williams, Massey Agricultural College economist* :—

> "I think that experience will show that control and co-ordination of banking policy will remain imperfect if any large and important financial institutions are left as free agents outside the area of control. In New Zealand the stock and station agents are of great importance as financial institutions, and in principle, therefore, should be linked to the Reserve Bank. Here, again, the potential dangers of unco-ordinated financial institutions are most apparent in prosperous times; and it is my opinion that in the past the competitive scramble for accounts between trading banks on the one hand and stock and station agents on the other has greatly accelerated boom conditions and facilitated the over-capitalization of farming ventures. The opinion has several times been expressed to me by both bankers and stock and station representatives that in such times they have been powerless to resist the eager demands of customers for finance even where they doubted the wisdom of acceding, since there was no certainty that competitive institutions would also refuse, and since the loss of accounts in any number might jeopardize the position of a local manager. If such a situation is true generally, it would strongly support the principle of including all important competitive financial institutions within the sphere of Reserve Bank control."

72. It is realized, of course, that stock and station agents in particular specialize in financing farmers, and do classes of business that would not be undertaken by the banks. In addition, these firms buy and sell stock, handle produce, and do a general business quite apart from their banking activities. This difficulty could be overcome, however, by segregating the banking business if it is to be continued, and dealing with it separately. It may be added that it would not seriously prejudice the business of financing farmers if the provision for the issue of cheques or orders was discontinued, and this perhaps would be the best solution.

73. The published statistics disclose that for the quarter ended 31st March, 1934, 603 trading companies held deposits amounting to £5,988,115. These

* *Vide* Minutes of Evidence, Mr. D. O. Williams, p. 117.

companies include stock and station agents referred to above. The most unsatisfactory feature is that £3,292,740, or nearly two-thirds of the total, represent deposits at call. As the majority of the firms use the funds for trading purposes, and do not hold liquid resources, the position is far from being a sound one. In fact, it might at any time constitute a danger to the stability of the monetary system. In most cases the deposits appear to have been accepted in lieu of obtaining advances from the banks, the rates of interest paid being from ½ per cent. to 1 per cent. below the overdraft rate ruling at the time. Thus rates as high as 6 per cent. and 6½ per cent. are being paid for deposits at call. The wide disparity (between 2 per cent. and 3 per cent.) between bank deposit rates and overdraft rates is probably the principal cause of this unsatisfactory position, and a lowering of the overdraft rate, in addition to being of general benefit to the community, would doubtless be a powerful factor in bringing about a sounder state of affairs. The organization of a short-loan market on proper lines will also assist, but that is a matter that can only be accomplished gradually.

BANK TAXATION, INTEREST RATES AND CHARGES.

74. The representatives of the banks in their evidence before the Committee quoted the following official statement made by the Chairman of the Associated Banks in February, 1933 :—

> "Were overdraft rates to be reduced without adequate adjustments being made in the method of taxing bank incomes, the inevitable and inescapable result would be to curtail the banks' means of assisting their customers and the community in general. The banks are willing to provide additional relief to the present situation by way of further reduction in interest-rates if, to enable them to do so, some reasonable and fair alterations are made in respect of their income-taxation, and if the Government rates for deposits are suitable reduced."

75. In so far as the latter stipulation is concerned, and having regard to the great benefit that will accrue from lower interest-rates in present circumstances, the Committee has no doubt that, as part of a co-ordinated plan for a further reduction in interest-rates generally, the Government will arrange for any necessary reduction in Government rates for deposits. It may be observed, however, that in so far as the savings-banks are concerned there is very little direct competition with the trading banks. In the first instance, savings-banks generally receive a different class of money, and even if a certain amount was transferred from trading bank deposits to the Post Office Savings-bank the investment of that money in Government securities and the expenditure of the amount by the State for capital purposes would restore the deposits to the trading banks, though not necessarily to the same banks from which they came. It should also be noted that during the two years ended in March last trading-bank deposits increased by over £12,000,000, while the Post Office Savings-bank for the same period showed excess withdrawals amounting to £1,000,000 and the trustee savings-banks excess deposits amounting to £36,000 only. These figures do not indicate that there was any transfer of deposits from the trading banks to the savings-banks. If anything, the movement may have been the other way.

76. In regard to taxation, the banks are assessed on the basis of an assumed income equal to £1 10s. per cent. of their average assets and liabilities, but in cross-examination it was admitted by the banks' representatives that over a period averaging good times and bad the income earned by the banks is equal to that on which they are taxed. Thus, in the aggregate, the banks pay no more than their proper share of taxation. Their complaint is really narrowed down to this: that they would prefer to pay more taxation in good times and be relieved like trading firms in times of stringency. It is, however, within the power of the banks to adjust the matter by setting aside an income-tax reserve in good years when their real income is in excess of the assumed income on which taxation is paid and drawing on this reserve when the opposite position obtains. The banks themselves will know their real income, though apparently, owing to the nature of banking business, the amount cannot be checked readily by the Tax Department. This is the reason

for the arbitrary basis of assessment. For somewhat similar reasons an arbitrary basis of assessment is adopted for motion picture film companies and other classes of business. Some measure of elasticity has recently been introduced and incidentially a substantial concession granted by allowing the banks to deduct bad debts written off.

77. Another aspect of the matter is that the banks derive income from the difference between overdraft rates and deposit rates. Accordingly, if both sets of rates are reduced in proportion, the income of the banks is not affected. In fact, in present circumstances a general reduction in interest-rates, which would probably decrease the volume of fixed deposits and increase the volume of advances, would tend to increase the net income of the banks.

78. Having regard to all these facts, the Committee considers that the present method of assessing banks for income-tax in no way prevents a further reduction in bank rates of interest, and, as previously indicated, it is considered that a further substantial reduction should be made to assist trade and industry.

Bank Charge should be reduced.

79. As the price of a valuable privilege in being granted the right to issue bank-notes the banks are required to pay a tax on the notes issued at the rate of $4\frac{1}{2}$ per cent. per annum of the face value of the notes. When the rate of tax was increased from 3 per cent. to $4\frac{1}{2}$ per cent. in 1930, the banks covered the increase in the tax by raising the charge for keeping accounts from 10s. to £1 per annum. The banks have intimated that when the note-tax is reduced they will be pleased to lower the bank charge. The tax will entirely disappear when Reserve Bank notes are issued after 1st August and the notes of the other banks are retired. In these circumstances the bank charge should be reduced to 10s. as soon as one-third of the trading banks' notes have been withdrawn.

Internal Exchange on Cheques.

80. As a result of the withdrawal of the trading banks' notes, their assets and liabilities will each be decreased by about £6,000,000. This will mean a saving in income-tax to the banks of £52,500 per annum. In addition, they will also be relieved of the whole of the bank-note duty, amounting to approximately £270,000 per annum, as soon as their own notes are withdrawn. Allowing, say, one-third of this latter amount to offset the reduction in the bank charge for keeping accounts, there remains a net gain of, say, £230,000 to the banks from relief of taxation. Loss of interest on minimum deposits with the Reserve Bank under section 45 of the Reserve Bank Act may cost the banks, say, £130,000, leaving a clear gain of £100,000. In view of this, it is considered that the banks should make some reduction in the internal exchange on cheques, which at present amounts to 2s. 6d. per cent. In fact, it is considered that the concession should be equal to the net relief in taxation.

THE RELATION OF THE STATE TO THE BANKING SYSTEM.

81. There can be no argument against the right of the State to control currency and credit within its borders. The paramount authority of the State must not be merely permissive and negative; it must be active and positive.

82. In so far as legislation limited the activities of the banks, they have been controlled by the State, but this control was merely a legal framework—it may have given form, but it certainly did not give direction, to the banking system.

83. In this connection, the Right Hon. J. G. Coates, in the foreword to "The Reserve Bank of New Zealand and the Gold Question," has said:—

> "At present New Zealand has six note-issuing banks, five of which have head offices outside New Zealand; four of these are predominantly Australian institutions. The Reserve Bank will, for the first time in the history of this Dominion, bring the control of our credit and currency into the hands of a New Zealand Board of Directors controlled by New-Zealanders."

This statement by the Minister of Finance sums up the position existing hitherto. It indicates that our banking system was operated by external boards of directors, whose integrity is not questioned, but whose main aim was, quite properly for competitive profit-making institutions, the maximizing of dividends for shareholders. There is no suggestion that the banks in New Zealand have acted deliberately in a manner which they considered would prejudicially affect the interest of New Zealand. It may also be added that in the long run the prosperity of New Zealand means the prosperity of the banks, but the converse is not always true; the fact that banks are prospering does not mean that New Zealand is prosperous.

84. In the past the banks in New Zealand have had their way without control or supervision. It was contended that control would be "interference," and, generally, this one word was sufficient as an argument. But banking is so essentially a matter of the public interest that it is unthinkable that this function should be left under private control. It may also here be mentioned that any legislative improvements in the banking system, both in England and in New Zealand, have been initiated by Governments, not by the banks.

The Bank of New Zealand.

85. When the Bank of New Zealand failed in the "nineties," the Government came to its aid and reconstituted the bank, giving the State a two-thirds majority on the directorate, the object presumably being to ensure that the largest bank in the country should have close contact with the Government. All the evidence shows, however, that the Government directors on the Bank of New Zealand have not acted for the Government, but have taken up the shareholder point of view that dividends should be the main criterion by which a banking concern should be judged. And, if dividends be the criterion of success, the bank has been admirably successful.

86. In several cases it has happened that the Government appointees on the Bank of New Zealand have publicly criticized Government policy. It is the duty of a State appointee to advise and to criticize any action proposed by the Government, but he should do this primarily to the Government.

87. When the British Government was borrowing on Treasury bills at a rate as low as 4s. 9d. per cent., when the Indian Government borrowed on Treasury bills at 1 per cent., when the South African rate varied from $1\frac{3}{4}$ to $2\frac{3}{4}$ per cent., when the Australian rate was $2\frac{1}{2}$ per cent., the New Zealand Government was paying £5 8s. 9d. per cent. on Treasury bills—the best security in New Zealand. This was an exorbitant rate. It was reduced recently to 5 per cent., but this still indicates that the banks were treating the Government as they would a purely commercial customer who applies for an overdraft. It is not suggested that the banks could have lent at 1 per cent., but they certainly could have lent at less than half what they did charge and still have made a profit. These exorbitant interest-rates will, of course, be altered by the Reserve Bank, which will work in close co-operation with the Government.

Original Conversion Scheme Voluntary.

88. There is other evidence that the banks have not always co-operated with the Government. Generally, they have been treated as purely private profit-making concerns, but occasionally the Government have asked for co-operation on policy measures. For instance, it is not generally known that the Government's internal loan conversion could have been purely voluntary if the banks had accepted the first Government plan. The Minister of Finance has given the details of this in the pamphlet, "A Record of the Internal Debt Conversion, 1933":—

> "The original conversion scheme, which was submitted to the Associated Banks on the 17th January, 1933, and rejected by them, contemplated a voluntary reduction of interest to a single flat rate of 4 per cent. . . .
>
> "Under the terms of this scheme the Government proposed to determine all its existing issues at a given date by formal public notice. Bondholders were then to be given the option of converting into a new issue at 4 per cent. or of accepting the repayment of their principal moneys. This alternative was, of course, contingent upon the banks agreeing to support the scheme

by virtually underwriting the new 4-per-cent. issue. Outside avenues of investment were to be almost entirely closed to investors, and they would accordingly be bound to take one or other of the defined courses. If they chose to uplift their principal it would necessarily flow into the banks and offset any large amounts of new issue which the banks might have to contribute under the underwriting arrangement. It would have been essential for the banks to prevent flight of capital beyond the Dominion, but, in view of the low investment rates operating overseas, the Government did not anticipate much difficulty in this direction. . . .

"The whole scheme was rejected by the banks in a letter dated the 26th January, 1933, on the ground that the proposed underwriting of new Government issues would be too large an operation for them to undertake. The banks intimated their willingness, however, to co-operate in any approved plan for the conversion of loans domiciled in New Zealand so far as it would be in their power to do so."

The Banks and the Government.

89. When the Government finally took some steps to direct monetary policy and raised the rate of exchange to help towards internal economic equilibrium, the banks opposed this move, although in Australia and Denmark—and, for that matter, in Great Britain also—the fixing of the rate at the appropriate level was achieved by the Government and the banks acting in harmony. The economic position—the relation between costs and prices—in the four countries was similar; in the primary producing countries especially was the fall in export prices acute; there may have been banking opposition in the other countries mentioned, but, if this were so, the banks did not embarrass the Government by making the opposition public.

90. In connection with the Banks Indemnity (Exchange) Act, the banks also drove a hard bargain, transferring a low-earning asset in London to a well-paying one in New Zealand. While it may be right to indemnify the banks for losses on surplus funds on account of a fall in the exchange-rate, this does not mean that the Government should have been asked to pay 5 per cent. on funds held during the currency of the high exchange-rate.

91. When the Government proposed to set up a Reserve Bank, although the majority of the banks indicated their willingness to co-operate, the Bank of New Zealand again openly and publicly opposed the idea. Officers and directors of the Bank of New Zealand, in fact, went out of their way to let the public know what they thought of the considered proposals not only of the Government, but of all banking authorities. Parliament's answer was to proceed with the Reserve Bank of New Zealand Act.

Competitive Banking.

92. If, in the "nineties," the Government had made the Bank of New Zealand an entirely State-governed institution and had absorbed the smaller banks, to-day we should have had as an accepted part of our economic framework a banking system already operating solely in the public service; but the position was left so that competitive private banking continued. In these circumstances, the Reserve Bank is the only means of control in the national interest.

93. Competitive banking is here, though we might admit that it is often wasteful. Duplication and overlapping could have been avoided in the past, but to some extent we must accept the *status quo*. It depends on the political and social philosophy of a country as to whether or not deposit banking should be socialized. If the productive system is to remain unplanned and marked by competitive individualism, a socialized banking system could act only as does our present banking system—that is, according to the credit-worthiness of the applicant for an advance and to his chances of making a profit. Under these circumstances, the gain from socialized banking would be merely the elimination of wasteful overlapping.

The Profit Motive and the National Interest.

94. But as increasing measures of direction and control over the economic system are instituted, so must the banking system be progressively controlled and directed. For this purpose, in order to implement the policy of the Reserve Bank and in order to give a lead to the commercial banking world, the State should exercise to the fullest extent its power of appointment to the directorate of the Bank of New Zealand to ensure that the primary object of the bank's policy will in future be to promote the national well-being of New Zealand. For example, the rate for advances could be determined by the policy of the Bank of New Zealand, which already does 50 per cent. of the total business of the commercial banks. Profits in the past have been too often the criterion; for the future, and as a definite policy, the profit motive in banking should be strictly subordinated to that of service to the national interests. As illustrating the contrast between the policy followed by the bank and that which should have been adopted, a witness before the Committee made appropriate comment, as under:*—

> "The State has not used its shareholding and voice on the directorate of the Bank of New Zealand in a suitable manner. The objective of the State Fire Insurance Department has not been to amass profits, but to keep the cost of insurance down for the benefit of the community. Whenever it has seen fit to reduce premiums it has done so, and all other insurance companies have had to follow suit, and all are still paying reasonable dividends. It is significant that no reductions have been initiated by private institutions. By contrast, the Bank of New Zealand has acted exactly as a private institution, and joined with its competitors in drawing monopoly profits from the community. It has accumulated enormous profits, divided some as bonus shares, and consistently paid a dividend which, judged by all ordinary standards, is exceptionally high. The advantage it secures by having a monopoly of the Government account is passed on not to the public, but to shareholders. It is obvious that the State's appointees on the directorate should not hold shares in their own right. Had a policy similar to that followed by the State Fire Insurance Department been followed, the profits obtained by all the banks in New Zealand would have been more reasonable, and it is probable that the margin between deposit and lending rates would be substantially narrower, or the inland exchange and charge for keeping accounts abolished. The inland exchange is an irksome inconvenience to the community and is a disgrace to a banking system which has been paying double figure dividends for many years and distributing bonus shares. It is not too late to initiate a policy of lower dividends and cheaper banking facilities. The State directors on the Bank of New Zealand have had the power to do so all along, and the sooner they use it the better."

95. It should be mentioned that the State appointees have not in every case held shares in the Bank of New Zealand; however, quite apart from the question of whether or not the representatives of the State should hold shares, it is evident that the past policy of the Bank of New Zealand could have been such that a Reserve Bank need not have been necessary. We now emphasize that under no circumstances should the Government withdraw its power of appointment to the directorate of the Bank of New Zealand.

NON-MONETARY FACTORS.†

96. Perhaps the principal reason for the common belief repeated by several witnesses that the economic ills not only of New Zealand, but of the world, can be laid at the door of the monetary system is that the results of economic maladjustments are frequently expressed in monetary terms. For example, a fall in the price-level is expressed in terms of money, but the cause of the fall may be entirely non-monetary, and the issuing of money may aggravate rather than alleviate the situation that has arisen.

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* *Cf.* Minutes of evidence, Mr. H. W. U. Haddow, pp. 270–271.

† *Vide* evidence of Mr. H. I. Forde for an able and full statement on this subject.

The Effects of the War.

97. As the Macmillan Report has shown, the war caused severe dislocations in international economic relationships; it turned creditor into debtor countries, and *vice versa;* it was responsible for the creation of new industries and the unbalanced expansion of many of the old ones; and its huge destruction of life and property made the task of reconstruction more difficult.

98. The war and the war debts have disorganized the international monetary clearing system. Such a situation did not arise from monetary causes; but as it has had a devastating effect on international trade, every country with goods to sell in the markets of the world has suffered in consequence. The attempt made by Great Britain from 1925 to 1931 to keep on the gold standard was really an attempt to re-establish an international monetary system when the causes tending to disorganize this system were still strongly operating. This was monetary action, but it could not succeed in face of the existing world economic disequilibrium.

99. The unbalanced growth of industry during the war and post-war period has also created new problems which cannot be solved by monetary means. The necessities of war were responsible both for the rapid development of metallurgy and shipping, and for the dislocation of many of the peacetime industries, especially those manufacturing luxury and semi-luxury lines. Furthermore, countries which were not advanced industrially prior to the war were forced to diversify their economies owing to the uncertainty of supplies from overseas. The war thus promoted a distortion of industry which would not have eventuated but for the outbreak of hostilities, and made it impossible for the world to slip back into the comparative pre-war smoothness of international trade. Industries, once created, cannot be swept away with a magic wand, and, even if they could, there remains the problem of the comparative immobility of labour—always a serious factor in a complex industrial economy.

100. The European upheaval created new nations and annihilated several of the old ones. For instance, Germany was deprived of her colonies, the empire of Austria-Hungary was sliced up beyond recognition, Poland was given her independence, Latvia and Esthonia appeared as new nations, and Russia underwent a profound change both territorially and in economic and social policy. The results of all these are still exercising a deep influence on the world, and will continue to do so for many years to come.

Economic Nationalism.

101. Thus the post-war period is witnessing industrial and political changes as well as financial, and the process of readjustment is severe and painful. All nations are adversely affected, and we cannot see how any kind of monetary policy can provide a panacea for the deep-seated difficulties which have arisen. The rise of new nations and new tariff barriers, the upward trend of existing ones, the huge increase in international debts, and the nationalistic spirit that has pervaded the world can be traced directly to the numerous unsettling conditions which have resulted from the war, and any proposed purely monetary solution of the situation must be rejected. A monetary solution is not sufficient when "highly intractable non-monetary phenomena" are distressingly prevalent. Truly it might be said that the dislocation caused by the war has been more serious than the material destruction.

Technical Changes.

102. The post-war period has also brought into existence new industries and new methods of industrial production. In agriculture there have been revolutionary changes in technique, and side by side with this process has been a continual shift in the demand for agricultural products and their substitutes; there has been a tremendous increase in the production of butterfat, and side by side with this has been the improvement in the quality of margarine. The sheep flocks of the world have increased, but not nearly to the same extent as the output of artificial silk, which has also had a damaging effect on the market for

cotton goods. Many of the new industries which have arisen are catering for a demand which is capricious, fugitive, and often subject to fashion. Examples of these are the radio and gramophone industries, in which improvements in the finished article have been so rapid that even the most buoyant market has been unable to dispose of current output before radical improvements have rendered some of it obsolete. The motor-car industry has also undergone rapid transitions which are not conducive to a healthy, steady growth.

103. There have been sweeping changes in transport facilities. Road haulage has become the rival of the hitherto undisputed railway, and here in New Zealand we have already witnessed the disastrous effects of wasteful competition between road and rail. The adjustments necessary in this field alone, as disclosed by the reports of the Transport Department and the legislation that has followed, amply demonstrate that monetary manipulation would have been futile in combatting this new problem. Our experience in transport is analogous to that in many other fields of industrial and commercial activity, and this is one of the reasons for the present popularity of economic planning, which is much more far-reaching than the "creation of purchasing-power" or the inauguration of any of the other merely monetary schemes which hold sway among sections of the community at the present time.

Instability and Complexity.

104. With the growing complexity of the industrial and financial structure, the greater is the possibility of error; rapid technical changes, alterations in fashion and demand, the replacement of old industries by new, the continual changes in the fiscal policies of nations, and the instability of the political situations in many countries are world-wide phenomena; they must be removed or minimized before ordered world progress can be even hoped for.

105. It has been stated, though never proved, that any given country does not create enough purchasing-power to buy its own production, and that it must export in order to obtain the purchasing-power of other countries to make up for its own alleged deficiency. On this assumption, it has been suggested that the urge to obtain purchasing-power by exporting has been the cause of tariff barriers, of economic nationalism, and so on. This idea is apparently a lingering remnant of mercantilism; it should be realized that exports provide for debt payments (or foreign loans) and for imports; in general, no money passes from one country to another. It is not clear, therefore, where the extra purchasing-power comes in. Also, a country such as England, which had an excess of imports for many years, would apparently be quickly impoverished if surplus exports were the criterion.

106. To say that tariff barriers, economic nationalism, and international maladjustments generally are effects rather than contributory causes of the dislocation of world trade is to ignore the deeper underlying forces already discussed in this section.

BANKING AND CREDIT.

107. The discussion of banking and credit with various witnesses has shown that the subject is not generally or fully understood. Major Douglas stated that the issue of "credit needed only a physical basis"; others reiterated that it was "only figures in a book." While these expressions of opinion reveal some characteristics of credit, they are very unsafe criteria to adopt for a monetary system which will work.

108. Credit is the recognition of the possession of values. The mere possession of value, however, does not constitute or establish credit. What is important is that the values must be admitted by the community. In practice, the use of credit implies willingness on the part of possessors of values to effect an exchange for some other thing or things of value. Generally, credit is expressed in terms of money. For instance, a man may own a house. This does not mean that so much credit exists. To establish the

credit the man must first of all desire to exchange the value represented by the house for some other commodity, say, a car. The next step is that the value represented by the house be recognized by the community in terms of money.

109. When business relationships are complex, as nowadays they are, it becomes more difficult to measure credit; hence the necessity arises for devising some special mechanism for measuring and testing credit and determining how it shall be apportioned. This work is done by bankers. When the local butcher parts with his goods to the local greengrocer with payment deferred until the end of the month, he is granting credit to the greengrocer. But most business transactions are not as simple as this; hence the need for some common method of recognizing the possession of values for transactions between people who do not know each other.

110. A person who exchanges his goods for bank-notes is granting credit to the bank, just as much as he would be granting it to a buyer who writes out a promissory note for the goods. Similarly, a bank grants credit to a Government when it accepts Treasury bills.

111. The work of the banker is generally spoken of as that of "granting" credit; his duty is rather that of measuring and insuring credit—*i.e.*, if the values assessed by the banker are not in fact realized, the banker stands the loss. He, of course, tries to make this loss good, but at the moment this point is extraneous to the discussion of credit. The effect of a bank's action in recognizing and insuring credit is to enable such credit to be used in any direction without the necessity of stopping to compare values or wants, as would happen under a barter system—that is, the bank's recognition of credit is much more effective, because it makes the credit universally acceptable. By dividing the credit up into money units we can carry on transactions with many others. It will be seen that the term "creation of credit" is really not applicable; it means the action of giving general acceptability to wealth of a particular kind. However, "creation" of credit is now so much a matter of popular usage that it is difficult not to employ the term. It is quite obvious that credit, being the recognition of possession of values, does not evolve out of nothing. It will be seen, too, that the expression "costless" credit is meaningless, unless it indicates that no charge is made by the credit-granting authority for its services.

112. When a banker estimates the value of a property and marks it up in his books, he really anticipates its sale. In this sense the banker determines how much of the wealth of a community is to be used in purchasing-power. The applicant for credit, however, must be the initiating factor in this process. It is a bank's function to determine whether production is warranted—*i.e.*, whether it can be consumed. The volume of credit depends on the value of production.

Is there a Limit to Credit?

113. Is there, then, no limit to the amount of credit which a bank can grant? By law or custom a bank keeps cash reserves which act as a limiting factor. There is in most countries a certain proportion of cash transactions to cheque transactions; if additional credit is granted, the public will use a greater amount of cash, which is drawn from the banks, thus depleting cash reserves. In New Zealand, however, the banks have not been limited by cash reserves. Since 1914 notes could be printed without any relation to the amount of gold held. As has been shown elsewhere, the reserve in New Zealand consisted of sterling balances. This limited the expansion of credit, because, by its action in promoting imports, the extra extension of credit would have drained these London balances.

114. There is, however, a broader basis for the limits of bank credit. This is found in the ability of credit for self-cancellation—*i.e.*, as long as a bank receives as many claims on others as are drawn on it, there is no limit to its "expansion" power, except the total volume of *correctly valued* goods.

115. Credit granting is normal when it brings about a matching of commodities against commodities. Under any given conditions a new volume of goods is coming into existence concurrently with a sufficient quantity of credit to effect their exchange. In certain cases credit may be granted out of proportion to the real values created or the exchange work to be done. This is a case of imperfect "matching."

Balanced Production.

116. In any period when economic life is flowing smoothly the production, sale, purchase, and consumption of goods go on without a hitch. What, then, causes dislocation? We find many examples of goods having to be sold below cost. Now, a price is really a method of expressing the value of any one commodity in terms of all other commodities. It will be seen that an article must be sold at a price which covers the amount of other commodities actually used up in producing it. But if there is much more of one article on the market compared with other things, then the price will fall—that is, the public will not value it as highly as formerly in comparison with other goods.

117. The above is another way of saying that there is a balance in consumption at any time, or that so many loaves of bread, haircuts, bars of soap, houses, motor-cars, and so on can be matched off against one another. This means that there can be such a phenomenon as relative overproduction. We need more of everything, but if one thing is produced at a greater rate than the public's desire to consume it at the former price in terms of other goods then its price must fall if the total output is to be sold. The problem here is one of prediction rather than production.

118. It should be noticed that we have made no mention of money or purchasing-power. The economic dislocation illustrated above takes place not because of book-keeping difficulties or lack of purchasing-power, but because a mistake in forecasting the market has been made. As a matter of fact, as the goods were produced on credit in this case there is more money in circulation than is represented by the value of the goods.

119. It will be clear how difficult it is to anticipate what will happen to prices when, as often occurs, the granter of credit is not aware of the supplies coming on to the market and has to assume a price-level. This explains why a banker must err on the safe side, and needs, though usually does not possess, infinite wisdom. If the goods produced over a period do not match, then the banker is in difficulties—he has "frozen" credits. This is not only a difficulty for the banker, it is a symptom of an economic ill.

120. Gaps often occur when production is not matched off and the demands on a bank are greater than the repayments to it. Reserves are therefore kept to tide over this period. If the reserve disappears there is a bank failure, but not necessarily an insolvency. There is merely a lack of liquid assets. This happened to the Bank of New Zealand in the early "nineties."

121. Credits should be repaid even though in an expanding economy more is being lent than is being paid back. This is the one means of ensuring that production is balanced and that there are enough goods produced to provide the community with food, clothing, and shelter while they are producing further goods. Through the banking system, by means of the cancellation of credits, this balancing of production is carried on.

What is Credit Worthiness?

122. The discussion so far would make it appear that a banker will be mainly concerned when he grants an advance with the goods and services which are to be produced and consumed. Except in the case of bills of exchange, a bank's lending is concerned with criteria quite apart from the project the borrower has in mind. The banker looks to the personal or psychological element, which involves the trustworthiness and business capacity of the applicant, who also must furnish evidence of solvency. Occasionally a loan is granted on personal security, but generally a piece of property or some other collateral is pledged to the bank in case the borrower cannot

repay the loan. This system has the advantage of ensuring that men who are not known to possess business integrity and substance are not extended credit, and it also protects the bank; but, on the other hand, it tends to discourage small borrowers, and, more important, it means that the purpose of the loan, the market prospects for the particular transaction—the effect of the borrowed money on prices and industry—are only a secondary consideration.

123. For example, a large importing firm may be solvent and generally a good bank risk. It asks for accommodation of some hundreds of thousands of pounds. This is granted as the individual bank knows the worth of the borrowing firm and also feels that it (the bank) will have sufficient sterling funds to pay the English manufacturer. It is quite possible that the other banks are doing the same thing. But there has been little regard for the future: if New Zealand exports do not realize what was expected there will be a strain on London balances caused by the imports, which, though they may be "normal," are too great in comparison with exports. In addition, because of the low prices realized for exports, purchasing-power will fall off in New Zealand, with the result that some of the imports can be sold only at a loss. In the last few years this process has forced merchants into bankruptcy.

THE PRICE-LEVEL.

What is a General Index?

124. The majority of witnesses before the Committee advocated a monetary policy which would ensure a stable internal general price-level; it is very difficult to define exactly what is meant by such expressions as "the price-level," "the cost of living," "the fall in general price-levels." The Government Statistician computes an index of retail prices which we often regard as the cost-of-living index. Is such an index typical or is it merely an abstraction—an arithmetic average which only by chance corresponds to a real individual case? We have indices of retail prices, food prices, export prices, farm costs, import prices, manufacturers' prices, raw materials, wholesale prices, share prices, railway receipts, bank deposits, and so on. To make up a general index of prices we should have to lump the above indices together, giving them appropriate weights, but if it were to be exact we should also have to add all prices not included in the indices already compiled. We should include, *inter alia*, wages, professional services, motor transport charges, insurance, interest-rates, land-values, all types of rents, and many other elements that are priced. Due weight would even have to be given to second-hand goods if we are to be meticulously accurate, but how this "due weight" is to be given is a problem. We should also take care that there were no duplications of items—an apparently insoluble difficulty.

The Use of Index Numbers.

125. If this general index could be found it would have no reality. The average population of the North and South Island is approximately three-quarters of a million; the average height of a horse, a cow, and a sheep is 3 ft. 6 in.; the average price of a Kodak camera, a pound of butter, a grand piano, and a pair of silk stockings is £35; the index of the general level of prices is 126. The above examples indicate some of the interpretative and statistical difficulties inherent in averaging. Perhaps that was why the general level of prices has been called a "specious abstraction."*

126. In choosing a base for this general index number, can we find a year that is normal or representative? By what criteria shall we judge this? Is there a period in which a complete set of data is obtainable? Is there a period in which a maximum number of commodities is not disturbed but subject to normal conditions? What quantities of what

* G. D. H. Cole: "What Everybody wants to know about Money," p. 73.

commodities shall be selected? Can they be made representative rather than merely numerous? Is quality a consideration—can "staples" or standards be obtained? Are price quotations easily ascertainable, subject to speculation, regularly quoted, controlled by custom, habit, the State, or monopoly? What average is best—the arithmetic, the geometric, the harmonic? How can we arrange for the dynamic nature of a real index—for the fact that the relative importance of commodities change and that new commodities appear while others disappear? Perhaps more important questions are: Will this composite index show a trend, and, if so, will this trend show the state of business conditions or of prosperity?

127. We have treated this idea of the general level of prices in some detail because it has been stressed by most witnesses and in many theories, but it has not been proved that such a composite index is sound in principle (not even mathematically) and that our prosperity has a definite relation to a *general* price-level, rather than to a *particular* price-level. On the contrary, indices by their very nature relate to the past, and, in general, it appears that economic indices do not always permit of reliable forecasting or even of consistent analysis. This does not mean that index numbers are useless; in particular cases especially, they are very valuable in estimating past trends.

128. In a general way it has been said that the price-level in New Zealand or the world has fallen, but that does not give us a clear view of the situation. The trouble is that all prices have not fallen equally. Some prices are absolutely fixed, some are "sticky," some have risen; even in the high-price period there were price inequalities. The real fault with the price and production system is that it is *out of balance.*

Unbalanced Prices.

129. The American scene during the "nineteen-twenties" is a good illustration of this. The major maladjustment was that between agriculture and industry. Farm prices were falling both absolutely and in relation to the price of manufactured goods. The agriculturist had to sell at prices determined by world markets, whereas industrial prices were largely based on the home market. Technological improvement was taking place in both agriculture and industry. The Federal Reserve system was pursuing a mistaken policy of price stabilization when greater productivity should have brought lower prices, or, alternatively, very much higher wages, a boom was developing in constructional trades and was inflating costs, violent speculation was taking place on the stock exchange and driving stock prices up to previously unheard of levels, the consumer demand from the numerically great farming community was falling off, this was reacting on industry and employment, total pay-rolls were falling thus further decreasing consumer demand, sales were falling off though instalment buying had temporarily postponed this, capital investment was proceeding on the one hand thus increasingly leading to failures and bankruptcies on the other. And during this period the aim and achievement of the banking system was a stabilization of the general level of prices.

Price Inequalities persist.

130. Unbalanced prices and costs are the faults of our semi-competitive, semi-monopolistic economic system even in good years. There is no doubt that a rise in world prices would bring instant relief to both debtors and creditors, but price inequalities would still be there. Agricultural and raw material prices would still be out of balance with industrial prices. If monetary manipulation could double the price of everything produced, we should still have the problem due to maladjustments in individual prices. In general, manufacturers do not need higher prices—what they want is increased volume of sales; but the farming communities of the world do definitely need very much higher prices. Purely banking methods cannot cure the situation.

A Stable Internal Price-level.

131. While a stable unit of money and stable business conditions generally are obviously desirable, it is not nearly so certain that a stable internal price-level will always achieve this. The retail-price level in New Zealand has been comparatively stable for the past two years, but none of us would say that business and employment in New Zealand are in a satisfactory condition. Is the remedy, then, to raise the level of prices and stabilize at a higher level?

132. To examine the effectiveness of this higher level of prices we must find reasons for the higher levels existing in the years preceding the depression. Two factors are outstanding: One is overseas borrowing, and the other is comparatively high prices for our exports, and to some extent imports. It has been suggested that all New Zealand needs to do is to spend as much as was spent in past years and economic well-being will be restored. But in so arguing it is forgotten that higher prices for exports meant that New Zealand was better off not only in monetary symbols, but in real wealth. Even if the prices of imports rise as high as export prices, there is still a net gain in wealth to New Zealand. A fixed sum in sterling must be paid every year to service the external debt. If the sterling proceeds from exports are increased, the proportion available for imports is increased. Any overseas borrowing is an addition to this in terms of goods.

133. In the years preceding the depression New Zealand was living to some extent on borrowed wealth. This overseas borrowing has now ceased. In addition, the sterling value of exports has declined from approximately £55,000,000 in 1929 to £32,800,000 in 1933.

134. The raising of internal price-levels cannot affect the sterling proceeds of our exports, except by decreasing the amount produced, owing to the increased cost of production due to higher internal prices. Nor can we assume that future Governments will bring more real wealth to the country by borrowing overseas.

135. The conclusion is inevitable: that, at the present stage of our economic development, even if 1929 price-levels, by monetary manipulation, could be achieved internally, we cannot get back to the economic activity and prosperity of 1929 unless the net proceeds from our exports rise also. The policy of at least some borrowing abroad might also have to be resumed. This latter procedure could, of course, be undesirable on other grounds.

136. It is almost by now accepted as a truism that with international trade as at present carried on, except in the unlikely case of stable world prices, a country not possessing a rigidly controlled economy cannot for long have internal stability of price-levels and external stability of exchange-rates. We in New Zealand cannot have both; we must choose. Therefore, if by some monetary means we could achieve the pre-depression internal price-level, we might expect a demand for imports arising out of our increased money incomes. The result would be a strong demand for sterling or other external currency to pay for imports. On the assumption that the sterling funds available to New Zealanders had not increased to pre-depression levels, there would be a demand for sterling which would quickly absorb the supply. Even though demand and supply in the short-run have not fixed exchange-rates, an unusually heavy and long-continued demand for sterling would drive up its price. It is even possible that the New Zealand exchange-rate on London would rise to £200 per £100 sterling in order to stave off this demand.

137. If the money incomes of the primary producers are to be kept stable while export proceeds fluctuate, it means that the exchange-rate will have wide fluctuations. While movements of the exchange-rate about some predetermined level and within moderate limits would be in normal times in the interests of New Zealand, it is fairly certain that wide and frequent fluctuations would not promote the economic welfare of the country, especially as this Dominion has probably the greatest amount of external trade per head in the world.

138. Several witnesses advocated the adoption of the Swedish policy. Sweden deliberately depreciated her exchange-rate in order to maintain internal stability. Apparently the objective was to keep stable the wholesale-price level, not the general level of prices. From the last quarter of 1931 to the end of the first quarter

of 1933 the fluctuation in the Swedish wholesale-price level was from 2 to 4 per cent. in a downward direction. During the last year there has been a rising tendency.* The difference between the Swedish experiment and the action taken in New Zealand seems more one of emphasis—the former country has devoted more attention to internal credit conditions.

139. While overseas prices vary it is impossible by purely monetary means in New Zealand to keep stable both the rate of exchange and the general level of prices for any substantial period of time. It is possible to alter the exchange-rates and it is possible to assist industry by very easy credit conditions, but we cannot compel industry to use these facilities; it is also very difficult to guide credit once it is released. Again, if losses instead of profits are envisaged, there if no point in borrowing to carry on business. This explains why it is so difficult for the monetary machine to stop a depression once it has started. It is easier to control the situation when prices are rising, though even this is difficult at the advanced stages of a boom.

140. The classic example of inflated conditions occurring when a stable price-level policy was being pursued is the economic and financial history of the United States during the "nineteen-twenties." The defect in the United States "stability" policy was the same as has been noticed in the Swedish policy, with somewhat similar though less ambitious aims. The Swedish wholesale-price level since 1930 has concealed several different movements, two of which are outstanding—a fall in the price of Swedish export articles (until the latter half of 1933), and a rise in the price of imports. *It is these individual changes that are significant rather than the change in the average.*

CONTROL OF THE PRICE-LEVEL.

141. Possibly a majority of the schemes considered by the Committee involved controlling the price-level. In order to keep the "general level of prices" stable in a closed or self-contained economic system, the controlling authority would need to control, from the monetary side, the volume of credit, the velocity of circulation, the destination of the credit, and the volume of saving and investment; on the side of goods, it would have to control the volume of production and individual prices, and would have to ensure that the total supply was sold at those prices—in short, it would have to control all forces on the side of money and all on the side of goods and services, including supply and the human element, demand.

142. The following remarks of Mr. J. M. Keynes are of interest in this connection† :—

> "It is even conceivable that the cash deposits may remain the same, the savings deposits may remain the same, the velocities of circulation may remain the same, the volume of monetary transactions may remain the same, and the volume of output may remain the same; and yet the fundamental price-levels may change."

For New Zealand, where the external factors are much more important than in England, the above remarks are still more true.

143. It is the business of the monetary system to facilitate the production and exchange of goods and services. It is not its function to impose quotas, subsidize industry, or license imports. For instance, it might be possible to pursue a high internal price-level policy and at the same time keep the exchange-rate stable, but with low prices overseas it would mean perhaps ruinously high costs for producers. It could be achieved by setting up an Overseas Payments Board to use any sterling funds available for the servicing of external debt, and for rationing among importers, presumably by way of license. This concerns a Government's political and economic policy. The currency and banking system has to work within the given economic system, and the criterion for extending credit must be, in a competitive profit-making world, the ability of the individual borrower to make a profit out of his enterprise.

* *Vide* "Svenska Handelsbanken's Index."
† "A Treatise on Money," Vol. I, p. 147.

145. In a planned or socialistic state, the main thing necessary is that industry *as a whole* should cover costs—that national expenditure should equal national income. In a nation where private enterprise is predominant this equality is necessary too, but with the added proviso that *each* enterprise must cover its costs or go to the wall. The trend at the present time is to give national support to important industries which might be in danger of extinction under the rigorous operation of *laissez-faire*; but private enterprise is still predominant; it is mainly losses that are being socialized.

146. The operations of a Board set up to ration imports would be outside the monetary system. Such operations involve guiding economic life as was undertaken in England during the war of 1914–18. The criterion would then be, "Are these foreign goods vitally necessary to the well-being of the nation?" rather than "Is the borrower credit-worthy and can his imported goods be sold at a profit?"

A Controlled Economy.

147. Economic controls plus the use of the banking system can achieve what could not be achieved without them. In this respect the experience of Soviet Russia is illuminating. Buying and selling abroad is controlled by Government Boards, so that the problem of an exchange-rate does not arise. At the moment of writing there are several price systems in the Union of Socialist Soviet Republics. To the consumer there is generally the co-operative store and the open market. Most of the necessaries of life are bought through the co-operatives; individual prices are fixed not necessarily with any relation to cost of production, but costs as a whole must, of course, be covered. Additional commodities are sold on the open market where a competitive price system exists. The consumer may get his allocation, say, of butter in the co-operative store; and if he desires more he can go to the open market where much higher prices are ruling. At the Torgsin, the foreigner with pounds, dollars, or marks, or the native Russian with gold, may buy articles of the luxury type. There are thus at least three price systems; goods are sold for gold or foreign money, for paper roubles at competitive prices, and at fixed prices in the co-operative stores.

148. A number of the schemes considered by the Committee involve almost as much control of the national economy as is illustrated above. If these controls were not initiated, economic life would become chaotic. For instance, several witnesses advocated spending millions on national construction schemes, but "of course, with safeguards." In some cases the safeguards would be control of external trade, rigorous price fixation, and taxation to reduce any redundant money supply. The Soviet Russian experience is again helpful, as an illustration of what is involved in such measures.

149. The policy in their first five-year plan was to use the resources of Russia to build up industry by concentrating on the production of capital goods—railways, rolling-stock, hydro-electric works, blast furnaces, huge factories, and so on. This meant that a smaller proportion of consumable goods was produced. The result was that the workers became comparatively rich in roubles, but poor in commodities. A rigorous price-fixing policy where every article was controlled prevented the inflation of prices, but left roubles in the hands of the consumer with which he could buy nothing except occasional articles in the open market. The Soviet Government has for some time past been collecting this surplus money by way of loans at interest instead of further swelling the currency by printing more roubles.

150. In at least a score of the schemes submitted a tremendous inflation of prices would follow if any of the ideas were put into practice. Very few of them involve inflation by purely printing-press methods. The emphasis has shifted to writing "figures in a book," since this is the process by which a bank records its recognition of the fact that a person or firm is credit-worthy. It must be remembered, however, that inflations characteristic of Europe in the war and post-war period began by being "figures in a book"; the printing of notes was an inevitable concomitant, but it was not necessarily the initial stimulus.

151. To avoid inflation a rigorous control of economic life similar to that already illustrated would have to be instituted. We are assuming that the system of private enterprise over the greater part of the economic field will continue. On this assumption, our recommendations must be restricted to purely monetary, as distinct from economic, instruments of control, at the same time indicating what the Government might do to assist. This does not mean that a controlled economy is a good thing or a bad thing, but merely that it is outside the order of reference of the Committee.

152. The above discussion indicates that in a socialized State, or with Government control of purchase, production, pricing, and sale of all commodities, it might be possible to stabilize prices without inflation and consequent distortion of the production system. (On this point see para. 193.)

Internal Policy.

153. What, then, should the internal "price" policy be? The general tendency at the present time is for the productive efficiency of the economic machine to rise. This means that the tendency will be for prices gradually to fall. If wages were kept stable, this would mean a gradual rise in the standard of living. On the other hand, if prices do not fall with greater productive efficiency, it should be possible to raise money wages. The wage-earner as consumer would be no better off than if prices had fallen and his wages remained stable. From the psychological and political point of view, however, it is preferable to have rising money wages. To some extent, differing in different communities and at different stages of economic development, it is possible to have falling prices due to technical improvements and increased output, together with rising profits and rising wages. On the other hand, there are stages of development in a competitive system where an increased wages bill raises costs, lowers volume of sales, and causes unemployment, while a smaller wages bill may cut costs, decrease purchasing-power, and further lower volume of sales and employment. Our economic system often leads us to this dilemma, for wages have the dual function of being both costs and purchasing-power.

154. Despite adjustments already made, costs and prices are still out of alignment; if we cannot reduce fixed charges any further, and as export prices are not within our control, what is to be our internal monetary policy? The Reserve Bank is directed to promote and maintain the economic welfare of New Zealand. It is not directed to watch some "general level of prices," which, as we have seen, would be an unwise and almost meaningless direction. Until other criteria and measures of economic prosperity are devised, there are several indices that show how the country is progressing—*e.g.*, export prices, building permits, mortgages registered, unemployment, retail prices, Stock Exchange quotations, and so on. There are other indices, but their movements, as with some of those mentioned above, are mainly derivative, and their major fluctuations quite often correspond with the movement in export prices.

155. In reviewing the economic scene, we should have regard to the movements in the above indices rather than to any composite index of internal price-levels—the latter index would conceal much more than it revealed.

156. We are still faced with the major problem—the raising of prices so that costs may be covered. But we do not want all prices to rise. In general, manufactures and particularly imported goods have a level of prices which even the manufacturer or importer would be satisfied with if he could get volume of sales. We come inevitably to the problem of the prices of the products which New Zealand produces. We may take cheese as an example typical of the New Zealand products which are sold overseas. If the price falls in London, the tendency is for the price to fall in New Zealand, the domestic price being a reflection of the English price. If the English price for cheese were 9d. per pound and we raised the New Zealand price to 1s. 6d. the domestic market would become glutted with cheese—95 per cent. of which is usually exported. Of course, some authority would intervene and attempt to fix the supply of all milk-products for the local market; otherwise a retail

price of 1s. 6d. per pound could not be sustained. This involves control of distribution if not of production, and, as such, is more than a monetary problem.

157. Excluding buildings and other capital items, the proportion of New Zealand's production which was exported during the five years 1928–29 to 1932–33 was 45 per cent. During the same period 35 per cent. of local production locally consumed (corresponding to 20 per cent. of total New Zealand production) had its price governed by prices ruling for New Zealand produce in overseas markets—that is, of our total production, the price of 65 per cent. is governed by what we receive for our produce overseas. Since the price of such a substantial proportion of our production depends directly on an external factor, and since a greater proportion still of our economic life is affected by these overseas prices, it means that unless the prices of exports rise, the internal situation will be helped very little by monetary action alone.

158. As far as New Zealand is concerned the obvious practical monetary policy to pursue is to spread any loss (due to low prices for exports) over New Zealand as a whole. Some action is necessary which will mitigate the effects of both falling and unduly rising export prices if stable conditions are to be desired. In the past the course of events consequent on a drop in export prices has been a drop in the purchasing-power of the farmer, a drop in retail sales, in business activity and prices, in wages, in employment, and finally in imports and transport activity. The depression begins with the farmer and finally reaches the importer and the shipper. The problem is to substitute an even flow of imports and business activity for violent fluctuations. Appropriate action as to credit conditions seems to be the only purely banking solution. Controlled exchange-rate movements are also a potent monetary instrument; this, together with the dovetailing of public works, is discussed elsewhere in the report.

The order of reference precludes any specific examination of or recommendation for changes in the administration or organization of New Zealand's industries. We have therefore confined our recommendations as much as is possible purely to monetary matters.

CURRENCY INFLATION AND ITS EFFECTS.

The Quantity Theory and Currency Inflation.

159. Inflation involves an expansion in the supply of money used in expenditure relatively to the supply of commodities available for purchase. Generally this over-issue of money brings about a sharp rise in prices, although occasionally it may counteract falling prices due to lower costs of production.

160. Some of the witnesses before the Committee envisaged a rigorous application of the "quantity theory of money" in order to prevent any rise in prices due to over-expansion of the circulating medium. A simple statement of this theory is that the price-level depends on the relationship between the amount of goods and services coming into the market over a period and the quantity of money available to pay for these goods and services. If there are fifty commodities of equal value exchanged for 100 money units, the price of each commodity exchanged is 2 units. If the number of money units is increased to 150 and the amount of commodities remains the same, then obviously the price of each article will now be 3 money units. This is a truism, and does not help us much.

161. We have seen that there is no reality about the term "price-level"; it is a heterogeneous index and may remain stable while both the quantity of goods and the quantity of money being spent are changing. Incidentally, the "quantity of money" is a difficult thing to define. What is the quantity of money available for spending at any one time? As has been explained earlier, it consists of bank-notes and coin circulating amongst the community, deposits which may be operated on by cheque and unused overdraft facilities. An additional complication is that this "quantity" of money, besides being an elastic and indefinite amount, is turned over several times in the course of a year—that is, it has a certain velocity of circulation. This depends

mainly on the habits of the people, and may change; for instance, in prosperous times, money tends to be turned over more often; in times of depression, the reverse is the case. When people distrust the quality of the currency it will be turned over much more rapidly in the effort to have goods rather than untrustworthy money. This tendency itself drives up prices without any addition to the quantity of circulating media. For instance, if the people of New Zealand anticipated that the Government were endeavouring to find a way out of the depression by means of the printing-press, or by writing more "figures in a book" than the state of trade would warrant, there would be two reactions; one a flight of free capital which would mean a demand for foreign currencies with a suddenly depreciated exchange to meet the demand, and a rush to turn money into real property, causing a sharp and cumulative boom in the prices of land, city properties, and tangible goods.

162. Thus the fear of currency inflation may bring a greater rise in prices than would have occurred with an increased volume of money but a steady velocity of circulation. It is a noteworthy fact that this fear of a ruinous inflation is one of the main factors which cause people to suffer deflation rather than risk the evils of a cumulative inflation, for once under way it cannot be controlled, mainly because the monetary authorities have not all the factors within their control.

163. The concept of the "quantity of money" in circulation is, therefore, vague and uncertain—it is certainly not fixed. The amount of goods and services coming on the market is also not easily definable. What is being bought and sold besides the current production of goods and services? There is an indefinite quantity of goods already produced which may be exchanged; there are second-hand goods of all types, but more important still there are farms, buildings, stocks, and shares, the selling of which must be provided for out of the available supply of money. In times of depression there is little activity in transactions involving land, securities, and capital goods; but in boom times the reverse is the case, and there will be so much less of the money-supply available to purchase currently produced goods and services—that is, if the money is kept in the real estate and share market.

164. This illustrates how an increase in the quantity of money does not necessarily increase the prices of currently produced goods; it also shows that the amount of goods coming on the market is variable and depends on other than purely physical factors, that the psychological element is equally as important on the "goods" side as it is on the "velocity" or money side of the equation.

The Difficulty of Control.

165. It can be said quite definitely that commodity prices cannot be controlled by simply regulating the quantity of notes and credit issued. Prices cannot be moved up or down like a gasometer, merely by operating certain financial valves. Many advocates of currency reform, especially those not handicapped by a knowledge of economics or of monetary history, assume that this is so, but in several cases it is noticeable that in the background is the acknowledgment that the particular scheme put forward may contain elements of currency inflation of the worst kind, and explicitly or inferentially there is the proviso that inflation can be controlled by taxation "or other means."

166. To slow down a train running at a dangerous speed there exists an ingenious mechanism called the Westinghouse brake which, by the action of compressed air, will, in an easy transition, bring the train to a safe running speed. There is nothing like this in our economic of financial system. There are brakes to be applied; at first they may not act, as at the height of the New York Stock Exchange boom in 1929; but when action is effective there is a severe jolt. Those who advocate a "little" inflation by Government issue of currency do not realize how easy it is for this "little" dose, because of its apparent ineffectiveness, to be repeated, aiming now at a "moderate" inflation. The tendency is always to "revise the estimates

upwards." To halt the resultant price inflation and prevent final ruin of the currency, drastic methods will be necessary, bringing industry, production, and employment to lower levels than existed before the "controlled" inflation experiment.

Currency Inflation as a Method of Taxation.

167. The quantity theory of money is here of some use to illustrate in a very general way the action of an issue of currency as an instrument of taxation. Let us assume that the production and consumption of goods and services within a country require a given amount of money—cheque money and bank-notes. The aggregate value of this money will remain approximately the same over a period because it has a definite relationship to the current production of goods and services. If the level of prosperity and the habits of the people do not alter, the number of money units could be doubled, but the aggregate purchasing-power of the money in circulation would remain the same notwithstanding the doubling of the number of monetary units.

168. Let us keep the illustration* simple, and bring the complicating factors in later. We shall assume a small country with the money in circulation equivalent to 12,000,000 State notes. This is sufficient to carry on the business of the community. Let these 12,000,000 notes be worth 48,000,000 gold crowns—the standard coinage of another country. The State now prints a further 4,000,000 notes for Government payments. The total currency in circulation is now 16,000,000 notes, an aggregate still worth 48,000,000 crowns. (This assumes the value of the gold crown to be absolutely fixed.)

169. The State note, instead of being worth four gold crowns, is now worth only three. By printing the extra 4,000,000 notes, the Government has taken the value in real resources of 12,000,000 gold crowns from the holders of the previous note-circulation. A tax of 25 per cent. has fallen on these people. It is a proportional tax, not a graduated one, and is therefore inequitable. It, however, costs nothing to collect apart from the expense of printing the notes, and is particularly appealing where there exists little or no administrative machinery for quick and certain tax-collection. This was the situation in Soviet Russia in the half-dozen years after the revolution, when the Soviet financiers in a deliberate and philosophically opportunist manner, adopted the method of currency inflation as being the most expedient way of financing the Government; they were not very much concerned with saving the capitalist system.

170. The question arises, How far is it possible to go on issuing extra currency? How long will the people consent to be taxed in this manner, and can the same real value be raised in taxes each year by this method? In the example quoted above, the State appropriated the equivalent of 12,000,000 crowns by raising the currency in circulation from 12,000,000 to 16,000,000 notes. Suppose that in the second year 8,000,000 notes are issued. The total circulation is now 24,000,000 notes, worth the constant amount of 48,000,000 crowns. In the beginning a note was worth 4, then 3, now 2 gold crowns. The position would now be—

> First year 16,000,000 notes, worth 48,000,000 gold crowns.
> Second year 24,000,000 notes, worth 48,000,000 gold crowns.

As the note is now worth only 2 crowns, the State by printing 8,000,000 notes has appropriated the real value of 16,000,000 crowns, one-third of the value of current production.

171. In the first year 4,000,000 notes raised 12,000,000 gold crowns. In the second year 8,000,000 notes raised 16,000,000 gold crowns. The State has thus printed twice the amount of notes, but raised one and a third times the amount of the previous year. It is obvious that the State, to raise the same amount of real resources each year must issue a proportionately greater amount

**Cf.* "Monetary Reform," by J. M. Keynes, whose treatment is closely followed in this section.

of currency. The following table shows how the Russian Government used currency inflation as an instrument of taxation, but the yearly amounts raised became progressively less* :—

Month for which Figures compiled.	Note-issue in Thousand Millions of Paper Roubles.	Number of Paper Roubles = 1 Gold Rouble.
January, 1919	61	103
January, 1920	225	1,670
January, 1921	1,169	26,000
January, 1922	17,539	172,000

Year ending 31st December—	Amount raised in Taxation by Currency Depreciation.
1918	.. 525 gold roubles.
1919	.. 380 gold roubles.
1920	.. 186 gold roubles.
1921	.. 143 gold roubles.

It is worth mentioning that the note-issue from January to June, 1923, rose from 2,138,711,000,000,000 paper roubles to 8,050,000,000,000,000 paper roubles.

172. The above tables show that there is no mathematical exactitude (as in our own illustration) between the amount of money issued and the real value of the monetary unit—that is, the depreciation in the value of money is far greater than the increase in its volume. In our illustration complicating factors were omitted. One of these is the habits of the people. When a person realizes that the State is taxing him to the extent of the money he holds, he will tend to keep his store of value not in a bank or " behind the clock," but in the form of durable commodities ; he will also tend to use other means of exchange or to resort to barter and will even economize his holding of pocket and till money.

173. " In Moscow the unwillingness to hold money, except for the shortest possible time, reached at one period a fantastic intensity. If a grocer sold a pound of cheese, he ran off with the roubles as fast as his legs could carry him to the Central Market to replenish his stocks by changing them into cheese again, lest they lost their value before he got there ; thus justifying the prevision of economists in naming the phenomenon ' velocity of circulation '." †

174. It will be seen that currency inflation in order to raise taxes defeats its own ends in a few years ; at the same time it so disorganizes the social and economic life of the country that business cannot be carried on unless some other monetary unit is used. The printing of notes or writing figures in a book is only another way of making the public pay for what the Government spends. To act as a receipt for income-tax should not be a function of money.

The Effect of Currency Inflation.

175. Some attention has been paid to the subject of inflation of the currency because a substantial proportion of the schemes submitted to the committee have involved this procedure. Inflation is a process difficult to define and the subject has become somewhat threadbare of late, but at the same time we feel that it is necessary to show clearly what are the logical implications of schemes which involve the unlimited issue of credit for financing Government or other expenditure. Furthermore, to insist that our economic ills are mere " book-keeping difficulties " and can be solved by giving the public a certain number of " finely engraved acknowledgments on water-marked paper " is to blind them to the realities of the situation and to divert discussion from the basic problems of our civilization.

176. Apart from being an arbitrary and, if carried to extremes, suicidal method of taxation, currency inflation carries with it several major economic and social evils. It alters the distribution of wealth and distorts production. All contracts made in money are generally based on the assumption that its value

* Moscow Economic Institute figures quoted by Keynes, " Monetary Reform," Chapter II.
† J. M. Keynes, " Monetary Reform," Chapter II, p. 46.

will remain comparatively stable. Investors both lose the initial value of their investments and suffer from the fact that their income from investments is fixed in terms of money. In this way Germany wiped out her internal debt by so depreciating the mark that it became worthless. Those who held mortgages, bank deposits or investments of the stock or debenture type, lost their savings. The result is that both the capacity and the will to save have been taken from the community.

177. The effect of inflation on the German middle class has been summarized by Professor J. W. Angell *:—

> "The group which suffered most from the inflation . . . was the group which was least able to defend itself—the middle classes among the town dwellers. Composed largely of people with small fixed incomes, such as salaried officials and clerks, recipients of pensions, and little investors living on interest and rent—of whom the latter group were hit especially hard by the Government control of city rentals—they were precisely the group most exposed to the evil consequences of currency depreciation, while they lacked both the knowledge and the opportunity to combat it. Their savings disappeared (and) their pensions and annuities melted away. Hundreds of thousands of educated men and women, too old or feeble or untrained to earn their own living, were abruptly faced with starvation. Many died. The others, passing from day to day without hope, survived only by the sacrifice of treasured books, furniture, jewellery, and all their saleable possessions, and at the end by domestic and foreign charity. Their history is one of the most genuinely pitiful chapters in all the war and post-war tragedy."

178. On the other hand, the business class—those who have borrowed money—gain, especially if they have fixed debt payments. In addition, the business man gains in a period of rapidly rising prices, because he buys his raw material at one price-level and sells at a higher one, and also because wages tend to rise more slowly than prices. The business man seems always one step ahead. His greater profits encourage him to borrow more. If prices are rising, the borrower repays less real wealth than he borrowed. It will be seen that high interest-rates would not discourage borrowers at such a time. Speculation will, of course, be encouraged, and stocks of commodities will be held for the expected price rise.

The Effect on the Wage-earner.

179. To the wage or salary worker inflation is definitely detrimental. As the cost of living keeps ahead of wages, the worker has his standard of living reduced. Those whose salary is fixed for long periods suffer still more, unless they belong to a strong trade-union or professional organization. Inflation is a blind force with an almost inevitable tendency to rob the working groups of the community. This can be illustrated from the German experience. The comparatively moderate inflation between 1918 and 1921 to some extent raised the cost of living and nominal wage and salary rates, but "real" wages in terms of goods declined considerably. The following German official figures are quoted by Kemmerer from the "Staatisches Reichsamt"† :—

Real Wages in Germany.

Percentage Decline from 1913 to 1921.

Class of Labour.	Per Cent.
Skilled railway labour	25
Miners and mine helpers	11
Printers	31
Higher Government officials	60
Middle-grade Government officials	48

In the subsequent inflation of 1921 to 1923 when the deposits at the Reichbank increased from 36,500,000,000 marks at the end of 1921 to 548,000,000,000,000,000,000 marks at the end of 1923‡, real wages dropped even more steeply. There seems

* "The Recovery of Germany," pp. 38, 39.
† "Zahlen zur Geldenwertung in Deutschland, 1914 bis 1923," pp. 40, 41, 43.
‡ E. W. Kemmerer; "Kemmerer on Money," pp. 83–84.

to have been enough money issued to satisfy the most vociferous, but even at the end of 1923 it was a popular grievance in Germany that there was not enough money in circulation.

180. Employment will be maintained, however, during the period of inflation. This is because production will be overstimulated. Even the prospect of rising prices will encourage the business world to extend its operations. Stocks of goods will be used up, profits will ensue to the business class, but that does not mean that the community is any better off in real wealth. Temporarily a community's capital may be diminished. The anticipated profits from industry mean a diversion of the country's resources to the making of capital equipment rather than to the production of consumable goods. There should be a balance between the production of these two types. It is the upsetting of this balance which is mainly responsible for booms and the resulting depressions. It was the concentration on capital equipment in Soviet Russia that led during the Five-year Plan to a shortage of consumables. This was planned, whereas many money reformers do not realize that money is the shadow, not the substance, and that there is a physical limit to the creation of wealth over a given period and in a given country.

181. If New Zealand were to inflate, British goods would be cheaper than New Zealand goods, and there would be a tendency for increased imports both of capital equipment and of finished goods. This will mean that the local manufactured product will not be able to compete effectively with what is imported; local firms would get into difficulties, workmen would be dismissed, and a local depression would be initiated. In addition, and almost concurrently, as the price of our exports would not necessarily have risen and imports having increased, the resultant tremendous strain on the exchange position would mean inevitably depreciation of the exchanges; thus importers will get into difficulties and further add to the depression.

182. The above is a simplified illustration of how our economic system would be distorted by what might be called a "moderate" inflation. It is reasoning of a general nature only, and would not necessarily apply at the present juncture. Much, indeed, depends on the method used in "inflating." If the bottom of a depression has not been reached, extra issues of currency on a minor scale will have little more than a passing effect, since they will tend to silt up in fixed deposits rather than be used in business.

183. It may be added that considerable changes in the value of money enable speculators to plunder the people by trading on these differences. Inflation has been urged as a means of ridding the community of its internal debt burden and also of the capitalist-financier class, but experience has shown that after an inflation, the working and middle classes are worse off than before, and the ownership of land, factories, and capital equipment still remains with those who hold the paper titles. Inflation does not alter this, and merely gives another illustration of the fact that monetary manipulation will not solve the problems of distribution nor give the wage-earner security.

184. As D. H. Robertson has said*,—

> "The mending of the road over which the produce passes to market is no substitute for the digging and dunging of the fields themselves. No tinkering with the counters will take us very far towards the discovery of an industrial system which shall supply both adequate incentives to those who venture and plan, and peace of mind to those who sweat and endure."

Inflation with a Stable Price-level.

185. So far we have been considering an inflation which raises prices. Just as real, but not as obvious, is the kind that occurs with a more or less stable general price-level. Some witnesses, in advocating, as an example to follow, the United States pre-depression "stability," have pointed to the United States index of general prices prior to 1929, the credit contraction of that year, and the following depression. It has been contended that it is the contraction of credit on the part of the banking system which causes all the trouble, not a previous distortion of

* "Money," p. 178.

the credit structure. In fact, however, the pre-depression situation in the United States of America was such that a slump was inevitable, the banking system being forced not because of its structure, but because of the instability of the whole productive system, to restrict credit.

186. By means of an easy credit policy and open market operations, the United States banking system kept up the "general level of prices" while production costs were falling. This led to a "profit inflation." Instead of being spent as wages on consumption goods, these profits were further invested, mainly in industry, thus bringing an increasing lack of balance between capital and consumption goods. (It is worth noting here that the Economic Committee of 1932 considered that quite apart from the world depression, New Zealand would have had to face depressed conditions owing to over-capitalization mainly through expenditure on public works).*

187. The expansion of credit to keep the price-level stable in the United States of America is shown in the following table:—

LOANS AND INVESTMENTS OF MEMBER BANKS OF FEDERAL RESERVE SYSTEM (DOLLAR MILLIONS).†

June 30,	Investments.	Loans on Securities.	Loans on Urban Real Estate.	All other Loans.	Total Loans and Investments.
1921	6,002	4,400	875	12,844	24,121
1922	7,017	4,500	1,100	11,565	24,182
1923	7,757	4,950	1,350	12,450	26,507
1924	7,963	5,350	1,575	12,279	27,167
1925	8,863	6,718	1,875	12,062	29,518
1926	9,123	7,321	2,161	12,579	31,184
1927	9,818	8,156	2,449	12,333	32,756
1928	10,758	9,068	2,624	12,611	35,061
1929	10,052	10,095	2,760	12,804	35,711

188. Briefly, the above table shows a doubling of investment and speculative loans (leading to unparallcled activity on the Stock Exchange), a real estate and building boom, a falling proportion of commercial loans (these are for business purposes, but were partly used in speculation) to some extent due to the use of profits and reserves for short-term financing instead of bank credit—all ostensibly to keep the price-level stable. The above figures illustrate the futility of watching one general index. To keep the general average stable while farm-products and raw materials were falling with the world price-level, meant that other prices had to rise still higher. Apparently pay-rolls and retail prices were very secondary considerations.

189. "If the American experience of 1928–29 has taught the world nothing else, it should, at any rate, have taught it the danger of a facile belief that to stabilize the general level of prices is to ensure the neutrality of money in economic affairs."‡

INHERENT INSTABILITY.

190. Where a banking system has the amount of its cash holdings limited by the central bank (as will be the case in New Zealand when the Reserve Bank takes control) an inflationary expansion, such as took place in the United States in the decade prior to the present depression, is prevented from continuing indefinitely, because, as incomes expand, consumers use more cash which comes from the banks, which, in their turn, have recourse to the central bank. The cash reserves are the immediate limiting influence in a credit expansion, while as far as New Zealand is concerned sterling balances will be the ultimate controlling factor.

191. The result in the example pictured above was that easy credit conditions were discontinued, consumers' income failed to increase, and the capital expansion, which was begun on the assumption that consumers' income would keep on

* Report of the Economic Committee, 1932, p. 7.

† "Recent Social Trends in the United States" (Report of the President's Research Committee), Vol. I, p. 254.

‡ G. D. H. Cole: "What Everybody wants to know about Money," p. 77.

expanding and that resultant profits would emerge, resulted in losses instead of profits, thus leading to unemployment in the capital goods industries, and initiating a cumulative movement towards further unemployment and depression.

192. The proximate cause was the halting of the credit expansion, but the real and underlying cause was the unstable nature of production due to the "stable price-level" policy. If there were no limiting factor such as the banks' cash reserves, the contraction of credit need not have been forced, and the banks could have gone ahead with the cumulative expansion of credit which had been found necessary to keep the boom going through a continuous rise in consumers' incomes. This, in the end, notwithstanding the increase in production, would raise prices. The country would now have to decide between its "stable price-level" policy and continued expansion of credit. If it decides that prices must not rise, the credit expansion must be discontinued—the result will be unemployment and depression. If it decides that the credit expansion must continue and that prices shall be permitted to rise, they will keep on rising and the result will be finally chaos; it will be cold comfort to know that one can always begin again.

193. It will be seen that the real fault is not the banking system's being forced to contract credit owing to diminishing cash reserves, but the tendency to instability inherent in the economic system. As has been said elsewhere, control of production and consumers' incomes by a central authority would possibly prevent distortion in our economic life, but a banking system alone cannot achieve it. (It must not be assumed, however, that the Committee recommends authoritative control of economic life.)

194. In discussing the effects on prices of a creation of additional credit, we assumed that the existing resources of the community were being fully employed. If there is some slack to take up, a fresh issue of credit will not act as a forced loan on the community by raising prices, but will bring forward more commodities to match the additional credit. But even here there would tend to be a temporary raising of prices due to the fact that goods from the new production will not come on the market at the same time as the new money.

195. A further difficulty is that a decision as to whether the resources of the community are fully employed must be a relative one—that is, it must take account of price-levels. If prices were higher, we could say that the resources of the community could be more fully employed, but at the present low level of prices we cannot be sure that idle land, labour, and capital can be combined to produce goods which will sell at a profit—and profit is the test. The business man can see skilled workmen and idle plant, but he cannot guarantee, or even take the risk, that if he employed this labour he would be able to sell his goods to cover costs. The community, therefore, could put its unemployed men to work at producing things, but it cannot guarantee that these things will be sold at payable prices. The question is not "Where is the money to come from?" but "How is it to be paid back?" In other words, the test is "can an enterprise return to the community in a reasonable time the equivalent of goods and services which it used up during the processes of production?" If it cannot do this, the enterprise should not be carried on, unless the State is to assume responsibility by subsidizing it from the proceeds of taxation. The criterion is here that of private enterprise; if, however, for social or national reasons a project has to be carried on, the State should rightfully assume responsibility, the function performed being that of socializing losses.

THE GOLD STANDARD.

196. Several of the monetary schemes submitted to the Committee assumed the gold standard, but not necessarily at the old parity. We cannot recommend the gold standard as a basis for our monetary system. This conclusion has been reached on the general grounds set forth below, and also on the knowledge that New Zealand has, in fact, not been on the gold standard.

197. The theoretical simplified gold standard of the text-books did not operate in practice as an automatic world monetary system. The essential factor necessary to its effective working internationally was that movements of gold would produce

changes which would automatically correct the situation which in the first place caused the gold to move.

198. Roughly the theory was this: Suppose there were an excessive flow of imports into a country—France, for instance—in any period. The result would be an outflow of gold from France to pay for the excess of imports. As the credit structure depended on a certain gold base, a reduction in the amount of gold would lead to a restriction of credit, tending to lower prices. This would make France a good country to buy in and a poor country to sell in; the result would be that exports would be stimulated and imports discouraged until a net balance of exports led to an inflow of gold which set in train the reverse procedure—easier credit, rising prices, &c.—until the balance of exports and imports was again restored. Equilibrium may never have been reached, but in the long run the tendency was towards an equilibrium which had to be assumed as a pre-requisite to any reasoning about the allegedly automatic self-adjusting economic mechanism of the nineteenth century.

199. There are many assumptions in the above reasoning; we shall mention a few of them here. In the first place, the countries on the gold standard were supposed to keep the rules of the game—that is, any movement of monetary gold should have its full and direct effect on the credit structure, and Governments would not intervene with tariffs, embargoes, subsidies, or labour legislation; the acceptance of the automatic character of the gold standard assumed that a small increase in credit would inevitably raise prices and that a small decrease would inevitably lower them, in other words, it assumed the crude quantity theory of money. It also assumed that there were no changes affecting prices from the side of production or of human nature; that because there was an increased supply of credit available there would necessarily be a demand for it; that there existed perfect mobility of the factors of production and elasticity in the prices to be paid for these factors; that the incompetent or unsuccessful employer would be squeezed out of industry, and that the worker would not effectively resist reductions in his wages; that borrowing to offset adverse balances of payments would not take place; that gold would not be "sterilized" so as not to affect the credit structure; that the stability of the price-level was the condition of equilibrium; that price-levels would react quickly and definitely to minor alterations in the monetary factor; and that the ultimate prices affected would be those entering into international trade.

200. The following remarks made by Mr. J. M. Keynes are of interest in this connection*:—

> "... Credit cycles have been commonly observed to be international phenomena when the gold standard is working normally, but not during the period of the suspension of the gold standard. For the international gold standard has often operated as a means of diffusing the phenomena of profit inflation from one country to another."

201. The above does not mean that the imperfections and the assumptions of the international gold standard were unknown; we merely point out some of the reasons why the gold standard was not automatic—free and "natural." As a matter of fact, the international gold standard was managed before the war by and from London—then the unchallenged financial centre of the world. Since the war, despite the recurring attempts of France, there has been a somewhat uneasy duality between London and New York in "managing" the gold standard—which in reality means trying to manage without it. There is nothing sinister in this, it merely indicates what the Macmillan Committee has recommended—that the monetary factor in our economic life should be controlled.

New Zealand not on the Gold Standard.

202. The above facts indicate that it would be an extremely doubtful step for New Zealand if we adopted the gold standard; in addition, the evidence has made it very clear that this Dominion was not on the gold standard in the full sense of the term, whatever may have been the legal position. Prior to 1914 we had gold coins circulating and gold was freely exportable, but from a realistic

* "Treatise on Money," Vol. II, p. 221.

viewpoint, the gold in circulation could have been brass. It has some psychological value, and could, if necessary, be used to adjust international payments, but gold was not the basis of the credit structure, and did not affect prices. The sterling value of our exports was the dominant feature.

203. An examination of the movement of gold coin to and from New Zealand during the last fifty years shows that gold was not apparently at any time within this period a controlling factor in the credit structure. Imports and exports of monetary gold are shown in the following table :—

New Zealand Imports and Exports of Gold Coin, 1894–1934.

Calendar Year.	Imports.	Exports.	Calendar Year.	Imports.	Exports.
	£	£		£	£
1894	795,030	2,269	1915	809,308	213,412
1895	270,126	31,405	1916	1,023,800	810
1896	97,600	3,422	1917	..	500
1897	550	273,242	1918	..	300
1898	18,185	65,185	1919	..	1,000
1899	116,175	5,349	1920	..	10,000
1900	357,100	9,700	1921	..	..
1901	437,322	7,679	1922	..	..
1902	346,030	3,718	1923	..	..
1903	613,270	36,375	1924	..	..
1904	365,208	6,820	1925	..	..
1905	330,000	9,378	1926	..	..
1906	800,000	84,680	1927	..	..
1907	753,300	3,751	1928	8,000	610,000
1908	187,800	240,950	1929	..	609,000
1909	750,000	20,235	1930	250,012	..
1910	295,300	21,900	1931	1,750	200,000
1911	760,700	32,100	1932	..	1,245,000
1912	290,000	247,005	1933	..	..
1913	544,000	167,659	To June, 1934	..	..
1914	674,099	7,522			

204. The movements of monetary gold shown in the above table show generally the tendency to build up gold reserves in New Zealand. It is possible that in 1897–98, and perhaps in 1908, gold was exported to correct an adverse balance, and it may be that individual banks moved specie for their own purposes, but from a national viewpoint it will be seen that the gold standard did not operate even before 1914. It is to be expected, of course, that there would be a net import of gold coin to build up reserves required by law, but the amount imported was far in excess of this requirement.

205. Since 1914 it has not been legally possible to export coined gold save with the permission of the Minister of Finance. From August, 1914 (to the 30th April, 1934) the specie movement has been as follows :—

	£
Export of gold coin	3,140,842
Imports of gold coin	2,267,870
Net export	£872,972

Since England went off the gold standard £1,445,000 of gold coin has been exported.

206. The exports of gold coin during 1932 were needed to strengthen the exchange pool which was instituted by agreement between the Government and the banks, so that sterling, which was in very short supply, might be used only for essential purposes. The exported gold was a means of providing sterling instead of raising the exchange on London above 110 in order to adjust prospective supply to the sudden demand. (The increased value of this gold consequent on the United Kingdom being off the gold standard and the New Zealand's exchanges being depreciated presumably accrued to the New Zealand banks.) It will thus be seen that as a general rule movements of gold did not have an effect on New Zealand prices or exchange-rates, except in 1932, when the gold exported perhaps helped prevent an anticipated rise.

207. If New Zealand had endeavoured to adopt the gold standard, when England went off gold, we should have suffered perhaps more severely than did South Africa when that country for a time kept parity with gold. It does not immediately concern New Zealand whether or not England is on the gold standard. The idea that gold should be used as a backing for the currency is a survival of the past—a stage in the evolution of money. In the bigger industrialist countries the gold standard has been termed a "barbarous relic." This is not so in New Zealand—it has been quite harmless, but the gold fetish still exists here.

208. The idea that a country should have some gold "just to give confidence is losing ground in New Zealand and Australia, where a clear-cut sterling exchange standard has worked very well for years. There is, however, one use for gold—that is, to pay an international debt when all other means of paying it have failed. If in any year the total payments due from New Zealand were greater than the payments to New Zealand, there would be a gap to fill. The difficulty can be surmounted by borrowing abroad, by exporting securities, by depleting balances held in London, by letting the debt stand over until such time as a trading surplus appears, by exporting gold, by rationing the amount of money to be paid abroad, by raising the exchange-rate to choke off those whose payments abroad are less urgent, or by a combination of these methods. It is evident that it is not necessary for New Zealand to hold gold.

209. Is the shipment of gold in such circumstances—*i.e.*, when a country is not on the gold standard, the best means of meeting the situation which gave rise to the adverse balance? Presumably there had been too many imports in the broad sense in relation to exports. The cure would take some time, but it would be in the direction of cutting down imports. The payment of the debt by the shipment of gold would only prolong the period of adjustment, putting off the evil day, so to speak, for the tightening of credit to importers.

210. New Zealand, in relation to her size, has as much monetary gold as the United States or France, though it has been accumulated and held under different circumstances; and these circumstances are such that the amount of gold held in New Zealand is quite unnecessary.

WHY WAS THE EXCHANGE-RATE STABLE?

211. The evidence taken by the Committee shows that some of the schemes advocated for New Zealand depend on monetary theory as it affects the European situation. As an alternative to the gold standard, it has been suggested that our exchanges will keep some stable "norm" because of the "Purchasing-power parity" theory. The question has arisen: What was it which kept our exchanges stable even during the war? Was it because our bankers believed it should be so, because by law New Zealand was on the gold standard and stable exchanges were essential to that standard? Or is there some underlying factor which explains the external stability of our currency, while its internal value fluctuated?

212. The fluctuations in the internal purchasing-power of the pound for wholesale commodities are shown in the following table of New Zealand wholesale prices from the years 1914 to 1932*:—

Year.	Index Number.	Year.	Index Number.	Year.	Index Number.
(1909–15)	(1000)	(1909–15)	(1000)	(1909–15)	(1000)
1914 ..	1053	1921 ..	1942	1927 ..	1478
1915 ..	1184	1922 ..	1665	1928 ..	1492
1916 ..	1273	1923 ..	1598	1929 ..	1488
1917 ..	1449	1924 ..	1634	1930 ..	1449
1918 ..	1705	1925 ..	1627	1931 ..	1346
1919 ..	1782	1926 ..	1553	1932 ..	1297
1920 ..	2092				

* *New Zealand Official Year-Book*, 1934, p. 568.

The Purchasing-power Parity Theory.

213. Since the war the Ricardian theory of purchasing-power parity (so named by Gustav Cassel) has been a common explanation of the exchange-rates existing between countries whose currencies have been on an inconvertible paper basis.

214. The commonly accepted statement of this theory is that the exchange-rate between two countries will be an expression of the ratio between their respective internal price-levels—*i.e.*, if the internal price-level rose 10 per cent., then the exchange-rate should depreciate 10 per cent., thus settling in an equilibrium which makes the purchasing-power of both currencies the same. The most that can be said for this theory is that it is sometimes true. In the very long run it tends to operate. It may sometimes be used with safety to make very broad generalizations, but it cannot be used as a tool in scientific analysis. The term "internal price-level" is a mathematical abstraction and combines elements which often have little or no influence on the exchange-rate. For instance, the prices of railway transport and housing—in fact, all the sheltered industries—do not necessarily move with the prices of goods which enter into international trade.

215. If we include only goods which enter into international trade and make allowances for transport costs, Customs duties, and other charges, the purchasing-power parity theory becomes more real—in fact, it becomes a truism. We can say that, with such produce as raw cotton and wheat, the respective prices in Liverpool and Chicago will be the same—that is, that the sterling-dollar exchange-rate is an expression of the purchasing-power parities of the two currencies for certain raw materials. But there is not necessarily any exact causation here—*i.e.*, dollar and sterling prices of wheat and cotton do not necessarily give the exchange-rate; the reverse is probably true.

216. The theory does not take into account the volume of trade between sensitive markets, international movements of capital, trade barriers of all kinds, nor the fact that there are very few competitive markets on a world scale. It may be added that markets for raw materials are much more sensitive than are those for manufactured goods. This does not mean that there is no relation between internal prices and exchange-rates, but that the respective price-levels of any two countries are not expressed through the exchange-rate at any given time. The purchasing-power parity theory, then, cannot explain satisfactorily why exchanges are at the approximate old parity, say, between Denmark and Australia.

217. In discussing Australian conditions, Professor Copland* gives the following figures:—

Date for which Figures compiled.	Australian Prices.	British Prices.	Purchasing-power Parity.	Exchange, London on Australia.
1913	100	100	100	100
1920—January	212	289	73·5	101
June	244	301	81·2	101
1921—January	205	232	88·5	99·6
June	170	183	92·5	99·6

"During 1920 and 1921 the English pound should have been much cheaper in Australia, even allowing for the extraordinary trade situation when imports were so heavy. Later figures do not show such a wide difference between exchange and purchasing-power parity, but they confirm the impression given by the above figures that variations in price-levels do not explain the present (1924) exchange situation."

Exchange-rates and Wholesale Prices.

218. The Government Statistician has made a special inquiry into relative wholesale price-levels in Great Britain and New Zealand. Over a period of years it was possible to obtain wholesale prices for only twenty-seven comparable commodities. The comparison is based on average prices ruling throughout the

* D. B. Copland: "Credit and Currency Control," p. 64.

respective years, and from 1930 onwards the New Zealand prices taken are in terms of New Zealand currency, and the British in terms of sterling.

Year.	N.Z. Wholesale Prices in relation to United Kingdom Wholesale Prices (Latter taken as 100 in each Case.	Approximate Exchange-rate (Demand).	Year.	N.Z. Wholesale Prices in relation to United Kingdom Wholesale Prices (Latter taken as 100 in each Case.	Approximate Exchange-rate (Demand).
1913 ..	109	100	1927 ..	116	100
1920 ..	74	102	1928 ..	124	100
1921 ..	104	103	1929 ..	122	100
1922 ..	118	101	1930 ..	130	101½
1923 ..	111	100	1931 ..	146	108½
1924 ..	111	97	1932 ..	139	124½
1925 ..	116	100	1933 ..	138	124½
1926 ..	113	100			

The inference from the above table is that the New Zealand pound and the pound sterling have varied in their power to purchase the commodities included in the index, but that the external purchasing-power of the respective pounds has not varied similarly—that is, the exchange-rate has not reflected the relative powers of the two currencies to purchase the commodities listed.

219. If the Board of Trade Index of Wholesale Prices in the United Kingdom is compared with the New Zealand Government Statistician's figures for wholesale prices, and retail prices are also considered, there is little justification for the idea that relative purchasing-power has determined the rate of exchange in the past. (The United Kingdom wholesale index includes more raw materials than does the New Zealand index, while the retail indices are made up of different articles of consumption.)

Year.	United Kingdom Wholesale Prices (Board of Trade).	New Zealand Wholesale Prices (All Groups).	United Kingdom Retail Prices.	New Zealand Retail Prices (All Groups).
1914 ..	100	1000	1000	1000
1915 ..	123	1124	1230	1076
1916 ..	160	1209	1460	1153
1917 ..	208	1376	1760	1252
1918 ..	229	1619	2030	1354
1919 ..	254	1692	2150	1452
1920 ..	307	1987	2490	1623
1921 ..	197	1844	2260	1646
1922 ..	158	1581	1830	1516
1923 ..	158	1518	1740	1527
1924 ..	166	1552	1750	1567
1925 ..	159	1545	1760	1599
1926 ..	148	1475	1720	1608
1927 ..	141	1404	1675	1594
1928 ..	140	1417	1660	1602
1929 ..	136	1413	1640	1599
1930 ..	119	1376	1580	1562
1931 ..	104	1278	1475	1443
1932 ..	101	1232	1440	1334
1933 ..	100	1242	1400	1268

Demand and Supply of London Funds.

220. The purchasing-power parity theory is not an acceptable explanation of the stable exchange-rate which New Zealand has known for such long periods. What, then, is the explanation?

221. It has been affirmed by the banking representatives that it is the demand for and supply of London funds which have determined the rates of exchange. This idea of demand and supply affecting exchange-rates was true even from hour to hour in the first few months after England had gone off the gold standard. The

British Equalization Fund is now being used to "iron out" the short period fluctuations, but it is understood that general tendencies over many months will be allowed to operate. Have similar tendencies operated with the New Zealand exchange-rate?

222. In the long run (over many years) it is true that the supply of and demand for London funds must tend to equality, but have demand and supply fixed the rate of exchange in the short run? The long run tendency for sterling funds to be regularly absorbed is quite compatible with widely ranging rates of exchange. "In practice, the banks allow funds to accumulate in London during that part of the year when the balance of payments is favourable, and allow these funds to become reduced in the latter part of the year without changing the exchange rate. This involves a considerable measure of control; but that control is customary and necessary, and would require to be maintained under any system of exchange operations."*

223. It appears, then, that the exchange-rate was not fixed by demand and supply of London funds at any one time, or even in any one year. There may have been occasions when prospective pressure on London funds has driven up the rate, but there are very few examples of this. "It is probable that the New Zealand rate (in 1931) was raised to 110 largely because the banks anticipated heavy depletion of their overseas funds if the rate had remained lower."* This depletion would probably be due to heavier importing and the pressure on New Zealand sterling funds for Australian purposes.

224. Seasonal variations are not the only influence on the amount of sterling funds. When export prices fall heavily, sterling funds are correspondingly reduced, but the resultant fall in imports does not take place until about a year later; similarly a rise in export values does not immediately produce the extra imports to balance this. Thus the amount of sterling funds held overseas may vary greatly. For example, it has been shown that, as far as banking figures can disclose such changes, sterling funds increased from the March quarter, 1919, to March, 1920, by about £13,000,000. The exchange-rate *rose* from 101 to 102. In the next year they decreased by over £25,000,000. The exchange-rate moved up another point. What happened in practice was that the New Zealand banking system as a whole kept what might be termed an exchange insurance fund in London. Accumulated sterling reserves were kept by the banks so that no changes might be necessary in the exchange-rate in the event of an abnormal demand for sterling.

225. In the past no separate figures were kept by the New Zealand banks to show what funds were held on New Zealand account. Since the passing of the Banks Indemnity (Exchange) Act, 1932–33, it has been necessary to publish these figures.

It has been shown quite clearly that an important influence on the New Zealand rate of exchange has been conditions in Australia.† This is quite understandable, especially when it is realized that the major portion of the business of the banks operating in New Zealand has been on Australian account. However, it has been possible to arrive at the approximate movement in overseas funds held by the banks operating in New Zealand. The quarterly return of bank figures show wide variations in both assets and liabilities—sometimes assets are in excess of liabilities, sometimes the reverse. These variations depend on the yearly New Zealand balance of payments.

226. "If, therefore, the banks of issue did the whole of the business of transferring overseas payments, the changes in the margin between their assets and liabilities held in New Zealand would record accurately the extent and direction of the balance of payments for any given period."‡ Between 80 and 90 per cent. of foreign transactions are conducted by the trading banks; the remainder is dealt with by large firms in New Zealand, but even so, some of these operations must be reflected in their banking accounts and therefore in the published banking returns.

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* Report of the Economic Committee, 1932, p. 19.

† *Vide* Minutes of Evidence, Banks' representatives, pp. 41 and 42, and also Professor Tocker, p. 151.

‡ Professor Tocker in "New Zealand Affairs," published by Institute of Pacific Relations, p. 147, "Balance of Trade" article.

227. The increase or decrease of overseas funds may therefore be gauged from a comparison of the year-to-year margins between banking assets and liabilities.

The following table is compiled from the official banking returns as published in the *New Zealand Gazette* yearly from 1919 to 1934; it sets out the difference between liabilities and assets, the yearly change, and the approximate demand rate of exchange:—

BANK FUNDS ABROAD AND RATES OF EXCHANGE.

March Quarter.	All Bank Liabilities in New Zealand. (1)	All Bank Assets in New Zealand. (2)	Difference. (3)	Yearly Change. (4)	Approximate Demand Rate of Exchange. (5)
	£ Millions.	£ Millions.	£ Millions.	£ Millions.	
1919	53·7	49·2	+ 4·5	..	101
1920	67·7	50·1	+17·6	+13·1	102
1921	62·8	71·1	— 8·3	—25·9	103
1922	54·3	64·7	—10·4	— 2·1	101
1923	55·9	59·3	— 3·4	+ 7·0	100
1924	58·9	61·5	— 2·6	+ 0·8	97
1925	61·3	61·2	+ 0·1	+ 2·7	100
1926	59·5	65·2	— 5·7	— 5·8	100
1927	56·8	67·6	—10·8	— 5·1	100
1928	60·5	63·2	— 2·7	+ 8·1	100
1929	66·1	62·6	+ 3·5	+ 6·2	100
1930	65·0	69·9	— 4·9	— 8·4	101½
1931	61·2	69·4	— 8·2	— 3·3	108½
1932	51·5	67·7	— 6·2	+ 2·0	108½
1933	62·8	66·9	— 4·1	+ 2·1	124½
1934	69·8	73·4	— 3·6	+ 0·5	124½

Since early in 1933 the banking figures omit the funds held by the New Zealand Government under the Banks Indemnity (Exchange) Act. Bank assets in New Zealand include the securities taken up to finance the Government's purchase of those funds. Consequently, over about the last year an amount has to be added which presumably begins at nothing on 20th January, 1933, and amounted on 31st March, 1934, to over £20,000,000.

228. The figures in column 3 represent part only of overseas funds. In addition, there is the sum for shareholders' funds (capital and reserves) used in New Zealand business. This is no definite amount, for the banks, as stated in evidence, have not distinguished between New Zealand and Australian funds held in London; they use these to finance their exchange business as a whole. The amount of overseas funds held by the New Zealand banks at any time would therefore be an unknown sum x plus or minus the difference in column 3 of the Table.*

229. Now we are in a position to consider statistically whether in the short run the demand and supply of overseas funds has determined the rate of exchange. By comparing columns 4 and 5 of the above table, it is fairly conclusive that the exchange-rate was fixed by the banks and was certainly not determined by demand and supply of London funds. In 1919–20 the rate was above par and rising despite the fact that London funds were above normal and rapidly increasing. In 1921–22 the rate declined from 102 to 101, even though funds in London decreased over that period by a further £2,000,000. In 1923–24 funds in London were increasing, and the rate went down to 97. This was purely in sympathy with the Australian rate and solely on account of Australian conditions. If, however, the supply of sterling were threatened by an extraordinary demand, then, of course, the exchange-rate would rise if no other instruments of control were used.

230. We can conclude, then, that the New Zealand exchange-rates were not fixed by our hypothetical attachment to the gold standard, that the rates did not vary with the internal purchasing-power of the respective currencies, and that demand and supply of overseas funds did not determine the rate even from year to year, but that it was fixed by the Associated Banks partly because of Australian

* This sum x is the amount used in New Zealand business. Professor Tocker has put a tentative estimate of x at a minimum of £15,000,000.

conditions, and generally in order to keep the tradition of stable exchange-rates as the medium through which international trade could function best. The policy of the banks, if they had a policy, was to keep the external value of the New Zealand pound stable and to have its internal value fluctuate. Exchange stability was achieved by means of the banks keeping large reserves in London which acted as an equalization or insurance fund—any strain on sterling would be met by this fund; any surplus would be added to it. Thus it would take an abnormal demand for sterling to have any effect on the rate of exchange. The traditional action of the banks has been to keep abnormal demands in check through the control of advances and internal credit generally.

THE GUERNSEY ISLAND AND SIMILAR SCHEMES.

231. Several of the witnesses before the Committee have specifically stated that the monetary system New Zealand should adopt is that exemplified by the experience of Guernsey in the erection of their Market Hall in 1815. As the schemes of many other witnesses contained this idea as one of the main elements, the Committee feel that the Guernsey scheme should be specifically mentioned; such schemes as issuing money "based on the capital value of all public buildings and property" or on the "wealth of the Dominion," or on the value of "all necessary public works" or on "real estate," all include the element of a currency based on existing or potential wealth.

232. Instead of borrowing abroad, the people of Guernsey who wished to build a Market Hall, used "pieces of paper" on the instructions of the Governor. The building-materials were available on the island; so the people of Guernsey decided to issue their own credit. Paper scrip was paid as wages; this was paid to shopkeepers and went into general circulation; the Market Hall was built and the scrip redeemed out of the rents of the Hall. Other public works were carried out in the same manner.

233. The nature of saving and the effects of the granting of credit should be understood to appreciate the effect of this scheme. Real saving is the diversion of resources from consumption to the making of capital goods. In the money sense, it means that a person refrains from spending all his claims to goods; but if the money he saves is not applied to the accumulation of real capital by the community, then, as far as the community is concerned, there has been no saving—if money savings are not spent in new capital production then there has been no saving in the real sense. At the moment, New Zealand's "saving" consists of what has been accumulated to date and what is at the moment being saved by the direction of production into the making of capital goods. What happens in the main is that we exchange some of the goods not consumed by us for capital equipment from England.

Saving and Investment.

234. Real investment—that is, the application of a country's resources to the production of capital goods—can take place without a concomitant and equal money saving on the part of the community; it can be financed out of bank credit. But if real investment is in excess of the money savings of the community, then the amount of purchasing-power to be applied to consumable goods will have risen and a rise in prices would normally ensue. Hence saving is generally voluntary, but may be forced. At any one time there is a flow of consumption and capital goods coming on the market, generally in the proportions at which they have been absorbed in the past. If additional credit is now granted to finance future production, this purchasing-power will be applied to goods already in existence and have some action on prices before the future production can itself function and turn out goods. If the rest of the community abstain somewhat from consuming—that is, refrain

a little more from spending—the additional credit issued will take the place of this money saving; and resources will be diverted from those who would have spent to those who are spending the new credit issue*—that is, the additional money issued has merely taken the place of the extra money saved.

Credit and the Standard of Living.

235. But if the new credit is an addition to purchasing-power, prices will rise somewhat—that is, the individual members of the community will receive a little less, this "little less" being transferred to the possessors of the new issue of credit. This is known as "forced" saving. It has been quite frankly resorted to in the past by Soviet Russia, but of late years that country has been financing more by using the money savings of the people. It will be recognized that it is a quite simple matter to issue credit or "pieces of paper," print tickets, or use scrip. It is the same procedure as is employed with cheques and bank-notes. Bank loans can have the same effect as the printing of extra tickets, but a banker generally has regard to the consequences of his loan. Quite apart from its effect on the banking system, extra credit issued against future production is spent on the goods now on or entering the market. Any resultant rise in prices is a tax on the community and as wages always lag behind, the net result is a lowering of the standard of living, particularly of wage-earners.

236. Assuming that the members of the community have no real surplus to be borrowed, this lowering of the standard of living from the extra issue of credit can be avoided if the borrowing is done overseas, because, as such foreign borrowed money is not shipped to the borrowing country, it must come in the form of goods, so that if we borrow abroad we at the same time obtain goods from overseas to ease the strain on internal resources and to match the new purchasing-power. Interest must be paid on this borrowing, but in a young undeveloped country it appears preferable to pay interest on this and tax the richer members of society—a procedure made possible because of the additional productivity ensuing from capital equipment resulting from the overseas loan—rather than issue extra credit internally and tax everybody, the poor in particular, with a rise in prices. Whether a country should borrow abroad or not depends largely on its economic development, but a stage should at some time be reached when a country produces sufficiently to provide for her own capital investment without resort to overseas borrowing.

237. In general, the members of a community will not lend their savings unless interest is paid, nor in some cases will saving take place without the attraction of an interest-rate. If, instead of borrowing existing funds and paying interest, new money is issued, there will be a redundancy of purchasing-power and higher prices. If a method could be devised of ensuring an appropriate amount of money saving by the community and making certain that this was not spent, then that much money could be issued without the necessity of collecting the amounts saved. This seems quite impossible, quite apart from the question of being fair to the savers. It should be added that a portion of the new capital requirements of industry and commerce is financed internally out of reserves and undistributed profits. In this case the savers are at the same time the users of the savings. A portion of bank credit is also used in real investment, unspent purchasing-power being collected by the banks as fixed deposits.

What happened in Guernsey.

238. What happened, then, in Guernsey? There is very little historical material available, but it has been stated in evidence that gold and silver (English and French) coins circulated but there were no banks. One result of the increase in the means of exchange through the issue of scrip may have been to displace some of the gold and silver coin, the net result being that the amount of money in

* *Cf.* D. H. Robertson: "Banking Policy and the Price Level," p. 52, "The key to the whole matter is that the command over capital conferred on the borrower by an additional bank loan is in reality provided not by the owner of the deposit in which the new loan eventuates, but by some other money-lender who refrains, whether spontaneously or under pressure, from consuming the full value of his current output."

circulation remained the same, some sections of the community abstaining from consumption because of the withdrawal of their gold and silver coin. The abstaining had been done by one section and the consuming by another. A much more likely result of the issue of scrip to provide workers with food, clothing, and shelter while they built the Market Hall would have been a rise in prices. As a result of the extra purchasing-power being spent on consumable goods,* prices would generally rise, or perhaps offset a falling tendency. If butter rose from 10d. to 10½d. per pound, this would be equivalent to a sales tax of 5 per cent., and as there would be no exemptions it would be an entirely inequitable tax. Thus the standard of living of the Guernsey Islanders would go down through the rise in prices, although more people would be employed. It has been objected that the scrip issued to build the Market Hall should not have been redeemed. If redemption had not taken place, prices to consumers, and hence the forced tax, would have been kept up; whereas by redeeming the scrip, prices would tend to fall to their former level, thus lifting the forced tax from the people. Of course, if credits as a whole were never cancelled, we should see prices and costs quickly rising in a steep never-ending spiral.

239. It is perhaps possible that as a result of better organization, and later the setting-up of banking institutions, the industry and accumulation of Guernsey would have been carried on more efficiently. It is also possible that there were some unused resources awaiting immediate exploitation. But even here, until the product of this development came on the market, there would be a rise in prices because of the new money, unless more consumers' goods were forthcoming as a result of harder work on the part of the Islanders.

240. The Governor of Guernsey made one fundamental error in assuming, as he apparently did, that "pieces of paper or other forms of credit which they could well supply themselves" were only pieces of paper and not at the same time claims to existing marketable commodities, and that multiplying the claims does not necessarily increase the goods and services that are purchasable. By using pieces of paper based on borrowing in England, Guernsey could have maintained or improved the standard of living because of the additional imports resulting from the London borrowing, and paid off the loan from the rents due to the additional facilities provided by the Market Hall. It is probable that by using pieces of paper based on internal "real credit," Guernsey abstained from consumption by lowering its standard of living through a rise in prices.

241. New Zealand is now in the position of paying for goods borrowed in England out of the wealth produced in New Zealand. To the extent that the nation now has to consume less than it produces owing to the necessity of repaying the goods it borrowed in the past for developmental purposes, our standard of living is lower because of the reality behind the "pieces of paper." We borrowed steel rails and machinery; we are repaying with butter and wool.

242. If further capital construction is to take place in New Zealand out of internal issues of credit—"costless" or bank—and assuming a no greater relative surplus than previously, we must be prepared for a standard of living which will enable a small proportion of our resources to be devoted to supplying our immediate wants. Of course, it may be that New Zealand has reached the stage when the people's savings are sufficient for the necessary new capital construction. But this was not the procedure envisaged by some witnesses. Credit was to be issued freely, quite irrespective of the community's "saving." It does not matter whether this excessive credit is bank credit, "costless," "community created," "social," or otherwise, the effects are the same. In order to use the productive resources of the community to the full, our aim should be to keep real investment (as defined in paragraph 234 above) adjusted to money savings, in whatever form these may appear. There is no other rule or principle. In practice, it is extremely difficult to achieve this adjustment; there appear two main methods—loan expenditure to make effective use of all money savings, and variation in interest-rates to achieve a balance between saving and spending.

* It is fairly clear that the building-materials did not come on to the market. *Vide* Minutes of Evidence, Mr. Alexander Scott, p. 475.

243. The value of our land may be high, our national resources may be "well-nigh limitless," our potential wealth may run into millions of pounds, the "real credit of the community" may be elastic in a one-way direction, our land may flow with milk and even honey, but, as one witness has so aptly put it, "endless millions of costless credit" based on these things can only "annihilate capitalism."

244. The Guernsey Island scheme can be used, but the more it is used the lower will be our consumption of the goods that make up our standard of life. In fact, it could proceed until an inflation on the well-known 1923 German model arrived. The question is: Can the country stand the tremendous rise in prices which would ensue from an issue of credit based on the whole of the physical wealth of the country—on credit which may one day produce consumption goods, but for this generation can only produce prices of astronomical dimensions.

THE DOUGLAS SCHEME FOR NEW ZEALAND.

245. As the setting-up of the Government Monetary Committee and the visit of Major C. H. Douglas to this Dominion coincided, and although no scheme of monetary reform had been volunteered to the Committee either by the Douglas Social Credit Movement of New Zealand or by Major Douglas, the Committee felt that it was an appropriate time to investigate any definite proposal which Major Douglas might make as an alternative to, or an improvement on, the present monetary system. The Secretary accordingly communicated with Major Douglas, asking if he would "submit a proposal or any other definite scheme which might be made applicable to New Zealand."

246. The Committee specifically stated that they would not exclude any criticism of the present monetary system and would investigate any aspect of it in order to make the inquiry as full and complete as possible; nevertheless, Major Douglas preferred not to put forward what has been termed the Douglas analysis of the defects of the existing monetary system, and his proposals to rectify these alleged faults, but to give the Committee a scheme "which did not traverse the monetary system" in its present form which "is assumed (without admitting such to be the case) to be self-liquidating." Major Douglas also stated that he would await the publication of the Committee's report before submitting "more far-reaching proposals which assume that fundamental defects have been exposed."

247. The correspondence between the Committee and Major Douglas is printed in the Minutes of Evidence, but, briefly, the scheme was this: An amount equal to the difference between the market value and the balance-sheet value of all the assets of the banks was to be transferred to (Bank) Suspense Account No. 1, and 50 per cent. of this fund was to be given annually to customers with overdrafts on a *pro rata* basis of the average overdraft of these customers during the last three years.

248. Banks' dividends were to be limited to 6 per cent. on subscribed capital (said by Major Douglas to be the dividend paid by the Bank of England). Any amount over this was to be transferred to (Bank) Suspense Account No. 2, 75 per cent. of this fund to be applied annually in the reduction of interest payable on overdraft.

249. The same procedure was to be applied to the assets of insurance companies, the difference between the market value and balance-sheet value to be transferred to (Insurance) Suspense Account No. 1. The treatment of this account was not clear from the written scheme, which involved contradictions, but in cross-examination it was made clear that the proposal was to distribute to the general public certificates ("debenture stocks or preference shares") based on the amount in (Insurance) Suspense Account No. 1. These certificates were to be allotted to the extent of 50 per cent. of the amount in this account, and were not to be cash; they were to be non-transferable and not security for loans. This simply means that every native-born New-Zealander would be given a certificate

which stated that a certain amount of wealth was in existence. The only value to the holder would be that under the scheme put forward by Major Douglas he would get a dividend paid, in this case from (Insurance) Suspense Account No. 2. The cash for this account was to be acquired by appropriating from the insurance companies all earnings above a 6-per-cent. dividend on presumably the subscribed capital. There would always remain a certain amount in this account, since it was to act as a "Dividend Equalization Fund to ensure that the dividend on all preference shares or debenture stocks allotted under the preceding clause shall receive a dividend at the agreed rates,"* whatever this may mean.

250. This puts in a simple way the scheme of Major Douglas for New Zealand. The Committee feel that for its intrinsic value it need not have been specifically mentioned; although it is somewhat involved in its presentation—in fact, unnecessarily so—it is not constructive, nor are its general defects so elusive as to warrant any detailed analysis. However, in consideration of those in the Douglas Social Credit Movement who attach importance to the schemes of Major Douglas, the Committee consider that it should be made known exactly what the scheme for New Zealand involves.

251. For some reason it was thought to be an advantage if the scheme did not "traverse the tenets of the existing system"; it would, however, materially change it—in fact, it would destroy the banks as solvent institutions. We are sure that this was not the aim of Major Douglas, but his exposition was so circumlocutory and even self-contradictory, and his replies to questions quite often so irrelevant or evasive, that some aspects of his plan still remain indefinite.

252. When asked if his preference-share scheme could be extended to all the existing assets of the country, he replied, "It will in time."† This indicates that, after a time national wealth certificates would be given free to every voter born in New Zealand, entitling him to a share of dividends earned by the private investments of the country. This seems like a crude type of socialism, but Major Douglas expressly repudiates socialization, and in evidence declared that the system of private initiative was admirable.

253. The proposal to "monetize" reserves is apparently based on the assumption that when banks provide for reserves they reduce purchasing-power by the amount set aside; nothing could be further from the truth. The money represented by reserves, hidden or otherwise, is not taken out of circulation; it is invested in the banks' business and, in New Zealand, is to be found for the most part in Government securities. To acquire buildings, securities, or other assets, money was paid out to the community so that the net amount of money—deposits and notes—available for expenditure was not decreased. If profits are not distributed as dividends, they are spent in purchasing assets for reserves.

254. If bank profits were to be limited to 6 per cent., the Committee would prefer that any amount above this should be used in the relief of general taxation, and not be given to somewhat capriciously selected sections of the community—namely, those who happen to have overdrafts. And, assuming that in principle it is justifiable to appropriate to the public all unearned incomes such as the economic rent of land and monopoly profits from public utilities, the difficulty arises that all forms of property are exchangeable and mutually convertible in the stock market. A man may make £3,000 in trade, invest £1,000 in a manufacturing concern, £1,000 in bank shares, and £1,000 in land. Why treat one of these £1,000 investments differently from any of the others? Why pick out for inequitable treatment only those who have bought bank shares? To this question Major Douglas suggested compensation. This really means a State subsidy to those who have forfeited what was arbitrarily given to those with overdrafts—a roundabout way of achieving an irrational end.

255. The proposed methods of distribution are inequitable. The application of resources obtained from the banks to the cancellation of overdrafts, or the reduction of overdraft interest, favours persons trading on capital borrowed from the banks, as against those trading with their own resources, or with capital raised on long-period loans. In particular, it discriminates against industries having a

* Proposals of Major Douglas, paragraph VIII.
† Minutes of Evidence, Major Douglas, p. 183.

high proportion of fixed to total capital. It also favours the wealthy man with a large overdraft as against the small bank-shareholder, business men as compared with professional men and wage-earners, big as against small businesses, the extravagant borrower as against the more prudent man, and "shaky" accounts as against "best" accounts; in addition, a prudent bank which had built up stronger reserves would suffer more severely than an inefficient bank. All this, of course, has no economic or social justification.

256. The amount of reduction in overdraft will vary with the various banks, for the proportion of "hidden" reserves to advances is different with each bank. The amount of interest reduction will also vary with the amount of profits as compared with overdrafts. Such a situation of differential treatment of borrowers with different rates of interest and overdraft reductions could not long endure, quite apart from the other weaknesses in the scheme propounded.

257. The proposal to distribute preference shares (with an annual dividend perhaps of a few pence) broadcast to all New-Zealanders of voting age would be fantastically ineffective as a method of distributing the country's wealth, even assuming what is not true—that Major Douglas has a basically socialist philosophy.

258. As far as the insurance companies are concerned, Major Douglas did not make it clear whether he included life, fire, marine, and accident insurance, and, in addition, in his scheme he overlooked the fact that mutual insurance companies have no share capital in any accepted sense of the word. In evidence, Major Douglas inferred that mutual insurance companies would have treatment similar to that to be applied to other insurance concerns. When asked how he would divide up what corresponded to 6 per cent. on share capital, his reply "On a limit basis" was not illuminating.

259. Whether one believes in private property rights or not, the taking of the property of policyholders is mere caprice. The insurance proposal has absolutely no correlation with social justice, while its relation to the monetary system is simply non-existent. In fact, all the suggestions made by Major Douglas as improvements to the monetary system were irrelevant to anything that could be called a system.

260. Major Douglas, in order to obtain the certificates which he aimed at presenting to all adult native-born New-Zealanders, envisaged a process of "rediscounting" the insurance reserves in order to obtain "funds" for the preference shares. This process is entirely incomprehensible, especially as Major Douglas wanted cash for no apparent reason. The issue of a preference share, representing the difference between the balance-sheet and the market value of insurance company assets, needs no "funds" or "cash." All that is necessary to manufacture these non-repayable claims on society is a printing-machine. In the cross-examination of Major Douglas on the reason for this "rediscounting" at the Reserve Bank when cash was not needed, the following question was put:*—

> *Question:* "You do not increase purchasing-power, but only issue a piece of paper which is non-transferable and not security for a loan. Why go to the Reserve Bank when you do not need liquid funds?"
>
> *Major Douglas:* "Would you rather go somewhere else? I have no objection."

It will be seen that the point was not made any clearer by Major Douglas, but the representative of the Douglas Credit Movement in New Zealand, when questioned on the same matter, admitted that no cash was required. All that was needed was a certificate.† The whole procedure of "rediscounting" hidden reserves is pointless, useless, and a circuitous and entirely unnecessary method of obtaining nothing.

261. The following extract from the evidence given by the representatives of the banks is relevant:—

> "The suggestion that dividends be limited to 6 per cent. per annum of the subscribed capital ignores the fact that in the case of some banks the subscribed capital represents several times the paid-up capital, while in the case of other banks subscribed capital is no greater than paid up capital. Apart from this anomaly, which betrays a lack of knowledge by Major Douglas

* Minutes of Evidence, p. 182.
† Minutes of Evidence, pp. 236 and 237.

of the subject under discussion, the suggestion entirely fails to take into account the fact that dividends arise from the earnings of a much larger sum than the capital of banks—namely, the capital and reserve funds—which are the investment and the property of shareholders, and the reserve funds are often built up very largely from direct contributions by the shareholders in the way of premiums on new subscriptions of capital, as well as from undistributed profits. Thus, though the dividend is quoted as being at a certain rate on paid-up capital, that dividend represents the earnings of a much larger investment of shareholder's funds . . .

"In his evidence before your Committee Major Douglas referred to the Bank of England dividend as being 6 per cent., and mentioned that as a well-known precedent for the 6-per-cent. maximum dividend he proposed in respect of the banks in New Zealand.

"We would point out to the Committee that the Bank of England dividend rate is 12 per cent. per annum, a fact which again indicates Major Douglas's inaccurate knowledge of the matter under discussion."*

Documentary proof of this was also handed to the Committee.

262. Banks keep reserves for the same reason as any prudent man or business keeps a reserve. There are always difficult times to contend with, and the reserve gives confidence and stability and is at the same time a reservoir which can be drawn upon when losses are sustained. Already in the present depression the banks and stock and station agents have written off some millions of bad debts. Their ability to do this depends on the reserves built up in good years. The fact that the banks in New Zealand have successfully weathered the economic blizzard of recent years is an indication of the foresight of the banks and a demonstration which abundantly justifies the policy of maintaining adequate reserves.

263. The dissipation of reserves by way of gift to borrowers, as proposed by Major Douglas and confirmed by the representative of the Douglas Credit Movement,† is, whether designed or not, merely a short and sharp method of wrecking the banking system. This financial sabotage would operate in this way: when inner reserves were written up to their market value and distributed to borrowers,‡ the stability of the banks would be so impaired that the slightest fall in the market-value of assets would render the banks insolvent, for their liabilities would be greater than their assets. Even a slightly progressive fall in prices would simply ruin the banks under these circumstances, unless, as would happen of course, the Government came to their aid.

264. The Committee realize that Major Douglas was not putting forward an alternative monetary system, but merely what he considered to be an improvement to be grafted on to the existing system. We have accordingly viewed it as an

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* Minutes of Evidence, pp. 34 and 35.

† Minutes of Evidence, p. 241.

‡ That this is the procedure is clear from the following questions put to the Douglas Social Credit representative:—

Question: Would you agree that purchasing-power could not be increased under the present system until the banks grant additional purchasing-power to the amount of any overdraft cancelled?

Colonel Closey: That if this overdraft were reduced they would have to increase it back again before the purchasing-power could be returned?

Question: Yes?

Colonel Closey: That is the indirect way in which the people would benefit.

Question: Say we have a bank's balance-sheet. On the liability side you have capital, reserves, deposits, and one or two other things. On the other side (the assets) you have advances and bank premises; generally speaking, one or two other items too. They balance. If you write up bank premises, say, by £2,000,000—I am just taking that figure—you would form a Suspense Account on the other side of another £2,000,000. Do you agree, so far?

Colonel Closey: Yes.

Question: You then take £1,000,000 of that Suspense Account and use it in paying off advances. You agree?

Colonel Closey: Yes.

Question: So that your balance-sheet still balances. You have got capital, reserves, deposits, and 50 per cent. of your Suspense Account left on the liability side, and on the asset side you have advances reduced to £1,000,000 and bank premises written up by £2,000,000?

Colonel Closey: Yes.

Question: So that the position is this: The bank premises are finally written up to market value, and next year there is going to be very little to add on?

Colonel Closey: Next year those people who have their overdrafts at a certain limit put forward their usual claim for more loan to equip them with further working capital with which to expand their premises or pay wages.

—Minutes of Evidence, pp. 240–241.

emergency as well as a permanent measure. While it is mere fantasy to regard it as a suggestion of a permanent nature, we are also of the opinion that it is hopeless even as a stop-gap.

265. It would not affect prices in the primary producing industries ;* in contradistinction to other schemes, it would not even necessarily increase purchasing-power. In fact, the reverse is probably much more true. Banks' funds are of a revolving nature, but some overdrafts are not paid off for years. These latter overdrafts would be partly reduced by the Douglas scheme, but no additional purchasing-power would arise, nor would there be any addition until the banks advanced more money to replace the reduced overdrafts. There is no reason why the long-period overdrafts should be replaced, and the security for other advances would be just as precarious as formerly, while the banks would be unable to assume the risk of any advances which might by the remotest chance lead to any considerable amount of bad debts, since they would not have reserves to fall back on. The banks at the present time are "carrying" businesses which are waiting for good times in order to repay overdrafts. The reduction of these overdrafts from reserves is not likely to improve lending conditions nor purchasing-power. Even assuming by some miracle that the banks did not fail, these facts make it very doubtful whether there would be any addition to the spending-power of the people. It is certain that financial conditions would change, if at all, only for the worse, for confidence in the banks would have disappeared, thus leading to a further paralysis of industry.

266. It is also quite clear that the transfer of the amounts of bank and insurance dividends over 6 per cent. is not adding to anybody's spending-power. On the Douglas contention that the normal banking policy is deflationary, it is actually decreasing it by tying up a proportion of the amount in Suspense Accounts. The Committee endorse the following statement made to the representative of the Douglas Social Credit Movement in discussing the Major Douglas scheme ;† it indicates that, unless the money in Suspense Accounts were invested to the full, the scheme put forward by Major Douglas would progressively decrease purchasing-power as it was extended to the other economic units of the country :—

> "We get to this position, then, discussing Major Douglas's proposals, not your own. He is proposing to transfer purchasing-power from bank shareholders and insurance company share and policy holders to other individuals. The majority of these shareholders are not rich, and Douglas said it was not a class question, anyway. If the right of private investment is accepted as one of the principles of our economic system, Major Douglas's proposal is quite arbitrary, unjust, and irrational. But what is more, the dividend transfer plan will aggravate the disease from which we are suffering. It will actually decrease purchasing-power. One-quarter of the amount that has been transferred to the Bank Suspense Account No. 2 will be sterilized, frozen, or whatever term you wish ; but that 25 per cent. means a net decrease of purchasing-power. Under the insurance scheme the debenture stocks are not transferable, not security for loan, not purchasing-power, and cannot add to purchasing-power, but the dividend paid on them is purchasing-power. In so far as there is any amount remaining in the Insurance Suspense Account No. 2—that is, the Dividend Equalization Fund—this amount is by that much a decrease in purchasing-power. Douglas himself said that, in time, this scheme could be extended to all existing assets of the country. The more we extend this scheme, the more we destroy purchasing-power. The insurance scheme and its application to other institutions is therefore wholly deflationary in that it would pay out only a part of what would otherwise have been paid out. The transfer of bank dividends over 6 per cent. is similarly deflationary. It is also the Douglas contention—and you, Colonel Closey, have supported it—that the normal banking policy is deflationary. Therefore, even the reduction of overdrafts by writing up the book value of assets is not necessarily adding to purchasing-power, but probably decreasing it. The only logical conclusion from the proposals and evidence put forward by Major Douglas in New Zealand and by you is that—quite apart from their arbitrariness, their injustice, and irrationality—if put into effect, they would bring a net decrease of purchasing-power, and would add to the burden of unemployment and reduced incomes."

**Vide* Minutes of Evidence, pp. 176 and 177, where a series of questions by Mr. J. N. Massey demonstrated this point.

† Minutes of Evidence, p. 241.

PROPOSALS OF THE DOUGLAS SOCIAL CREDIT MOVEMENT OF NEW ZEALAND.

267. As Major Douglas had put forward no social credit proposals, the Committee invited the Douglas Social Credit Movement of New Zealand to put forward their social credit scheme.

268. The proposals of the Douglas Social Credit Movement are included in the Minutes of Evidence, from which we quote the following four assumptions which were handed in as part of the evidence:—

> "(1) The science of production throughout the world, and here in New Zealand, has excelled its plan and is capable of indefinite increase.
>
> "(2) The location of supplies and demand are sufficiently widespread and interlocked to prove that the troubles of the world are not due to its peoples being divided into classes who have and others who have not, but instead that the nations have no workable medium of exchange, which can enable each producing group to trade its products with other groups.
>
> "(3) This breakdown of the monetary system is manifested within the boundaries of New Zealand, where destitution prevails amidst unlimited stores of the essentials related to the provision of food, clothing and shelter.
>
> "(4) The external trade of New Zealand is the consignment of pastoral and other products in exchange for goods not economically capable of production here.
>
> "The foreign exchange value of these products has not materially declined in relation to the value of goods we import, and the tremendous increase in quantity has more than offset our increased foreign debt commitments."

269. There would be set up a National Credit Authority in order that "purchasing-power equates with production, that the value of the monetary unit shall be regulated in terms of commodities and services, and that the shocks of foreign exchange movements shall be met by monetary adjustments." The scheme further adds—

> "Experience having proved that raising wages merely adds to prices charged, and therefore does not expand purchasing-power, the Douglas method of using credits to effect sales by means of the Price Regulating Factor shall be adopted.
>
> "A calculation will be made of the amount of consumption goods awaiting sale, and also a calculation of purchasing power available. With allowances of depreciation and appreciation of national assets there will be declared a certain sum which is the shortage of purchasing power, and this sum will be set down as a fixed and limited amount to be drawn against a National Credit."

(The Just Price.) "As a main method of expanding purchasing power certain essential commodities will be declared subject to discount at a rate disclosed by the Price Regulating Factor" (assumed to be one-third). The retailers' rebates would be reimbursed to the retailer by the National Credit Authority from the sum set aside to make up for an alleged deficiency of purchasing-power which was said would be disclosed by an economic survey. From this sum also a payment (not specified) would be made to the unemployed; and the exporting primary producer would be "compensated for the difference in level between local prices and those of the overseas places of sales to the extent that his reward for labour and capital shall be relative to that obtaining in other occupations in the Dominion."

It should be noted that there is no mention of a national dividend for all. Only the primary producers and the unemployed are guaranteed a payment.

270. Although the social credit plan put forward belongs to the group of schemes which the Committee consider to be inherently unworkable, we have treated it separately, both because it is part of the widely advertised genus of "social credit" proposals and also because the Douglas Social Credit Movement was given a special invitation to submit an alternative monetary scheme for New Zealand. "Social credit," if it has any meaning, is not a new concept. The Government's issue of Treasury bills is an example of the issue of "social credit"—the credit of the community is the backing for the money advanced; similarly it is "social credit" which constitutes the security behind Government borrowing.

271. The Douglas Social Credit representative also gave evidence on the scheme for New Zealand put forward by Major Douglas. A perusal of the evidence shows that Colonel Closey, the Douglas Social Credit representative, and Major Douglas were not in agreement, and that Colonel Closey several times gave the opposite answer to that given by Major Douglas to an identical question. It should also be added that the answers of the former were quite often at variance with the essential theories expressed in the books written by Major Douglas.

272. The assumptions stated in the proposals are all of dubious validity. For instance, production in New Zealand is not "capable of indefinite increase" in the sense that monetary manipulation can achieve this increase. Also the statement that the "troubles of the world are not due to its peoples being divided into classes who have and others who have not" merely says that our troubles are not due, even in part, to the private control of the means of production. This question has not yet emerged from the realms of controversy. Again, to state that our troubles exist because "the nations have no workable means of exchange" is not to accept the obvious fact that New Zealand's trade with England has been carried on by a very efficient medium of exchange. In any case, to infer that the monetary factor is the cause of the world's troubles is merely not facing the facts. The further assumption of a breakdown in the monetary system within New Zealand is quite unreal, because it ignores the other underlying and more important factors which to some extent exist in New Zealand, but to a greater extent are external and due to a variety of causes.

273. The fourth assumption was that the foreign exchange value of our exports "has not materially declined in relation to the value of goods we import, and the tremendous increase in quantity has more than offset our foreign debt commitments." The facts are these* :—

	1926.	1933.	Percentage Decline.
Index of export prices	100	58	42
Index of import prices	100	78	22
Aggregate value of exports	100	90	10
Aggregate value of imports	100	51	49

It will be seen that both export prices and aggregate values have declined. (If sterling instead of New Zealand currency be taken the decline is even more marked.) It is obvious that export prices have fallen more than import prices and that the increased quantity exported has *not* offset the foreign debt commitments. As far as New Zealand is concerned there is a fixed block of sterling which must be set aside for the debt service. If our exports fall in value, we must take fewer imports even if (as has not been the case) the price of imports falls as much as that of exports.

274. Another assumption was that experience had proved "that raising wages merely adds to prices charged and therefore does not expand purchasing-power." This proves too much and provides an argument for further reducing wages. It may be said that there is at any time an appropriate wage-level which, in general, industry can support. Raising or lowering this level will bring disequilibrium and lower national welfare. There are, of course, examples where wages are increased and prices may even be lowered; it depends on the stage of development reached by a country, and, as far as New Zealand is concerned, overseas prices are a major determinant of our economy. It is clear also that a 10 per cent. rise in wages does not mean a 10 per cent. rise in prices.

275. The alleged deficiency of purchasing-power was to be calculated by assessing three things: (1) Consumption goods awaiting sale; (2) purchasing-power available; (3) the difference between depreciation and appreciation of national assets. The difference between (1) and (2) with the addition of (3) would give the amount of national credit to be disbursed. It is worthy of note that this procedure for arriving at the price factor is different from that advocated by Major Douglas in his writings. It should also be noted that the "cure" for the alleged deficiency of purchasing-power is in no way related to any of the interpretations claimed for the A plus B theorem to which the Douglas Social Credit representative said he subscribed.

* Computed by Government Statistician in terms of New Zealand currency.

276. The Douglas Social Credit Movement for New Zealand is apparently not basing its calculations on the A plus B theorem, as is shown in the following question and answer from the Minutes of Evidence.*

> *Question:* "In Great Britain, payments between producers are roughly nine times as great as payments to consumers. In the United States of America the figure is 11—that is, 1,100 per cent. The resultant disorganization of industry caused by issuing an amount of credit equal to this total of A and B payments would surely lead to chaos?"
>
> *Colonel Closey:* "No, because our calculation is not based upon the differentiation between A and B payments. We want those figures which you have offered to help us with. There are other factors, the time and the destination of the money. Deficiency of purchasing-power will be the determining factor in calculating what are A and B payments."

This reply contradicts Major Douglas, whose A plus B theorem was supposed to disclose the deficiency of purchasing-power.

277. The following questions and answers are also interesting* :—

> *Question:* "Is it necessary that consumers should have enough money to pay for the immediate costs of producing consumption goods?"
> *Colonel Closey:* "No."
> *Question:* "It is not necessary?"
> *Colonel Closey:* "No."

This explicit denial of a self-evident truth is amazing in view of the fact that Major Douglas himself insists that not only should consumers' income equal the cost of producing finished commodities, but it should equal the total costs of producing goods—that is, it should include all payments between producers. A reference to the Minutes of Evidence will show that the Douglas Credit representative made yet another interpretation of the A plus B theorem and brought it still nearer to those propositions which must be accepted on faith and not by scientific demonstration.

278. The difficulty of defining and valuing "consumption goods awaiting sale" is a serious defect, especially as second-hand goods were to be included. Unless we are to adopt a rigid and unreal cost of production theory of prices it is impossible to value any goods accurately. Furthermore, to value any product it must have entered the market to take the test of effective demand. Without a given supply of money and goods there can be no price. It is impossible to equate money and goods, for there is no common scale on which to equate them. In discussing this point it was stated by the Douglas Social Credit representative that the valuation of a ton of butter would be determined by "the amount of physical support it will give to a man with a family."* This new theory of value, payment for a product according to the needs of the producer, envisages more than a change in the monetary system—it foreshadows the political and social system which would adopt the formula "From each according to his ability, to each according to his needs."

279. It was not made clear exactly how the central authority would calculate the amount of purchasing-power available. Notes in circulation, free deposits, and unused overdraft facilities roughly cover the amount of purchasing-power which may be available at any one time, but it does not follow that this amount will be used at any moment to purchase consumable goods. It is the turnover of money (or velocity of circulation) which is important, and this cannot be calculated in advance nor could it possibly apply to a moment of time. In fact, it is impossible to calculate the purchasing-power which will be used, nor can it be predicted what proportion will be applied to consumption goods.

280. Also, any statement of national appreciation or depreciation of wealth would be a quite arbitrary one. The Government Statistician states, "An inventory estimate for New Zealand would require much arbitrary assumption, particularly in respect of the value of land and fixed improvements. I would point out that our latest estimate of private wealth is less than the aggregate capital value of land and improvements based on the latest valuations for the different

* Minutes of Evidence, p. 233.

parts of the country." It may be added that any figure that might be calculated would apply to the past and not to future production and consumption, and would to that extent be inapplicable.

281. Dr. Sutch, a member of the Secretariat attached to the Committee, offered to obtain for the Douglas Social Credit representative any figures they might require so that, by means of exactly definable concepts, some statistical estimate could be made which might indicate any possible deficiency of purchasing-power on which to base a price factor. In the correspondence consequent on this offer, all that was suggested for Dr. Sutch to work on were "the declarations of Goodenough of Barclay's Bank or McKenna of the Midland, fixing on the price-level or unemployment as a criterion of the shortage of purchasing-power, together with Blackett's ideal of a controlled price-level." * As this suggestion appeared to have no relation to the social credit proposals generally and to the just-price factor in particular, and was inapplicable to New Zealand, Dr. Sutch asked for further information, the relevant passage in the letter being† :—

> "I had hoped that you would be able to supply me with some factors which could be measured statistically, first, to establish some possible defect which would disclose the deficiency of purchasing-power alleged to be present nowadays; and, secondly, to indicate what remedial steps should be taken; in short, how are we to calculate the just-price factor? Could you give me more exactly what you would like me to find out for you?"

No reply was received from the representative of the Douglas Social Credit Movement.

282. It is difficult to understand why the difference between national depreciation and national appreciation—that is, net investment—should be taken as a criterion of the alleged deficiency in purchasing-power. In the depths of a depression there may be no new net investment; depreciation may equal or exceed appreciation. On the other hand, while a boom is developing net investment is greatest. Hence the Douglas Social Credit remedy would give an additional stimulus to a boom, but in a depression, when shortages of purchasing-power are usually said to exist, the amount of monetary stimulus would be at its lowest. This seems irrational; the added height given to a boom under the operation of these proposals could only intensify the following depression due to the distortion of the production system.

283. If the diagnosis of a malady is incorrect, it can only be by chance that the prescription is the correct cure. For instance, if sheep are suffering from a deficiency of feed, and the shortage of grass is said to be due to lack of adequate sowing, but is really due to the operations of the grass grub, then sowing more seed will not remedy the lack of pasture, which will still be subject to the ravages of the grass grubs. This is the difficulty with many monetary "remedies" which depend on an incorrect diagnosis. But when, as is the case with the proposals put forward by the Douglas Social Credit Movement of New Zealand, the "remedy" is in no way related to any diagnosis, it would be mere foolhardiness to carry out the prescription.

284. The Douglas Social Credit proposals for New Zealand are not clear as to the method of calculating the price-regulating factor. It apparently is not related to any disclosed deficiency of purchasing-power, nor was any evidence offered by the Douglas Social Credit Movement or by any other organization or individual as to the emergence of any such deficiency which might be due to the monetary system. The A plus B analysis was not placed before the Committee, though it was approved by Douglas Credit witnesses and discussed with them.

285. The National Credit Fund, assuming it is possible to calculate the amount, is supposed to provide for (1) a rebate assumed to be one-third of the retailers selling-price for essential commodities, (2) a payment (not specified) to all unemployed, (3) a sum to cover the wages and returns on capital to farmers such that they will be "relative to other occupations" in the Dominion. This last object is technically and administratively impossible with the present economic system, and cannot be achieved under any monetary scheme which might work in an

* Letter dated 10th May, 1934.
† Letter dated 15th May, 1934.

unplanned economy. The second object, though vague, might be attained if a Government had the resources to do it; by resources we do not mean the printing-machine. The application of the price factor is also so extremely cumbersome as to be almost impossible*, quite apart from the financial chaos which would ensue.

286. In evidence the Douglas Social Credit representative agreed that the price factor would not be applied as a blanket reduction; some articles would be reduced by one-half, some by one-fifth, some by a twelfth. This procedure is quite illogical and is certainly not deducible from any of the assumptions put forward by the Douglas Social Credit representative. The reduction of different prices by varying fractions may have some relation to consumers' welfare, but it has no relation to the costs of production. It is a purely arbitrary procedure savouring of wish fulfilment rather than clear thinking.

287. The reducing of prices by a definite but different fraction for each article for sale would require detailed control of economic life by a central authority.† To ascertain costs in each case and arrange the appropriate price reduction would need an army of cost accountants to arrive at and a police force of inspectors to enforce decisions. If this were not done, uncontrolled inflation would ensue. In addition, with the issue of so much "national credit," costs of production would rise enormously. The one-third ratio would still stand, and the rebate would be given on the higher price. Thus prices would keep on rising indefinitely, the reduction factor always reducing them by one-third. In fact, with some articles it is impossible to calculate cost of production, and with others the number sold determines what is to be the price and whether prices cover costs. In such circumstances scientific price-fixing would have to give place to haphazard guesswork; if demand, supply, quality, competition, monopoly, human nature, and acts of God can be controlled, then prices could be controlled. In this connection we have discussed the price system of Soviet Russia, where the sum of all prices brought a return which would cover total costs, but individual prices did not necessarily cover individual costs. In addition to the adoption of a planned economy similar to that of the United Kingdom in war time, which allowed considerable inflation and profiteering, or Soviet Russia in peace time, the Douglas Social Credit Movement would face something so difficult as to be physically impossible—namely, the continous selling of all articles consumed at a price below cost of production. It is merely "economics through the wishing-glass."

288. If prices are to be reduced to retailers by a general rebate equivalent to one-third, there would be a huge amount of money released for further spending, a substantial proportion of which would be used for imports. If imported goods can be sold because of a subsidy at one-third below retailing costs, the subsequent strain on sterling funds to pay in full would quickly cause the scheme to collapse, because every million subsidy to retailers of imports would mean that the sterling equivalent of this would have to come from the sale of our exports; to obtain this sterling recovery by taxation or otherwise would be necessary, so that we should have the spectacle of the credit authority giving with one hand and taking with the other.

289. The above illustration of what would happen with imports applies also internally, for it illustrates the general truth that credit must be cancelled. If we assume that consumable goods to the extent of £60,000,000 are sold annually and are subject to the subsidy, each year there would be the one-third subsidy of £20,000,000 floating about uncancelled; in five years, at least £100,000,000 would be added to available purchasing-power. Because of inflated prices probably much more "free credit" would be granted. In the five years 1929–1933 the total deposits of the six trading banks have varied between £52,000,000 and £57,000,000; the addition of over £100,000,000 in the next five years needs only to be mentioned to be dismissed as fantastic. It should be mentioned that the Douglas Social Credit representative stated that the rebate on sales would be applied in the

* For an illustration of some of the difficulties *vide* Minutes of Evidence, questions asked of Colonel Closey by the Hon. W. Downie Stewart, p. 246.

† *Vide* Minutes of Evidence, p. 231, where the Douglas Social Credit representative admitted this.

first instance to "such goods and necessaries as bread, clothing, boots, meat, bedding, vegetables, rent, domestic electricity, railway fares, coal, gas," and to "those services which are directly connected with the production of consumption goods," but not to the services of a lawyer or a doctor; second-hand goods, however, "would come within the survey." These categories indicate the difficulties confronting the Committee in arriving at a precise figure on which the subsidy would be granted. The amount of £60,000,000 in the above illustration is an assumed one, it being less than the value of goods annually consumed in New Zealand. The important point is that a subsidy by way of non-repayable free credit is wrong in principle, and would be economically and socially injurious in practice.

290. As the rebate on sales can be used over and over again in a year it will be realized that the pressure of this tremendous additional spending-power on goods and prices would be so great that the expressed intentions of the propounders of this plan as to avoiding inflation would be merely idle words. It is noteworthy that Major Douglas contends that he would not fix prices, and that there would be no inflation. The Douglas Social Credit representative would fix prices to avoid the admitted possibility of inflation. Even assuming that the scheme could be put into operation without panic, the economic and financial disorder which would ensue would soon halt its further operation, but great damage would already have been done.

291. The Douglas Social Credit monetary proposals as given to the Committee do not touch any of the weaknesses of the banking system. They would allow speculation to develop as it did in the United States of America prior to 1929, they would still allow competitive banking with no centralized control as distinct from the centralized issue of credit, they would still permit exorbitant profits; in fact, the proposals are retrograde in every way. They put forward an incorrect diagnosis of the economic and financial situation, envisage a purely monetary solution of our economic problems, do not offer proof of any chronic tendency to deficiency of purchasing-power, have no logical connection with any of the known versions of the A plus B theorem, omit important problems of valuation, give impractical definitions of the factors to be calculated, would give additional stimulus to a boom, and, in general, would be highly inflationary because of the cumulative effects of the issue of non-repayable "free credits" as subsidies to retailers and as payments to exporters and unemployed workers; the results, if the proposals were applied for any length of time, would thus be to depress living standards and ruin the saving class. To prevent inflation they could be administered, if at all, only with rigorous control of our economic life—an undefined type of control both in its method and in its purpose.

292. The analysis of banking and credit and of price-levels and the influences affecting them is to be found in other sections of this report. It should therefore be sufficiently clear that the Douglas Social Credit proposals for the reform in our monetary system are ill-conceived; they are perhaps idealistic in intention, but certainly detrimental and retrogressive if ever the application of them were attempted. The expressed and implied assumptions cannot bear logical analysis, nor, even allowing for the falsity of the assumptions, is there any attempt made to derive logical conclusions. This is perhaps to be expected where the action of mass psychology is used as an instrument instead of a less picturesque but more exacting mental discipline. There are many intelligent and well-intentioned people who, instead of seeking for a solution of the problem presented by haphazard production, have been misled by the superficial attractiveness of schemes for quickly curing the world's ills. When one of the leading advocates of a purely monetary remedy states that "almost the only thing which is not open to destructive criticism about the banks is their dividends,"* he illustrates how the minds of a considerable section of the public are being diverted from the more basic problems of the day by placing all the emphasis on monetary reform; they are focussing attention on symptoms rather than on monetary causes.

* C. H. Douglas: "Warning Democracy," p. 42.

PUBLIC WORKS.

293. In the course of the inquiry a number of witnesses advocated using public works as an adjunct to monetary control for assisting the country over a period of depression, the purpose being that public works should be curtailed in good times and expanded in bad times. At least one witness went as far as to say that our present difficulties would be overcome if fifty thousand men were engaged on public works at £4 a week. Finance in this case was to be provided by restoring wage "cuts" and doubling the unemployment taxation. In some other cases bank credit, sometimes not interest-bearing, was suggested as the source of finance.

294. As a cure for our economic difficulties a large army on public works would obviously be futile. Sufficient productive work could not be found to keep them employed for very long, and, as has been pointed out in the section to the Guernsey Island scheme, capital works should as far as is possible not lower the standard of living of the rest of the community. Further, public works would not overcome the fundamental causes of our difficulties. It would not, for instance, restore the balance between the farmers' costs and prices. If financed in the orthodox manner by borrowing, the debt charges would only increase the difficulties by adding to the already heavy burden of taxation. Alternatively, if unlimited finance were provided by the issue of free bank credit to the State, it would mean progressive inflation with all its disastrous effects. An issue of £10,000,000 a year, enough to employ twenty-five thousand to thirty thousand men, allowing for cost of materials required, would double bank deposits in five years. A similar consequence would follow any attempt to pay off the internal debt by the issue of credit. If the expenditure did not increase the volume of consumable goods, a substantial rise in internal prices would inevitably follow. All wage-earners and others would suffer through the internal depreciation in the value of the New Zealand pound, and the well-known vicious circle would be started.

295. The suggested financing by taxation—if it were possible—would avoid these adverse reactions, but would be too heavy a burden for the community to carry at a time when the people are generally impoverished. To find out of taxation even the capital required for necessary productive works would further lower the standard of living and involve hardship. To find £15,000,000 or £20,000,000 per annum necessary to give employment to fifty thousand men would be practically impossible. The present yield from taxation, including that for unemployment, is about £21,300,000. Even this is considered by many to be a heavy burden on trade and industry and a handicap to economic recovery; but to carry out the suggestion received the amount would have to be practically doubled. The additional expenditure would provide a basis for some of the additional taxation, but only a minor fraction. The special tax on wages and income might have to be as high as 4s. in the pound.

Dovetailing Public Works.

296. This does not mean that public works are not helpful in a time of depression, but the practical difficulties are considerable in cases such as ours, where development by public works is a normal thing. In minor depressions it is possible to help employment materially by such a policy, but in severe depressions public works can do little to sustain economic life because business confidence is so shaken and the ultimate appearance of profits so indefinite that Government spending may merely silt up in bank deposits and prolong the period of maladjustment. If works are to be expanded in bad times they must be curtailed in good times, but it is precisely in good times when rapid progress is being made that the strongest demands are made upon the Government to put this or that work in hand. Another difficulty is that if particular productive works are required at any particular time, say, an additional power-station, the work could not be postponed indefinitely until a depression came along. This difficulty might be met to some extent by keeping the public-works programme down to bare essentials in good times, but there is the further difficulty of determining what are good times. Many people in 1928 and 1929 considered that conditions were bad, but, relative to what has happened since, they now appear to have been good, and the general opinion is that efforts should be directed to getting back to those conditions.

A Development Commission.

297. The uncertainty as to when an expansion or contraction is likely to be wanted is a serious handicap to long-range planning of public works. Even so, there is scope for useful work in this direction. The National Expenditure Commission in their report recommended that "before any public works are undertaken in the future, or before any assistance is given by the State to public works which are to be carried out by local authorities, the proposals should first of all be subject to expert examination by an independent Board of Works, somewhat akin to the Local Government Loans Board. It should be the duty of this Board to review all matters connected with the proposed works or Government assistance in respect of proposed works and to report thereon to the Government." The object of the Commission's recommendation was to ensure that "the financial position and prospects and economic justification of proposed works" were fully investigated before loan capital was invested therein. Such an advisory body, if established, might also keep the economic situation under review, and do valuable work in the direction of planning works for which there was no immediate necessity but which could be undertaken with advantage in times of depression when working-costs are cheaper and an expansion of public works would ease economic conditions by promoting employment and diffusing spending-power. Of necessity the works would have to be of such a nature that their commencement could be postponed indefinitely. Certain reclamation, swamp drainage, and forestry works could come within this category.

298. There is work which needs to be done now, some work can be postponed or advanced some years, but a national authority is necessary to keep the situation under survey with a view to mitigation of the worst effects of booms and slumps and to have works planned and ready for such time as employment and business indices take a turn downwards. This policy, if carried out with the sympathetic co-operation of local bodies, the Government, and the banking system, will certainly have some ameliorative influence. Especially during a time when money is being "saved," but not invested in any new production, can a Government initiate extensive public works which will absorb the "saving," promote employment, diffuse spending-power, and further enrich the country. The Committee consider that the Government should take action along these lines.

GOVERNMENT LENDING DEPARTMENTS.

299. In the course of the inquiry reference was made to the overlapping that exists in the operations of the State lending Departments. In this connection, however, there is a definite distinction between Departments whose function it is to lend money to assist the development of the country and Departments seeking investment for funds acquired for other purposes.

300. In the latter category must be included the Government Life Insurance Department, the State Fire Insurance Office, and the Public Trustee. Each of these Departments is in the same position as a private concern with similar functions, and if they are to compete successfully they should, as far as is compatible with Government policy and the overriding financial requirements of the State, be allowed the same freedom in the investment of their funds. Then, there are the three State Superannuation Funds and the National Provident Fund, whose investments are arranged by the Public Trustee. In these cases it is purely a question of obtaining the most suitable investment of the funds.

301. Into the other category fall lending by the State Advances Office, the Lands Department, and the Rural Intermediate Credit Board. The activities of the State Advances Office, which are controlled by one Board, are subdivided into four branches, namely: Rural Advances, Advances to Settlers, Advances to Workers, and Advances to Local Authorities. The Lands Department, with two Boards, makes loans of public moneys for land-development and small-farm-settlement purposes, and is still making advances on current account to ex-soldiers under the discharged-soldiers-settlement scheme.

302. Operations under the Rural Intermediate Credit Board, which are administered by the Public Trust organization, are confined to relatively short-term loans for fertilizers, improvements, cropping, purchase of stock, &c. Activities are carried on for the most part through local co-operative Rural Intermediate Credit Associations. The net result of all these activities is that there are two separate organizations, the State Advances with one Board and the Lands Department working with two Boards, engaged in long-term lending on mortgage for purposes that are very similar, and the same two Departments and also the Rural Intermediate Credit Board make advances against chattel securities. In difficult times like the present, securities must be closely supervised if heavy losses are to be avoided. The Lands Department has a field staff able to carry out this essential work along with other duties. The State Advances Office have recently found it necessary to establish district offices, and probably will later find it necessary to establish a field staff, to inspect and report on properties against which advances have been granted. This means a costly duplication of machinery which could be largely, if not wholly, avoided if the two organizations were combined under one strong Board. In this connection it is pointed out that surveys and opening up new lands for settlement has now dwindled down to a small part of the Lands Department's activities, and it is rapidly becoming a duplication of the State Advances Office, although there is more flexibility in its operations and direct development of land is undertaken by both the Land Development Board and the Small Farms Board. There is, however, no reason why these activities should not continue to be carried out under a combined organization. Amalgamation, in addition to permitting greater economy in administration, would avoid difficulties that arise at present when a farmer is involved financially with two or more Departments.

303. Furthermore, the existence of three separate branches to deal with chattel mortgages to primary producers cannot be justified, and it would make for increased efficiency and better control if all farm loans were dealt with by one Board controlling an efficient organization both in the field and in the office, and particularly the former. The amalgamation of the Departments concerned would supply a nucleus, but, generally, the organization to be built up could be largely modelled on the organization of the Public Trust Office and Rural Intermediate Credit Board with its well-established branches throughout the Dominion, its trained staff of valuers, supervisors, lawyers, accountants, &c.

304. We therefore recommend—

That a unified Government Mortgage Board be constituted to take over the long- and short-term loans which are administered by the Lands Department, the State Advances Office, and the Rural Intermediate Credit Board.

The total investments of the Lands Department and the State Advances Office and the Rural Intermediate Credit Board amount to about £68,000,000; in addition, there are other Government lending institutions. This is a huge sum, and, in view of the great responsibility of the State and the importance of influencing the flow of credit in those directions where it is most required, action is urgently needed to unify and co-ordinate the activities of all the lending Departments, to spread the risk evenly and equitably in the interests of all concerned. The organization contemplated is desirable in the interests of efficiency and economy. In addition, the close touch maintained with borrowers by the field staff would give the Board sufficient knowledge of its mortgagors to enable it to assist farmers through a difficult period like the present in a much more satisfactory manner than now obtains. As it is, the State Advances Board is at a disadvantage in deciding which mortgagors deserve assistance and which do not. Often good men are unduly penalized and perhaps inefficient farmers receive consideration that is not warranted.

305. It is recognized that cases must be dealt with on their merits, and many farmers have had their interest charges temporarily reduced owing to their inability to pay more with the prices of farm-produce at the present level; but

the situation of the dairy-farmer in particular calls for action on a more comprehensive basis. Accordingly, it is considered that the proposed Board, when established, should review its farm securities and, in collaboration with the Government, investigate how far it is possible to go in the direction of adjusting mortgage charges when prices of farm-produce are low and making up the leeway when prices improve, at the same time assuring to the mortgagee an even flow of income. With the consolidation and adjustment of mortgages under this Board, it should be possible to finance with mortgage bonds, the loans to be of the long-term amortized type with interest adjusted to current rates at, say, five-yearly intervals.

J. A. Nash (Chairman).
C. H. Clinkard.
H. Holland.
F. Lye.
J. N. Massey.
A. J. Murdoch.

THE RATE OF EXCHANGE.

306. Parliament was wise in not limiting the Reserve Bank's action by laying down a machine-made formula as to exchange-rates. It should be clear by now that elasticity and scope are what are needed in an institution which is to play such a vital part in the welfare of New Zealand. To promote and maintain the economic welfare of New Zealand it may be necessary, after taking a balanced view of the internal and external situation, simultaneously to alter credit conditions internally and make an external adjustment by altering the rate of exchange. This process was probably envisaged by the Legislature when, at the same time as they gave the Reserve Bank an objective warranted by twentieth-century conditions, also gave it the means to carry out the policy decided on. In section 16, subsection (3), the Bank is given power to decide the rate of exchange between New Zealand currency and sterling.

307. The New Zealand pound now buys less of sterling, but it will buy as much internally as before the exchange-rate was altered from 110 to 125. The following table gives the all-groups index of retail prices by months since January, 1932. It shows how the deflation of prices (or the appreciation of the internal value of the pound) was halted by raising the exchange-rate, thus keeping the domestic purchasing-power of the pound more stable than it would have been.

Retail Price Index, all Groups, January, 1932, to April, 1934.

Month.	Index.	Percentage of July, 1914.		Month.	Index.	Percentage of July, 1914.	
1932.				*1933.*			
January	886	141		March	790	126	
February	875	139		April	791	126	
March	868	138		May	796	127	
April	870	139		June	792	126	
May	839	134		July	796	127	
June	832	133		August	796	127	
July	825	131	*	September ..	798	127	
August	821	131		October ..	800	127	‡
September ..	820	131		November ..	800	127	‡
October	823	131		December ..	799	127	
November ..	806	128					
December ..	793	126		*1934.*			
				January ..	799	127	
1933.				February ..	804	128	
January	790	126		March	806	128	
February	797	127†		April	809	129	

* Falling prices.
† Sales tax, 5 per cent.; exchange-rate increased 110 to 125.
‡ Steady prices.

It will be seen that the raising of the exchange-rate did not also raise the cost of living; it, of course, offset a tendency for it to fall, but another factor in this was the 5 per cent. sales tax. Falling prices and the increased exchange-rate were two agents acting to produce the steadier prices; this does not mean that a high exchange-rate or a low one will keep internal prices steady over a long period.

308. Other misconceptions are that Government control is "interference," that competitive banking is "in the nature of things," that when the banks raised the exchange-rate to 110 it was "natural," and that when the Government finally raised it to 125 it was "artificial." The words "artificial" and "natural" simply do not apply; they are merely question-begging epithets. In fact, it is well known that when all other arguments fail one can always fall back on the emotional reaction that "it is unnatural." To use the terms "natural" and "reasonable" is, as Sir Josiah Stamp has commented, as unscientific as saying "as long as a piece of string."

As far as the exchange-rate is concerned, the whole of the evidence on the subject goes to show that it was never "free," but was always "fixed" or "pegged."*

309. There has also been fostered an idea that the New Zealand exchange depreciation was unorthodox and "unsound"; this in spite of the fact that New Zealand is one of the few debtor countries which have not strict Governmental supervision and licensing of foreign exchange transactions. The following table shows how unorthodox New Zealand has been when compared with other countries in depreciating her currency from the pre-war standard. These figures were computed from cabled statements of exchange-rates on 17th May, 1934:—

Depreciation of Currencies.

Country.	Percentage Depreciation in relation to the Country's Pre-war Standard.	Country.	Percentage Depreciation in relation to the Country's Pre-war Standard.
Portugal	98·7	Argentine† ..	52·2
Roumania	97·3	Denmark	49·4
Finland	94·1	Norway	43·1
Greece	90·0	Sweden	41·6
Belgium	80·0	United States ..	40·9
Brazil†	80·0	Canada	40·5
France	79·7	South Africa ..	37·8
Japan	74·3	Great Britain ..	37·6
Italy	73·5	India	37·5
Spain	57·8	Australia‡.. ..	20·0 (50·2§)
Uruguay†	53·2	New Zealand‡ ..	19·7 (50§)

310. The above table omits such countries as Germany, Austria, Russia, in which the depreciation was not comparable with that in the countries listed. It would be incorrect to measure the Australian and New Zealand depreciation in terms of gold, as those countries were on a sterling exchange standard. Similarly, China with a silver standard should not measure any depreciation in terms of gold. The Scandinavian countries will for the future probably regard themselves as being on a sterling exchange standard. The Australian and New Zealand currencies are depreciated in terms of gold by 50·2 and 50·0 per cent. respectively. Thus comparisons can be made within the sterling bloc. The relatively small depreciation in Australia and New Zealand is perhaps a measure of the "soundness" of our finance.

* In particular, the evidence of the economists who gave evidence is very definite on this point. *Vide* evidence of Professors Belshaw and Tocker and Mr. D. O. Williams.

† Sellers' rate.

‡ Sterling standard.

§ On gold standard basis.

DENMARK.

311. The above table might prompt the somewhat illogical thought that what has happened has been merely competitive currency depreciation. In fact, it has been freely stated that Denmark depreciated her exchange because of the New Zealand action in order to keep on a competitive level with New Zealand. The fallacy is the old one of *post hoc, ergo propter hoc*—because one event preceded another, therefore the first event was the cause of the subsequent one. The fact of the matter is that it was the one cause which was responsible for similar action on the part of several countries with a similar internal situation. It must be emphasized that, although the catastrophic fall in export prices was the originating external cause, the resulting internal disparity between rigid costs and falling prices produced such a situation that raising the exchange-rate was inevitable. The exporters' return fell, the national income fell, business stagnated, revenues fell, wage cuts were forced on the country because of the one main factor—a fall in export prices. Each country so affected had to make adjustments; when costs have been cut to the bone, the remaining adjustments must be at the price end. This Dominion was faced with progressively falling national income and revenue, with further wage cuts and retrenchment. The alternative was raising the exchange-rate.

312. This was the situation in New Zealand. What was the situation in Denmark which confronted a Socialist Government with an extremely strong opposition of farmers who constituted the political Left? Reference to the London *Times* shows that from the 28th to the 31st January, 1933, the Danish exchange-rate *gradually* rose from 19·55 to 22 krone to the pound. The same paper states that the farmers' pressure for a depreciated exchange was notorious, and that the Government's policy was deflation of urban standards of living. The proposal to lower wage-rates met with tremendous opposition, a national industrial stoppage being threatened unless the Government depreciated the exchange, thus increasing the national income and saving further wage-reductions.

313. The London *Times*, 22nd March, 1933, in discussing the Danish situation reports—

> "when the last elections to the Folketing (Lower Chamber) were fought, the maintenance of the krone-sterling exchanges was an important point in the programme of the Socialist Government. A few months later, owing to the apparently *irresistible pressure of the farmers (the Left) and under the threat of a national lockout*, the principle was surrendered and the krone was allowed to fall to 22·50 to the pound.
>
> "The Government's policy was announced by M. Stauning, the Prime Minister. . . . 'The decline in the krone rate which has taken place in a few days proves that it has not been possible to maintain the relation between Danish and British currency which has been aimed at. In sympathy with the Legislative Assembly, and *with the support of the National Bank*, the Government announces that the rate of exchange fixed to-day—that is, 22·50 kroner to the pound—will be maintained.' "*

It should be quite clear Denmark did not depreciate her exchange as a competitive move against New Zealand. The reasons were the same in both cases, though the issues were not as clear-cut in New Zealand.

THE EFFECT ON EXPORT PRICES.

314. It has been contended that the effect of depreciating the exchange was to lower export prices by the amount of the depreciation. In support of this flax was quoted. When the New Zealand sterling exchange-rate was raised from 110 to 125, the price of flax dropped so that the flax-grower obtained no greater return than formerly. Similarly, when the Unemployment Board gave a subsidy of £2 per ton to flax-growers, this was absorbed in lower prices. What was the reason? It happens that in the flax trade there is a buyer's monopoly which fixes its own buying price. It is evident, then, that no general conclusions as to falling prices consequent on exchange depreciation can be based on flax.

315. In the main it is supply, present and prospective, in relation to the effective demand which determines the selling-price of our products. It would take a long

* London *Times*, 1st February, 1933.

stretch of the imagination to contend that the price of wool has been affected adversely by our exchange-rate. Wool, of course, is subject to a world demand. Take butter as another example. During recent years the supply of butter to the British market has increased tremendously. The following table shows the butter imports into the United Kingdom in 1928 and 1933, the total, and the New Zealand, Australian, and Danish share of this total :—

IMPORTS OF BUTTER INTO THE UNITED KINGDOM.

Year.	Total. Tons.	New Zealand. Tons.	Australia. Tons.	Denmark. Tons.
1928 ..	306,000	61,000	44,000	100,000
1933 ..	442,000	126,000	85,000	126,000

Under the above conditions of supply it would be strange if butter prices had not fallen. The table also shows why New Zealand and Australian butter has fallen so heavily in price. The price of butter, then, did not take a sudden turn downwards because of a fifteen point rise in the exchange-rate. The supply of butter was kept up perhaps because farmers did not reduce production owing to the disastrous fall in prices. By various means the Governments of the world have been endeavouring to keep the farmers in possession of their farms. To the extent that they have succeeded, production has been kept up, whether it has been by subsidy, depreciated exchange-rates, or by both methods.

It must be remembered, however, that, if a farmer is forced out, the farm does not necessarily go out of production.

THE VALUE OF HIGH EXCHANGE.

316. The following extracts from evidence submitted by the New Zealand Fruit-export Control Board show that if the exchange-rate had remained at par the fruit industry "could not continue to exist" :—

> "The influence of New Zealand exchange on the market returns of New Zealand fruitgrowers is as follows :—
>
> "1. The exchange gained on fruit proceeds during 1933 season amounted to £11,840.
>
> "2. The increase of exchange from 10 per cent. to 25 per cent. increased our ocean freight by $13\frac{2}{3}$ per cent. or $5\frac{6}{10}$d. per case, and packing-costs were increased by $\frac{7}{10}$d. per case ; total increase, $6\frac{3}{10}$d.
>
> "3. The following tables show last year's United Kingdom average return under these rates of exchange—namely, par and 25 per cent. :—

At par—	s. d.	s. d.	s. d.
Market average, 1933 ..	..	..	7 $0\frac{1}{2}$
Ocean freight	3 6		
Local freight, wharfages, inspection, insurance, &c. ..	1 3		
		4 9	
Growers' packing-costs ..	..	2 3	
			7 0
			0 $0\frac{1}{2}$

At 25 per cent.—	s. d.	s. d.	s. d.
Market average, 1933, 7s. 0·5d. plus 25 per cent. ..	..	..	8 9·625
Ocean freight	3 11·6		
Local freight, wharfages, inspection, insurance, &c. ..	1 3		
		5 2·6	
Growers' packing-costs ..	..	2 4·1	
			7 6·7
			1 2·925

"4. The net exchange benefit goes to the grower.

"5. Without the exchange benefit the industry would be ruined. Production costs are about 2s. 6d. to 2s. 9d. per case, so even with exchange benefit the grower is receiving not more than 50 per cent. of production costs.

"6. Overseas values have declined extensively during the past few years. The following table gives the average c.i.f. sterling prices since 1927 :—

	s. d.		s. d.
1927 ..	13 11·9	1931 ..	9 4·4
1928 ..	11 0·8	1932 ..	8 10·1
1929 ..	12 9·7	1933 ..	7 0·5
1930 ..	9 8·3		

"Without an increment such as exchange the industry could not continue to exist."

The above is one instance of the high exchange benefit and of the necessity for it; to exporters in 1933 it brought over £8,000,000 more than they would have received with exchange at the old parity. This does not include the additional return on exportables sold locally.

317. The statement submitted by the New Zealand Manufacturers' Federation also stresses the benefit of the high exchange to local industry :—

> "It is true, then, that the raising of exchange has benefited many of our industries by giving them a larger share of the market. Is that a reason for complaint? Exchange was raised (rightly or wrongly) for the express purpose of benefiting producers. Would any one contend that, while all other sections of the producers may benefit, steps should be taken to deprive one great class of producers—the manufacturing industries—from any benefit which they may share incidentally with the rest? . . . "

This shows that in the midst of depressed conditions local industry has not only been maintained, but somewhat extended; this is to be expected both because of the better competitive conditions under which the local manufacturers operate and because of some of the additional purchasing-power which the 25-per-cent. exchange increase afforded to primary producers.

318. Increased exchange, either wholly or in part, has not always been added to imports. Some English exporters have reduced their selling-prices to meet local competition or to avoid reduction in sales, others have temporarily "carried" the local importer in anticipation of a fall in the exchange-rate, so that lower prices could be charged now in order to take advantage of the hoped-for future reduction in exchange costs; in many cases import prices were still showing a downward tendency, so that the increased exchange offset this fall. It will thus be seen that in the present circumstances it is quite untrue to say that import prices are 25 per cent. above what they were when the exchange was at parity. This is illustrated in a general manner by the following figures: Index numbers of import prices—1931, 1330; 1932, 1296; 1933, 1361.

319. In any case, since the increased exchange-rate has added to the national money income, this extra spending-power has been partly applied to imports, thus helping to sustain the volume of sales. Many advocates of the old parity with sterling have failed to distinguish between the effects of the depression and the effects of the high exchange. The importing section of the community must undoubtedly have suffered a severe blow because of the tremendous drop in export prices and the consequent falling-off of national income. To blame depressed business on to the exchange-rate instead of on to the cause leading to the increase in the rate of exchange is quite illogical.

320. The general truth must be realized that not only must exports and imports balance over a long period, but that as far as we are concerned it is the exports which are the determining factor in this balancing. The portion of the export proceeds remaining after provision is made for debt, freight, and other charges is available for imports. If over a long period net export proceeds fall off, then, consequently, so must imports fall—that is, assuming no overseas borrowing. The exports govern the imports, not *vice versa*. Whatever the rate of exchange, over a long period imports will be adjusted to exports, again assuming the overseas borrowing and repayment policy to remain the same.

Uncertainty.

321. The difficulty with the Government's raising the exchange-rate was: (1) That it was not the traditional way to do things; (2) that the Government was taking charge of one of the functions hitherto entrusted to the banks. It is the present period of readjustment which is difficult, and it has been made more difficult by the uncertainty as to future exchange movements and the pressure of certain strong interests to have the exchange-rate reduced. Doubt, suspicion, controversy, deliberate manipulation of public opinion have all added to this uncertainty. Distrust of the future has hindered trade, kept importers' stocks low, and piled up sterling funds to a greater extent than has the incidence of the high exchange-rate.

The removal of uncertainty must therefore be the primary objective in view; to this point we refer later.

The Economic Position.

322. It is still apparently not realized by some that it was the economic position of the country which necessitated the raising of the exchange-rate. It so happens that the farming community are the exporters in New Zealand; hence the first gain comes to them. In England, the exporters are manufacturers; the initial gain from leaving the gold standard went to them. The point to be stressed is that our economic structure is founded on our exports, and our national income is largely determined by the money incomes of the farmers.

323. It has been suggested that the addition to the Budget occasioned by the greater money cost of paying the external debt is a net loss. This has been dealt with in the Report of the Economic Committee, 1932, but we would point out here that when the full effects are worked out the increased exchange-rate will sustain the national money income, Government revenue, the returns from Government enterprises, and the volume of exports; it avoids loss to the Government by keeping up the mortgage repayments to Government Departments, which have lent many millions; it keeps down unemployment, preserves equities and capital values, and avoids the many bankruptcies which would otherwise take place. In New Zealand there are many financial institutions dependent on farm prices. If these were to go bankrupt, the depositors would be involved, thus bringing further ruin. If the exchange were at the old parity, it is difficult to see how some stock and station agents could have avoided financial difficulties; in other countries these would be called bank failures. In face of this, it would be ridiculous to assert that the increased exchange-rate involved a total loss to the Budget of the cost of the debt service. It was prophesied that Customs revenue would fall off, but the facts are that Customs revenue for 1933–34 was higher than in 1932–33. The major portion of this was, however, due to additional duties, but, even so, the decrease would have been little more than £500,000. If certainty and not uncertainty had been the rule, imports and Customs revenue would have increased.

324. The truth is that the cost to the Budget is an exact amount, whereas the advantages to the community cannot be measured exactly in terms of money. It may be added that the raising of the exchange-rate meant that the debt service cost no more in sterling than it would if the exchange were at 100—the "real" as distinct from the "money" burden on the Budget was not increased. On the other hand, the real burden of all internal debts, public and private, will be finally lightened by the raising of the exchange-rate. It should be mentioned that the previous marked fall in internal prices had made the burden of the internal debt much heavier.

The London Funds.

325. The accumulation of London funds has been used as an argument that the exchange-rate of 125 is not "natural" and "does not fit in with the law of supply and demand." In the light of the facts, these phrases have no value. More than ten years ago there were changes of over £20,000,000 in sterling as between one year and another; such an accumulation is not dangerous; it is mainly due to the

uncertainty about the future and to the hope that the exchange-rate would be reduced. The following extract from Professor Belshaw's evidence supports this conclusion :—

> " In my opinion the accumulation of funds in the hands of the Government has been influenced by the following factors :—
>
> " (i) An unknown volume of funds was transferred abroad prior to the raising of the rate in anticipation of a rise. This lowered the datum line above which surplus exchange would be calculated. Much of the money would be returned to New Zealand when the rate was raised.
>
> " (ii) Since the rate was raised there have been persistent rumours that the exchange was to come down ' shortly.' This has led to uncertainty and has—
>
> (*a*) Discouraged imports :
> (*b*) Encouraged overseas exporters to leave funds in New Zealand on account of goods imported into New Zealand rather than accept payment in London :
> (*c*) Encouraged the transfer of funds to New Zealand in order to make a speculative profit by retransfer when the rate is lowered.
>
> " I believe that these factors are operating at the present time in the expectation that the rate will be lowered at the end of the export season.
>
> " My conclusion is that the accumulation of funds is due not to the raising of the exchange-rate, but to the fear that it will be reduced. I am confident that, had it been generally accepted that the exchange would remain at the present level for some years, there would have been little, if any, surplus of exchange accumulated. Certainly it would have been less than £4,000,000, allowing for Government and local body requirements. If currency were devalued, imports would increase and the above practices making for an accumulation of exchange funds would cease."*

326. It should be added that imports have been also reduced because of anticipated tariff revisions downwards. In addition, some exporters in New Zealand have sold next season's production in advance in order to get the benefit of the high exchange now, rather than risk a possible reduction next season. It will be seen that the balance of trade since 1933 has not been reflected in the balance of payments, some imports have not been paid for, while some production has been paid for but not exported. There has also been an unknown but substantial amount of capital imports. The banks, of course, have not felt any urgent need to dispose of temporarily surplus sterling to importers, since a safe 5 per cent. would be paid by the Government for sterling.

327. In order that the surplus sterling to be acquired by the Government might be at a minimum, the transfer of legacies and other capital moneys to New Zealand at other than the old par rate was not usually permitted. If the legacy money was not remitted to New Zealand or was remitted at the old parity, the Government would presumably be safeguarded. But a " black market " developed whereby private operators who had debts to pay in England would undercut the 125 rate and obtain the sterling which the Treasury would have transferred only at the par rate of 100. Thus some importers bought so much less of the sterling funds in the possession of the banks. The net result was an addition to the amount of sterling which the Government had to take over—the very thing the arrangement wished to avoid. This development of an outside market in exchange has been aided by Government policy and has had the effect of reinforcing those who contend that the exchange-rate of 125 was " unnatural."

Stability is needed.

328. The question arises : Should the exchange-rate be now raised to 130 or 135 ? If internal economic conditions were the only criterion it would be definitely the course to pursue. However, as stability in world currencies is needed, it would be unwise at present to raise the exchange-rate further.

Because of the uncertainty as to the future and because of depressed business conditions generally, there are still some internal economic adjustments to make to accord with the high exchange-rate ; while uncertainty prevails some of these adjustments will not be made. This partly explains why fixed deposits have increased

* This was endorsed by Professor Tocker, Mr. D. O. Williams, and other witnesses.

by so much recently. If the community knew that the exchange-rate were to remain at 125 for some substantial period ahead, this uncertainty would disappear and national income would finally be adjusted to the higher exchange-rate. All the benefits from the raised exchange will not emerge until it is definitely known that the 125 rate is the accepted normal. In the interests of all concerned it is essential that we should have stability.

329. To attempt to lower the rate at the present time would be financial and economic folly. The movement of the exchange-rate should not be known ahead; if the rate were dropped five points, adjustment would be no more complete. It would probably make less than one point difference to the retail-price index; it would still hold up importing, and speculators would still leave money in New Zealand because the five-point drop would indicate that another similar drop would be anticipated shortly. One concrete result would be a loss to the Government on the sterling held.

330. If one thing is certain it is that there is nothing in economic conditions which would warrant a reduction in the exchange-rate.

Diversion of Import Trade from the United Kingdom to Australia.

331. A point of common misunderstanding in connection with the exchange-rate relates to its effect on the competitive position of Australian exporters and United Kingdom exporters to New Zealand. Since our currency is at approximate parity with Australia, and at a discount as compared with sterling, is it not apparent that importers have a direct incentive to buy Australian goods? The truth is that the alteration of our exchange-rate operates equally against Australia, the United Kingdom, and all other countries. To the extent that the Australian exporter has an advantage over the United Kingdom exporter, this is attributable solely to the alteration which Australia made in her exchange-rate. And the relative positions of Australia and the United Kingdom as suppliers to the New Zealand market would not be altered one iota by any variation in New Zealand's exchange-rate.

Exchange and "Equilibrium."

332. A contention which is not without plausibility, but which in fact is dangerously deceptive, is that the exchange adjustment should be maintained "until equilibrium between costs and prices has been reached." The inference is that, once equilibrium has been reached, it should forthwith be destroyed. In other words, the contention is that, by a return to the old parity, the burden of internal public and private debt should be increased by one-fifth.

Economists Advise Stabilizing Exchange at 125.

333. Professor Belshaw, of Auckland University College, Professor Tocker, of Canterbury College, Mr. D. O. Williams, of Massey Agricultural College, and other competent witnesses were in complete agreement that the disadvantages of lowering the exchange-rate heavily outweighed the advantages. Professor Belshaw has summarized the position in his evidence to the Committee:—

> "*Question:* What would be the advantages and disadvantages of lowering the exchange-rate on London from the point of view of (*a*) the budgetary position, (*b*) the economic structure of the country?
>
> "The balance of argument is overwhelmingly against a reduction of the exchange-rate on London. I would summarize the advantages and disadvantages as follow:—
>
> "(*a*) *Budgetary Position.*
>
> "*Advantages.*—(1) The cost of transmitting interest overseas would be reduced.
>
> "(2) There would be a temporary fillip to imports and a temporary increase in Customs revenue.
>
> "(3) This would discourage the further accumulation of exchange funds in the hands of the Government. [The Committee feel that this would be contingent on the method of lowering the rate.]
>
> "*Disadvantages.*—(1) The Government would suffer a loss on the volume of exchange funds now held and bought at 125.

"(2) Internal deflation, which has been checked by the increase in exchange, would be resumed. This would reduce taxable capacity and receipts by way of interest, rents, &c.

"(3) The deflationary process would increase unemployment or at least make it more difficult for unemployment to be reduced. The burden of the unemployment funds would be greater, and some assistance from the Budget might be necessary.

"On balance there is little doubt in my mind that the budgetary position would be made more difficult.

"(*b*) *Economic Structure of the Country.*

"*Advantages.*—(1) The price of imported goods would be lowered somewhat.

"(2) The volume of imports would be temporarily increased.

"*Disadvantages.*—(1) The disparity between farmers' costs and selling prices would be increased.

"(2) The deflationary process in evidence before the exchange was raised to 125 would be resumed and purchasing-power would be reduced, with discouraging effects on production and employment.

"(3) After a temporary revival in imports there would tend to be a check in imports as internal purchasing-power declined.

"(4) With declining internal incomes the burden of debt internally held would be increased as also the burden of taxation required to raise a given amount of revenue.

"(5) The reduced purchasing-power of farmers transmitted to the rest of the community would strengthen any movement towards wage and salary reduction.

"(6) Local manufacturers would be faced with increased competition from overseas, in the first instance followed by a reduced demand as deflation continued."

DEVALUATION.

334. The following question was also put to the economists:—

"On balance would devaluation at New Zealand £125 to £100 sterling be in the best interests of New Zealand? This question assumes that £125 would be the "normal" exchange-rate about which adjustment might be made if warranted in the future."

Extracts from the reply of Mr. D. O. Williams follow:—

"It would be wise, I think, to go further and definitely devalue our currency at the present rate. I justify this on the grounds—

(i) That it would be unwise to lower the rate:

(ii) That it would be difficult or impossible (politically) to raise the rate:

(iii) That gradual cost adjustments to the present rate have made it an appropriate rate:

(iv) That devaluation would introduce a degree of certainty now lacking from the exchange situation.

"In regard to the last point: it is probable that uncertainty as to the future of the rate, combined with an expectation on the part of importers and traders that the rate would fall, has done much to cause the accumulation of credits in London. . . . If this is so, the only apparent explanation would be the hope or expectation of currency appreciation. A definite act of devaluation would therefore remove the incentive to these practices. It would also have the broader effect of minimizing distrust in the future of the currency. . . . Although the effect of this uncertainty both in limiting importations and in freezing land transfers is not measurable, it may be of considerable importance, and is certainly of some importance. My conclusion on this point, therefore, is that stabilization of the exchange is desirable as a measure to increase the fluidity of trade. Moreover, I think that stabilization should be effected through devaluation at the rate of £125 New Zealand to £100 sterling, since a lower rate is likely to have serious repercussions on our key industries, while a higher rate is, I believe, inexpedient at present. The stabilization I have in mind, however, must permit of some elasticity."

The conclusions of Professor Belshaw follow:—

"I conclude that the currency should be devalued at the present level of exchange, at the earliest possible moment—

(*a*) Because farmers still require its assistance, and are likely to do so for some time;

(*b*) Because it would remove uncertainty from the minds of importers, and encourage an increase in imports:

(*c*) Because it would remove the main causes leading to the accumulation of exchange funds in the hands of the Government:

(*d*) Because it would relieve the Government of the prospect of loss from the sale of exchange bought at 125 and disposed of at a lower figure.

"It should be noted that, while the prejudicial effects of a rise in exchange in public revenue were felt at once, the beneficial effects by way of increased income-tax and other receipts is not yet fully felt."

The reply of Professor Tocker was:—

"Under present and prospective conditions I would favour maintaining the exchange at the present rate. Stability is highly desirable, and this is emphasized in an agreement signed by the British Empire representatives at the World Economic Conference of 1933. Last year's increase in the exchange-rate created a considerable disturbance in trade, and any violent downward movement would create a similar disturbance in trade. I discuss the advantages and disadvantages of a reduction in answer to the next question, but I consider that in the absence of any excessive rise in export prices it would be wise to maintain the present rate, and perhaps ultimately to devalue the currency to a level of 125. Should export prices rise so far as to threaten an undesirable boom, which would almost certainly be followed by an equally severe slump, a downward movement in the exchange-rate might modify the boom and limit the severity of the subsequent depression. . . . It should be remembered that for most countries in the world the parities adopted when currencies are ultimately stabilized will differ from the parities ruling prior to the depression. For most countries the old pars of exchange have lost their significance. They were the pars under the old gold standard."

Members of the Macmillan Committee, in discussing devaluation as a method of bringing costs into line with money incomes, stated*:—

"For a country which was not an international banker and was not owed large sums from abroad fixed in terms of sterling this (devaluation) would be the simplest solution."

335. After weighing all aspects of the matter we recommend that, as a definite contribution to stability in international exchanges, and as the best possible exchange policy for New Zealand to pursue, the Dominion's parity should be £125 New Zealand to £100 sterling. We would also advise that the devaluation should be at the demand rate of 125, making it identical with that of Australia. It is particularly important to note that Denmark's currency adjustment in January, 1933, took the form of devaluation, and is referred to as "De-valuation" in official documents, such as, *e.g.*, the Department of Overseas Trade's (United Kingdom) report on Economic Conditions in Denmark (1934). The old parity of 18·159 crowns to the pound sterling was altered to 22·40 crowns to the pound sterling. The respective positions of Denmark and New Zealand give no warrant for New Zealand altering her rate. Again, it is emphasized that certainty is the purpose to be sought, and devaluation is the means by which certainty is to be had.

Variable Exchange-rates.

336. While we feel that the rate of 125 should be the normal parity, it should not be accepted as unalterable. In this connection we endorse the evidence of Mr. D. O. Williams†:—

"The stabilization I have in mind, however, must permit of some elasticity. It has been suggested that the margin of fluctuation round the par should not exceed £1 10s. per cent. either way, on the grounds that this represents the cost of gold transfer between New Zealand and London. This, as I have said, is not relevant, since gold transfers are not normally important in our exchange system. I admit, however, that initially at least the limits of fluctuation set by law will be largely arbitrary, and subject to modification according to experience. Two considerations have to be reconciled in deciding on these limits:—

"(1) The desirability of narrowing exchange risks as much as possible.

'(2) The need for exchange flexibility in a country which depends so largely on export sales for its income and which has a relatively rigid cost structure in its key industries.

* Report of Macmillan Committee, p. 199.

† The evidence of Professors Belshaw and Tocker is also relevant to this point.

"The first point has already been discussed. The second is, however, more important. Any country whose economic structure rests predominantly on farming for export experiences wide fluctuations in national income but narrow fluctuations in costs. The result is in periods of rising prices a very marked boom and in periods of falling prices a very marked recession. Moreover, where (as in New Zealand) there is 'no bullion market, no bill market or short-loan market, and generally no money market in the full sense of the term,' the power of a central bank to influence economic conditions by internal measures is likely to be more limited than in more developed countries. Variations of discount-rates and open-market operations are likely to be of small importance so long as our money-market is immature and as long as our economic conditions respond as clearly and quickly to external changes. In our circumstances the most promising point of control, therefore, is the exchange-rate. I believe that some power to alter exchange-rates as a deliberate act of policy is necessary in New Zealand if we are to minimize the effect of external disturbances on our economic structure. Thus, the most dangerous time for us is invariably the period when rising prices, mounting into boom, exaggerate the normal optimism of farmers and others and lead to serious land speculation and the extravagances of competitive finance. It is at least probable that a deliberate lowering of the rate of exchange before the situation reaches the danger-point might save us from the worst effects of too much prosperity.

"While I have no desire to be overconfident as to results, I consider that the sphere of exchange control is a proper field for monetary experimentation in this country. It would be illogical to support the use of the exchange as a relief measure in times of depression and then challenge its use as a 'deflation' in times of boom. It would be quite logical to object to its use on either occasion, but I strongly urge that its utility as a weapon of economic control be more thoroughly explored.

"It is only through properly controlled experimentation by the Reserve Bank that we can arrive at any sound opinion as to the limitations of such a device. The knowledge and experience gained will permit a proper balancing of the claims of exchange stability in the interests of overseas trading and the claims of greater price stability in the interests of domestic security. In the meantime I suggest that the limit of fluctuations be set somewhere between £1 10s. and £5 per cent. either way. The former is too narrow to give any substantial control over the effects of external price variations, and the latter may be too wide to give the sense of security required. Having decided this point, the exchange should be held between the limit set for as long a period as possible—that is, the limits should not be widened in either direction unless the economic situation changes so much as to make them anomalous. In such an event it may prove necessary to determine a new par. It will be evident that these suggestions do not regard any par as necessarily permanent, but they aim at a greater degree of stability than exists at present."

337. We were also impressed by the evidence of Mr. H. W. U. Haddow on this point:—

". . . I propose to outline the advantages to be derived from the adoption of a policy of a variable exchange-rate as a permanent feature of our monetary system, with the object of preserving our internal economic structure from the violent shocks of changing export price levels. Before dealing with the positive points in support of this policy, it is perhaps desirable to give reasons for abandoning—at least for some years—the traditional policy. Some of these reasons may be summarized as follows:—

"(1) The absence of an effective international standard makes it no longer true that a fixed sterling exchange results also in a fixed rate of exchange with all other countries.

"(2) The future policy of the Bank of England is unknown and unknowable, and it would be foolish to tie ourselves blindly to follow that policy whatever it may be.

"(3) The rise of economic nationalism makes it likely that the Bank of England will tend more and more to adopt a purely domestic monetary policy. It would be merely a coincidence if the monetary and price-level policy best suited to a creditor manufacturing country, such as Britain, was always that best suited to a debtor primary-producing country, such as New Zealand.

"(4) The people of New Zealand have no voice in the determination of the course of sterling prices.

"(5) The transmission and aggravation of changes in the price-level of our exports on the London markets to our domestic economic structure cannot be prevented if we maintain the traditional parity of exchange or a fixed exchange-rate.

"(6) Monetary policy throughout the world is in a state of flux, and it is prudent at least to preserve freedom of action.

"The positive advantages which I submit would follow a policy of variable exchange-rates may be summarized as follows:—

"(1) The money income of the community can be kept fairly stable and more or less independent of the variations of export prices due to overseas causes.

"(2) The comparative stability of the farmers' income will be reflected in steadier trading conditions throughout the country in all branches of industry.

"(3) The elimination of some of the element of risk from business due to irrational fluctuation in activity should result in a reduction of various costs—especially interest and bad debts.

"(4) The maintaining of stability of the community's money income preserves justice between debtor and creditor and will tend to make employment more stable, which in itself will tend to promote business stability and will prevent excessive rises and falls in house property values and will preserve the house owner's equity.

"(5) The imposition of additional taxation at times of falling money income could largely be avoided.

"(6) The necessity for state interference in private contracts will not arise—at least in not so acute a form.

"(7) The violence of the variation in investment would be greatly mitigated following a more stable national money income which would preserve the value of existing assets. It is the fall in the value of old assets making it cheaper to buy than to build which makes new building fall off so much during a slump.

"(8) Increases in efficiency in farming which have been very marked in the past fifteen years can be reflected in lower prices per unit by suitable exchange reductions, thus avoiding the capitalization of efficiency in enhanced land-values. The failure to reflect increased efficiency in lower prices undoubtedly led in America to the Stock Exchange boom. Similarly, increased efficiency in farming, without reduction of price of the product, tends to produce a land boom in New Zealand.

"(9) Changes in the rate of exchange do not result in equivalent changes in the wholesale-price level of all commodities. Roughly, the observed facts indicate that a change of 15 per cent. in the exchange-rate results in a change of less than 4 per cent. in the general wholesale-price level. On the contrary, a change of 15 per cent. in the farmers' gross income money may mean a change of 50 per cent. and more in his net income. It may be necessary to give the central bank a monopoly of foreign exchange transactions to implement this policy. It would also be desirable for the bank to quote a forward exchange-rate.

"(10) The apparent loss on exchange on importing capital from overseas if the exchange-rate was below par would be a deterrent upon borrowing in boom times, and the apparent gain when the exchange-rate was above par would tend to stimulate the importation of capital during times of depression."

338. The main disadvantages of a widely variable exchange-rate are perhaps budgetary, since there would be fluctuations both in overseas payments and in import duties, but it must be remembered that a fixed exchange-rate with sterling is a perfect instrument for transmitting to New Zealand the full force of booms and slumps. Changes, however, should be infrequent in the normal course of events. Future experience will decide how effective any given variation should be. We therefore suggest, purely tentatively, that the limits should be five points on either side of the 125. To object that this means that the standard will be indefinite is to imply that a fixed external purchasing-power for the pound should be the criterion rather than stable internal purchasing-power. During any period when the exchange-rate was likely to be altered, importers could be protected by the Reserve Bank's quoting a "forward" exchange rate, *e.g.*, if an importer orders goods for delivery, say, in three months' time, the trading banks would obtain a quotation from the Reserve Bank. If the exchange-rate varied, the Reserve Bank would take any profit or sustain any loss. This dealing in "forward" exchange is a recognized function of international banking.

J. A. NASH (Chairman).
C. H. CLINKARD.
H. HOLLAND.
F. LYE.
J. N. MASSEY.
A. J. MURDOCH.

EXPLANATORY STATEMENT.

339. I have abstained from signing this report for several reasons:—

The task which was imposed on the Committee was to inquire into the monetary systems which have been advocated as preferable to our present system, and, in effect, to report on whether such proposed systems would be helpful to New Zealand.

340. To carry out this task I think the duty of the Committee was—

(*a*) To explain briefly what our present monetary system is, and how it operates:

(*b*) To summarize in broad outline the main principles involved in such of the schemes as were reasonably worthy of consideration or commanded any reasonable measure of public support:

(*c*) To state briefly the reasons why these proposals were approved or rejected.

341. Now, in the report the first part of this task—viz., explaining our present monetary system—has been well done, but after that the report consists for the most part of a long and voluminous series of essays on banking and credit, price-levels, index numbers, inflation, the gold standard, and many other topics. As only the most casual and passing reference is made here and there to the evidence, it is difficult to gauge the bearing of these topics on the large variety of schemes put before the Committee. The only two schemes specifically dealt with are the Douglas Credit scheme and the Guernsey Island and other similar schemes.

342. These lengthy discourses seem largely irrelevant and superfluous in view of the fact that the report opens by showing that the cause of the depression in New Zealand was the fall in export prices, and that this disastrous fall "was obviously not due to failure on the part of the New Zealand monetary system" (para. 11). Moreover, we are also told that "the Committee cannot see how any kind of monetary policy can provide a panacea for the deep-seated difficulties which have arisen." Again, "that any purely monetary solution of the situation must be rejected" (para. 101).

343. If the depression is not due to any failure in our monetary system, and if no purely monetary policy can cure it, it seems superfluous to write at length on the quantity theory of money, purchasing-power parity, price-levels, index numbers, and many other details that make up a large part of the report.

344. But the report is not merely voluminous, and, in my opinion, irrelevant, it is in many points mischievous and self-contradictory. As to its mischievous tenor, I point first to the hostile criticism of the trading banks, which, in my opinion, is incorrect in its facts. Moreover, it lays down novel and unsound lines as to the principles which should govern the relations of the State to the trading banks. The report says that if in the "nineties" the Bank of New Zealand had been made an entirely State-governed institution and absorbed the smaller banks we would then have had a system operating solely in the public service, but that as competitive private banking was allowed to continue the Reserve Bank is the only control in the public interest. It depends, says the report,

> "on the political and social philosophy of a country as to whether deposit banking should be socialized."
>
> "If the productive system is to remain unplanned and marked by competitive individualism, socialized banking could act only as does our present banking system—that is, according to the credit-worthiness of the applicant and his chances of making a profit, . . . but as increasing measures of direction and control over the economic system are instituted, so must the banking system be progressively controlled and directed" (paras. 92–94).

If I understand this passage, it means that the Committee object to competitive private banking, and they apparently regard competitive individualism and unplanned production as an obstacle to socialized banking.

345. This seems to me an astonishing statement. In my view, the report fails to distinguish between the functions of a central bank (which must admittedly work in harmony with the Government on great questions of national monetary

policy) and the functions of trading banks, whose primary duty is to their depositors. Even so eminent a socialist as G. D. H. Cole says that while many people who are not socialists advocate the socialization of central banks, it is only convinced socialists who advocate the same course for trading or deposit banks. Even as to central banks he thinks only questions of high policy should rest with the Government, but the detailed administration should be left free from interference in the hands of those appointed to control the affairs of the bank. But, in his view, when it comes to trading banks entirely different considerations apply. He says that many socialists are opposed to the socialization of these banks, and he points out the many difficulties and dangers that would arise. Not long ago J. M. Keynes expressed the opinion that the British Labour Party were wise and prudent to leave in abeyance their proposal to nationalize the joint-stock banks, as this was not necessary, and belonged to a late stage of socialism. It is a new doctrine to me that a bank should not pay regard to the credit-worthiness of its borrowers or their chances of making a profit. But this new doctrine is reiterated later on in the report.

346. But there are many indications in the report that the Committee is in doubt as to whether it believes in our present system, which is still mainly one of private enterprise, or whether it is toying with the idea of a socialized State. For example, in one passage we learn that certain things are "the fault of our semi-competitive, semi-monopolistic system." In another place a long digression takes place on Russian planned economy, which concludes as follows: "The above discussion indicates that in a socialized State, or with Government control of all purchases, production, and sale of commodities, it would be possible to stabilize prices without inflation." To be sure they remark incidentally, "We are assuming that the system of private enterprise over the greater part of the economic field will continue." But this assumption is in direct conflict with what I have already quoted and other passages. In any case, when we are told so clearly that only by complete Government control of everything can we attain certain desirable results, the Committee can hardly complain if a hard-pressed community says, "Well, let us have complete Government control of everything." Elsewhere they say, "A country not possessing a rigidly controlled economy cannot for long have both stable prices and stable exchanges." Again the logical inference in the absence of anything to the contrary is that we need a rigidly controlled economy, and I do not concur in this view.

347. The complaint that the Government directors on the Bank of New Zealand have not acted for the Government, but only for the shareholders, is entirely unfounded. In any case, as the State holds one-third of the shares and draws a rich revenue therefrom in relief of taxation our directors are right to pay some regard to that phase. But the report seems to imply that our directors should be merely marionettes for the Minister of Finance. In my view they are appointed as men of independent judgment and experience, whose duty it is to consult with and advise the Government, and this they have always done. But I do not know why the right of free speech should be denied them, or why the public should be deprived of their views on financial matters, even if they differ at times from the Government. If the public once got the impression that the Minister of Finance was dictating the operations of the bank, it would be a natural and easy step to suspect that he was dictating its policy in the interests of his friends or of powerful vested interests.

348. To illustrate the self-contradictions in the report, I will take at random the long chapter dealing with the price-level, and how it can be controlled. The use of index numbers is first discussed, and there are apparently insoluble difficulties in creating a true index number. In fact, we are told that "if a general index number could be found it would have no reality" and would be a "specious abstraction." Yet in many parts of the report these index numbers are used in support of various contentions as to inflation, purchasing-power parity, volume of production, &c.

349. It is pointed out that our real trouble is the disparity between farm prices and industrial prices, and therefore merely to raise prices will not solve the problem (para. 130). But, in spite of this, the next question propounded is,

"Should the remedy be to raise the price-level and stabilize at a higher level?" The answer apparently is that merely to raise the price-level will mean increased costs of production and thereby we will lessen exports (para. 134), and the conclusion is reached that unless export prices rise our old prosperity will not return as a result of having increased internal prices (para. 135). One might suppose that this would conclude the matter; but we are next asked to choose between internal stability of price-levels and external stability of exchange, as we cannot for long have both (para. 136). The choice seems a hard one, for the report goes on to say that if we choose the pre-depression price-level this might produce a rush of imports, and the exchange might go up to £200 per £100 sterling (para. 136)! Next, we learn that if farm incomes are kept stable while export prices vary the exchange-rate will have wide fluctuations which would not promote the economic welfare of the country (para. 137).

350. But all these incursions into the disastrous effect of attempts to keep stable the price-level seem to be beside the point, as we are next told that it is impossible by purely monetary means in New Zealand to keep the general level of prices stable anyway (para. 139).

351. One would suppose we have now reached finality, but the question is again renewed, and apparently we can control the general level of prices if we control on the side of money—

(*a*) The volume of credit:
(*b*) Velocity of circulation:
(*c*) Destination of credit:
(*d*) Volume of saving and investment:

and also on the side of goods we must control—

(*a*) Volume of production and individual prices:
(*b*) We must see that all goods are sold.

In short, the report says "it would have to control all forces on the side of money and all on the side of goods and services, including supply and the human element, demand." I cannot see what is to be gained by propounding theoretical schemes of this sort which not even a super-man could give effect to. Surely (if it is the case) it is simpler to say that we cannot control the general level of prices, more especially as it is shown elsewhere that it would not solve our problem if we could.

352. However, we must not yet despair, because it now appears that if we have an "Overseas Payment Board" to pay our interest bill and ration imports we can pursue a high internal price-level policy and have a stable exchange; "but with low prices overseas it would mean perhaps ruinously high costs for producers" (para. 143). I do not know of any farmer who wants an Overseas Payment Board it its only result may be to ruin him.

353. At last, after all these turnings and twistings, it appears that "in a socialized state, or with Government control of purchases, production, and sale of all commodities, it might be possible to stabilize prices without inflation and consequent distortion of the productive system." In order to show this a long excursion is made into the Russian controlled economy, and we learn that "controlled economy may be a good thing or a bad thing, but it is outside the order of reference." But, seeing that the report tells us that the Russian workers became "comparative rich in roubles, but poor in commodities," and that "the consumer was left with roubles in his hand with which he could buy nothing except occasional articles in the open market," one might have thought that, having gone so far outside their order of reference, the Committee might have gone a stage further and ventured an opinion as to whether a controlled economy was "a good or a bad thing" (paras. 147–152).

354. But although we have already been told that the price-level cannot be kept stable by monetary means, and also that an Overseas Payment Board might ruin the farmer, the question is again asked, "What should our internal price policy be? What is to be our internal monetary policy?" The answer is given: To raise farmers' prices. But this apparently involves price-fixing (para. 156). Moreover, this does not solve our problem, as the next

section tells us that, unless export prices rise, the internal situation will be helped "very little" by monetary action alone (paras. 153–154).

355. The final conclusion of this long discourse covering many pages appears to be that we are to spread the farmers' losses from low export prices over the whole community, "but if prices fall or export prices rise unduly, we are to mitigate the effects." This makes it quite clear that losses are spread over the community, but undue profits are merely to have their effects mitigated (para. 158).

356. A long discussion on the quantity theory of money seems designed to discredit it and show that it is too vague and uncertain to be of any practical value; but, curiously enough, it is brought into full play almost immediately after to show the dangers of inflation (para. 167).

357. Although some witnesses urged some form of gold standard, the long essay on this subject seems superfluous, in view of the fact that the report began by saying that New Zealand is not, and never was, on the gold standard. The statement that gold was exported in 1932 to strengthen the exchange pool, and that the object was to prevent the exchange rising, is incorrect. The pool was not established to control the exchange, but as a safeguard to see that we should be able to meet our obligations during the crisis in the London money-market.

358. An argument is built up to show that the banks never fixed exchange on the theory of purchasing-power parity. This seems fairly obvious, as no one ever met a New Zealand banker who found it necessary or possible to work on that theory, and he certainly never tried to fix the exchange on it.

359. In the course of a long argument we are also told that exchange was never fixed by demand and supply on the London funds, but I do not know any banker who ever tried to act on any other principle. It is true they kept reserves to enable them to keep the rate steady, but, as the report itself admits, this control was "customary and necessary, and would require to be maintained under any system of exchange operations." I can only assume that the whole argument is directed towards trying to show that the banks did not consider the economic welfare of New Zealand, or were even actuated by some sinister motive, which seems to be absurd. The report itself shows that the traditional policy of New Zealand was for many years to keep our money at an approximate fixed par of exchange between the British and New Zealand pound, and this policy was strongly supported by New Zealand economists. The fact that this policy has been altered recently is no reflection on the banks; it is an outcome of the depression.

360. I have not discussed the exchange policy, as I was advised by the Prime Minister when I joined the Committee that this subject would not be dealt with, and that the order of reference had been drawn to exclude it. In any case, the matter will be dealt with by the Reserve Bank at an early date.

361. My broad conclusion on the whole matter is:—

(*a*) That it would be unwise to experiment with any new monetary schemes at this juncture, in view of the fact that we are engaged in making fundamental changes in our whole banking and currency system through the establishment of the Reserve Bank. That Bank was created to supply the defects of our existing system; and until enough time has elapsed to gauge the results of this far-reaching change it would only create confusion to consider the adoption of other schemes.

(*b*) In my opinion it is not credit that is lacking in New Zealand to-day, but adequate markets overseas. I agree with Lord Snowden's statement "that in the period of trade depression credit expansion serves no useful purpose; and that when the markets are opened credits will be forthcoming." Whatever monetary factors in other countries may be at fault, New Zealand's crisis at present does not appear to me to be a money crisis, but a market crisis, more grave and more difficult than any we have ever faced, and if that problem is solved the apparent money problem will solve itself, but not otherwise.

WM. DOWNIE STEWART.

MEMORANDUM OF DISSENT.

362. The general tenor of the report that has been signed by the Government members of the Monetary Committee is to the effect that there is no substantial defect in the Dominion's monetary system, and that the originating cause or causes of the depression are non-monetary in character. We are unable to subscribe to that opinion.

363. We agree that non-monetary factors are operating in this and other countries in direct association with the depression, but in our opinion practically all these non-monetary factors are comparable with symptoms such as high temperature, racing pulse, severe headache, &c., which indicate the existence of a body ailment, and they themselves appear to be the effects of a monetary system which has no relationship to the real wealth of this and other countries. The recent rapid development of destitution and poverty in this and other countries has been and is accompanied by a tremendous increase in the production of wealth in all countries. There appears to be no shortage of anything that the mind of man can imagine, and connected with this we find the producers generally are finding it more and more difficult to recover their costs of production. We are impressed with the fact that many leading world authorities and such bodies as the London Chamber of Commerce and the Southampton Chamber of Commerce have stated definitely that the originating cause of the depression is to be found in the monetary systems of the world. The World Economic Conference also came to that conclusion, but found it impossible to deal with the matter on international lines.

The Problem a National One.

364. Such authorities as Sir Basil Blackett, John Maynard Keynes, and many others have expressed the definite opinion that the defect in the monetary systems must be sought for and remedied nationally. Each nation must put its own monetary system in order (in direct ratio with the real wealth that it is producing), and when that has been done it will be possible to bring all nations into step with each other. We are of that opinion.

365. The order of reference did not expressly authorize the Committee to inquire into the methods of manufacturing and cancelling the money of the Dominion, but the Committee was given to understand that no obstacle would be raised to the extension of the inquiry in that direction if the majority of the Committee so desired. Representatives of the trading banks and of the Treasury did give evidence before the Committee on this aspect of the subject, as also did other witnesses.

"Money" and "Inflation" defined.

366. Efforts were made to secure an agreement as to the definition of certain terms such as "money" and "inflation." The banks submitted Professor Walker's definition of "money" as "that which passes freely from hand to hand through the community, in final discharge of debts and full payment for goods, being accepted equally without reference to the character or credit of the person who offers it, and without the intention of the person who uses it to consume it, or enjoy it, or apply it to any other use than, in turn, to tender it to others in discharge of debts or payment for commodities." This definition was accepted by the Committee as applicable to the present monetary system of the Dominion. The Committee was not able to obtain from any of the witnesses a definition of the term "inflation," but we accept the general and popular interpretation of the term, which is that given by Foster and Catchings*, as being "any increase in the volume of money that is accompanied by a rise in the general price-level." They similarly define "deflation" as being "any reduction in the volume of money that is accompanied by a fall in the general price-level." In this connection it is noteworthy that the representatives of the

* "Money," Third edition, p. 55.

banks in cross-examination stated that in their opinion if very large quantities of gold were suddenly made available for monetary purposes with no increase in the volume of consumable goods a state of inflation *would not exist.* No member of the Committee accepted this view.

Money of Different Kinds.

367. Coinage and notes together form a very small part of the Dominion's "money," probably about 1 per cent. of the whole. The remainder consists of credit instruments of various descriptions. Coined money originated at, and is first issued from, the Royal Mint, each coin bearing the Royal device and superscription, indicating that it is the property of the State with the credit of the State behind it. It is a legal offence to damage or mar one of these coins of the realm. Notes and other forms of money do not so originate, and do not bear any such device or superscription. They are manufactured and issued by the banks, and the right to issue them is claimed by the banks as against the right of the State, although practically all the evidence pointed to the fact that the credit of the State is the real backing for this form of money as well as that of the minted form.

Banks' Power to issue Money.

368. Prior to 1914 the legal restriction on the banks operating in New Zealand in regard to the note-issue was the possession by the banks of gold in coin or bullion. Since 1914, however, the legal restriction has consisted not of gold alone, but also of "public securities." "Public securities," as defined by the statute, are securities issued by the Governments of New Zealand, Australia, or Great Britain. Prior to 1914 the holders of notes could obtain gold from the banks on demand, but since 1914 the notes have been made inconvertible. If the holders present notes to a bank for payment to-day they can obtain only another note of a similar kind.

Credit issued by Banks.

369. For each note that the banks are authorized to issue they are able to issue from ten to twelve times the volume of credit, and the tendency for some years past has been for the demand for notes to become progressively less in proportion to the volume of credit.

370. In regard to the structure and operation of the present monetary system there are differences of an important nature in the evidence submitted by the banks and by the Treasury respectively. The evidence of the professional economists also differed, and it is unfortunate that Professor Belshaw, who stated in his written evidence submitted to the Committee that the banks do lend their deposits, was not able to appear personally before the Committee to offer oral support to his contention. The contention made by the representatives of the banks was to the effect that the Dominion's monetary structure is limited by the deposits held by the banks. After a good deal of persistent cross-examination the banks' representatives before the Committee admitted that banks created money and credit. When asked if banks loaned their deposits they stated that bankers advanced money to borrowers against deposits so held. Deposits are not loaned. The only reason why bankers accept money on fixed deposit and pay a rate of interest on same is to control the spare money in the community. It was admitted that bankers can issue cash currency to the total of Government securities so held, so if bankers wish to have a larger note-issue they have only to buy Government securities and their cash can be increased accordingly.

Sterling the Basis of New Zealand Finance.

371. The Treasury's evidence, however, was to the effect that the Dominion's monetary structure was and is limited by the sterling balances held in London. We are not satisfied that the banks gave the Committee either a comprehensive or a correct description of the monetary system, with the operation of which they have been entrusted, and in our opinion the Committee was handicapped in that it had no power to call for persons or papers or to compel witnesses to answer certain questions. The representatives of the banks declined to answer certain questions, and reserved their answers to other questions that were put

to them orally. The evidence submitted by the Treasury was informative and useful. This showed that the legal restrictions on the banks had never had effect, as the banks chose to base their operation on their sterling balances, which kept them well within their legal restrictions. This customary procedure on the part of the trading banks in the past has now been legalized in the statutory obligation placed on the Reserve Bank of New Zealand, which is to commence operations on the 1st August next, to base its operations on sterling balances, or, alternatively, upon gold. Other countries, however, were and are operating on sterling balances, and when there are banks operating with branches in such countries—*e.g.*, Australia—as well as in New Zealand the effect was and is to place this Dominion in the same monetary area as those countries and Great Britain. The institution of the Reserve Bank may eliminate such other countries from the New Zealand monetary area, but still leaves the latter in the British sterling area. If the proposal that was made at the World Economic Conference is carried into effect and the Reserve Banks of all countries are brought into a universal monetary area under the control of the Bank of International Settlements the effect would be to place the control of all nations' money beyond the power of their respective Governments and peoples.

Treasury's Evidence.

372. The Treasury's evidence clearly showed the links in the monetary chain—

(i) Volume of "money" manufactured and issued by the New Zealand banks controlled by their sterling balances held in London:

(ii) The New Zealand balances held in London, composed of the residue of sterling received for New Zealand produce after the national debt services had been met, plus the sum, if any, of sterling money borrowed in the sterling market.

373. In other evidence we had it that sterling is controlled by the Bank of England; that the monetary policy of the Bank of England is decided by the governor and court of directors of that bank, and that these gentlemen appear to be responsible to neither Government nor people for the result of their policy. The Bank of England is a private corporation, trading for profit, and appears to be able to expand or contract sterling at will, thus causing periodic booms and slumps in the sterling markets.

374. From this evidence it appears clear that the New Zealand monetary system has been, and still is, subject to the policy of the Bank of England, with the associated trading banks in this country acting as the instruments for that policy. This has been so whether Great Britain was on a gold standard, a gold exchange standard, or operating on purely a paper currency, and our financial position in New Zealand, the value of all our assets and securities, was and is determined through London finance. Financially New Zealand is a vassal State.

Sterling Basis is disadvantageous.

375. Under the sterling exchange standard our deposits and advances in New Zealand are regulated. Any rise or fall in sterling prices instantly has its repercussion in the Dominion.

Thus, through a fall in sterling prices, our primary producers suffered a loss of income of more than £20,000,000 per annum despite an enormous increase in the volume of production. Bank advances in New Zealand, reacting in sympathy, were restricted accordingly.

376. Private, local-body, and Government incomes fell in ratio, and the total result was a wholesale collapse in the monetary value of assets and securities, causing a further curtailment of financial accommodation to bank clients. This accelerated our unemployment problem, and a reduction of income of more than £20,000,000 per annum to our primary producers has reverberated through every section of society and has caused a fall in the national income of fifty-odd millions per annum. This fact was emphasized by the Prime Minister in his statement on the National Expenditure Adjustment Bill, 12th April, 1932.*

* *Vide Hansard*, Vol. 231, p. 952.

377. To continue to allow sterling exchange price-levels to determine New Zealand's monetary policy would still make us entirely subject to all the vagaries of price fluctuation overseas. To be effective, a monetary policy for the Dominion should be free and unfettered from overseas domination.

Banks Create our Money.

378. Several witnesses directed our attention to the history of money, and we are particularly impressed with the fact that when money was entirely metallic it was manufactured solely by the State free of charge to the owners of the metal and put into permanent circulation. In those days there was no general process by which money could be withdrawn from circulation.

379. Modern money was changed fundamentally, in this respect: that practically all the money in use to day emanates from the banks, and, with little exception, is put into circulation as short-term loans, of which a bank overdraft is the best known type.

380. This fundamental change in the life of money in circulation has been, in our opinion, the principal factor leading to the acute depression from which the world is now suffering. The mere cessation of lending or the tapering-off of borrowing by Governments, organizations, or individuals under the existing system inevitably brings the phenomena of the depression into existence.

381. Another point to which we wish to direct attention is the manner in which the banks acquire assets; and, in particular, we desire to draw attention to the evidence relating to the acquisition of rural credit bonds by the Bank of New Zealand.

Bank Money makes Vast National Debt.

382. The Government members of the Committee, in their report, mention the dislocations caused by the Great War, but they do not refer to the extraordinary money manipulations of those war years.

It was pointed out by one witness that almost the whole of the able-bodied youth of the greater part of the civilized world was engaged either directly in fighting or in services immediately incidental thereto, and, nevertheless, the remaining young men with the older men and the women folk were able to maintain high standards of living for themselves with high levels of wages and profits, and a comparatively good standard of living for the combatants, under especial disadvantages in many matters such as transport, and on top of all this could provide the stupendous output of munitions of war of every description daily devoured by the war monster, including the immense destruction by sea as well as by land, hospital equipment and services, as well as fighting equipment and services. This immense output was all produced during the war, and during that time every soldier, soldier's dependant, workman, retailer, manufacturer, army contractor, munition worker, and those engaged in transport were paid in full, and yet the bulk of it is still owed for. It is curiously incongrous that the nation should within the space of the war period perform those exertions and yet be in debt for the exertions it has performed.

Growth of Debt.

383. The explanation, we submit, lies largely in the facility with which private banks were permitted to create credit at no cost to themselves to be borrowed by Governments as debts carrying the burden of interest. Had Governments themselves created these moneys, revenue could have been allocated to the retirement of so much of that money as was superfluous, instead of that revenue being paid in interest, which still left the original debts owing. Britain may be taken as an example: The Bank of England seems to have come into existence essentially for this purpose of expanding itself by the growth of a national debt. Prior to 1694, when the Bank of England was established, Britain had very little national debt. Within three years its debt amounted to over £3,000,000. The wars of William III added £15,000,000, Queen Anne's wars £37,000,000, the American War £121,000,000, the French wars of 1793–1815 £604,000,000, the total in 1817 being £848,000,000. Reduced by sinking funds to £635,000,000 prior to the Boer War, it became £7,830,000,000 two years after the close of the recent war.*

* "Palgrave's Dictionary of Political Economy," Vol. III, p. 3, and the "Encyclopedia Britannica," 14th edition, Vol. XVI, article "National Debt."

Why Napoleon "Left no Debt."

384. That all this debt is unnecessary is shown by the fact that France, a country poorer and far less advanced industrially than Britain, fought her long wars under Napoleon without Budget deficit, without depreciation of currency, and without incurring indebtedness, as Napier, in his "History of the Peninsular War,"* frequently mentions.

385. "The Cambridge Modern History,"† says, "Never under the Empire or under the Consulate was recourse had to loans properly so called. 'That method,' declared Napoleon, ' . . . is both immoral and disastrous. It insensibly undermines the edifice of State, and exposes one generation to the curses of the next.'" Napier‡ says, "Napoleon rejected public loans, which are the very life-blood of State corruption. He left no debt." Such is the striking difference between results in a country of a highly developed private banking system and a country that had not learnt to develop it so highly or, at all events, to use it so largely.

Evidence of Major C. H. Douglas.

386. The most notable witness that appeared before the Committee was Major C. H. Douglas. Because of the limited time at his disposal and for the reasons appearing in the correspondence that passed between Major Douglas and the Committee this witness did not give evidence concerning the theories associated with his name and which are developed in his text-books and other publications, but confined himself to such suggestions as he thought might be usefully made on the Committee's assumption (which he did not accept) that the present financial and monetary system was essentially sound and not in need of fundamental change. This witness pointed out that the banking and insurance organizations are closely interlocked in their control of the financial system, and that the creation of reserves, and especially of the sort called "secret" reserves, on the part of banks and insurance companies was a process in which wealth was demonetized and the money in circulation reduced—in short, a deflationary process. He proposed that these reserves should be again monetized and that they should be distributed in a manner which he set forth, thereby dealing with the financial institutions as they now deal with the public. As the proposals made by Major Douglas before the Committee were made upon an assumption which he did not himself accept, and which we do not accept—viz., the soundness of the present system—their main interest lies in the light they throw on the effect of the present routine of banking and insurance companies upon the public welfare and the necessity for putting money into circulation otherwise than as an increase in debt.

Price Index Level.

387. Several witnesses introduced the idea of a price-level operated by index numbers. Professor Irving Fisher, of Yale University, is the principal exponent of this idea. It has been, and we believe is still, under the consideration of the Gold Committee of the League of Nations. If it is sought to establish a price-level of the average of index numbers over the whole, or even a large range of commodities, the criticism that violent fluctuations could occur as between the various commodities without a disturbance of the average is valid, and none of the witnesses that appeared before us went so far as to recommend such a course; but there is a modified method which, in our opinion, has not received sufficient consideration by the Committee. The order of reference set out the desirability of examining the changes that had been made in the monetary systems of other countries. No evidence was obtained by the Committee in regard to the reconstruction of the monetary systems of Egypt, Malaya, and Sweden, but we are given to understand by various publications that these countries have established an internal price-level and have, at the same time, abolished or neutralized a foreign exchange-rate, with the result that the foreign trade of these countries appears to have been stimulated rather than handicapped by the monetary reconstructions. Nor was any evidence obtained by the Committee in regard to

* *Vide* Book I, Chapter I; Book XI, Chapter II.
† Vol. IX, article "Napoleon," p. 119.
‡ Book XXII, Chapter IV, p. 241.

the very great and apparently arbitrary manipulations of sterling money during the last twenty years, or to the far-reaching experiments that are being made with sterling money at the present time.

388. We understand that the Egyptian system has now been operating for more than nine years, and that the Swedish system has been in operation continuously since September, 1931. We are of opinion that this kind of proposal is in danger of being dismissed too summarily, because of the arguments that are advanced against any attempt to fix all prices or even to using an average of all prices of goods and services. Modification of the Swedish and Egyptian systems adapted to the conditions of New Zealand were submitted by witnesses to the Committee.

389. It seems to us to be perfectly feasible and reasonable to adopt a stable internal price-level for those commodities upon which the economic structure of New Zealand is built.

The Guernsey Market Hall.

390. Much interesting evidence was given concerning the celebrated Guernsey Island scheme. Details are given in the report of the majority of the present Committee, and it is sufficient here to mention that in 1815 in that island there was a condition of unemployment and depression not unlike that in New Zealand to-day. It was proposed to build a market hall. All material and labour were available on the island, but not the necessary money, and the Governor, De Lisle Brock, was approached by the people and asked to float a loan in London or Paris. He pointed out that such a loan would cost 17 per cent. per annum interest, and proposed that the island should manufacture and issue its own money for the purpose. This was done, and the money received from rents was subsequently used to retire the money so manufactured and issued by the Governor. No evil results are recorded from this method of financing the building of the hall. This method was repeated in respect to other works until the influence of the British banking system abrogated it.

391. Inflation is the main allegation brought against the scheme by the majority of the present Committee. History records no inflation. Inflation may depend upon the quantity of money issued, but never on the person by whom it is issued. An excessive quantity issued by banks creates inflation, as in all countries during the war. The much-quoted German inflation, entirely the work of the present banking system, proves, if proof be needed, that inflation has nothing to do with the source, but only with the amount of money. To allege inflation in the Guernsey case is to illustrate the ironical saying of Major C. H. Douglas that inflation is any issue of money that is displeasing to bankers, for money issued by a local bank would have had all the result of money issued by the Governor, save one—there would have been heavy bank interest in the one case and not in the other.

392. But we believe there is another criticism of the Guernsey scheme that can be made. There is no record of the effect produced on the monetary system of the island by the injection of money referred to, but the possible alternatives are a slight increase in the general price-level or a general increase in activity, bringing about an increase in the production of consumable goods corresponding with the increase of money in circulation. As an increase in the general price-level would have been an observable phenomenon and has not been recorded, presumably it was not that result that occurred, but the second of the foregoing results—namely, an increase in productivity. In that event the money in circulation, being that required for the increased production, would have been better left in circulation, and its withdrawal from circulation would be deflationary in its effect, tending to reduce prices or check production, or both, with consequent distress to producers.

Present Monopoly of Credit.

393. The important point to be ascertained is whether our present monetary system fits our economic system, or whether our economic system has to fit our monetary system. From our examination of the position, it seems that through the operations of our present monetary system our economic system is secondary to, and limited by, our monetary system.

394. The invention of labour-saving machinery, the harnessing and vastly greater utilization of the forces of nature, coupled with an increasing population, cause the legitimate monetary requirements of trade, industry, and commerce to expand correspondingly. Under the present monetary system such necessary expansion can take place only as a progressively increasing debt to the banks. The banks have a virtual monopoly over the creation of the nation's money, and at such times even their refusal to grant new advances can cause the deflationary effects to make themselves manifest.

395. We are of the opinion that "money" should always stand for or be the symbol of realities; that by no artificial monopoly should it fail to accord with the real wealth that is capable of being produced in such increasing abundance, and that the first step to secure this end is to remove the power to manufacture, issue, and retire "money" from the hands of private corporations and restore it to the constitutional authority of King and Parliament.

No Freedom through Reserve Bank.

396. The recent institution of the Reserve Bank of New Zealand does not fulfil this requirement. The Reserve Bank, which comes into operation on the 1st August, 1934, is to take over this particular function from the trading banks, but it is itself a private corporation with power to manufacture, issue, and retire money within the restrictions provided in the Act. These restrictions are alternatively sterling balances or gold. There appears to be no suggestion that the directors of the Reserve Bank will base New Zealand money on gold, but that they will continue to use the alternative base of sterling balances. It has been already shown that these sterling balances will be controlled by whatever policy is adopted by the Bank of England, so that the immediate future shows that the Dominion monetary system will be still controlled by the Bank of England with the Reserve Bank of New Zealand acting in this country as its instrument.

397. Both these banks are designed to operate as the modern equivalent of the Royal Mint, and both are private corporations. Both institutions will continue to manufacture "money" and put it into circulation as short-term loans. In our opinion this can result only in a rapid and progressively large increase in the national debts or in a complete breakdown of the economic structure.

398. At present the production of real wealth and the production of purchasing-power are two separate functions, and the production of purchasing-power has become an industry monopolized under the banking system. This state of affairs has produced the untenable idea that all wealth belongs to the financial system, because only the financial system can issue the effective demand for real wealth. That effective demand is, with very small and trivial exceptions, always issued as a loan and not as permanent transfers. This causes everlasting and everincreasing debt.

The Problem of Abundance.

399. The immensely increased productive capacity of the modern world has changed the old problem of scarcity to that of plenty. This change is in no sense due to merely increased population—it is due almost entirely to the accumulated knowledge of the use and power of machinery, tools, of organization, and many other things descended to this generation from the labours, inventions, and discoveries of our ancestors. As a result of this technique of production we have reached the point where actually and much more potentially we are required to envisage a state of affairs which does not necessitate the employment in production of more than a decreasing percentage of the labour of the available population.

400. In these circumstances it appears evident that unemployment is not only a permanent condition in the modern social structure, but that it must progressively increase if scientists and engineers are to continue their operations. But unemployment is only a synonym for leisure, and that can be the greatest boon that humanity can crave for if the people of this and other countries are educated to use that leisure to the best advantage, and provided also that the

necessaries and amenities of life are made freely available to that section of the community whose services are not required in any kind of work.

401. For men to continue working at their occupations till advanced age is naturally shutting the door of opportunity in the faces of the youths and young men. Some sensible and civilized method must be devised to meet this phase of our economic problem. One way out of this dilemma would be to use some of the surplus product of the power age to facilitate earlier retirement.

Conclusion.

402. The essential weakness of the existing monetary system is expressed (in perhaps the best and briefest words) by Messrs. Foster and Catchings in their book "Profits," and quoted by them in the preface to the third edition of their book "Money":—

> "Progress toward greater total production is retarded because consumer buying does not keep pace with production. Consumer buying lags behind for two reasons; first, because industry does not disburse to consumers enough money to buy the goods produced; second, because consumers, under the necessity of saving, cannot spend even as much money as they receive."

403. We are of the opinion that a complete reconstruction of the monetary system of the Dominion is essential, and we make the following recommendations:—

(i) That there should be unification of the control of the volume of currency and financial credit. Without unity of control there can be neither responsibility nor effective useful policy. This control is too important an element of the sovereignty of the State to farm out to private enterprise. The State must become the sole creator of currency and financial credit. All elements of private interest and all statutory provisions subjecting it to the London sterling policy should be eliminated from the statute relative to the Reserve Bank. We recommend no interference with savings-banks or similar institutions not empowered to manufacture credit.

(ii) In so far as the physical resources of the Dominion will provide, we recommend that through the foregoing mechanism money and financial credit should be created by the State for the purpose of closing the existing gap between production and consumption which arises through the insufficiency of purchasing-power in the hands of consumers under the present system. The classes of consumers for whom money might be conveniently created would be a matter of social as much as monetary policy, so we do not enlarge upon this beyond mentioning pensioners of every description, the unemployed and incapacitated citizens, and producers in so far as their prices do not realize pre-depression values as types of consumers whose claims might be considered under this head.

(iii) Financial policy secured by the foregoing unified control should aim at stabilizing the general wholesale-price level of New-Zealand-produced commodities. Justice between debtor and creditor calls for this as much as does justice between producer and consumer. Credit expansion need then be limited only by the volume of consumable goods produced and desired by the people of the country.

(iv) The amount of credit created for capital works, the amount created for trading purposes, the amount created for consumers, the total amount of debits weekly placed to customers' accounts in the trading banks, the total amount of taxation levied are all elements determining the volume of financial credit in effective use. With unity of control vested in the State all these can be so observed and governed as to secure such circulation of money as will avoid deflation and inflation, abolish alternating boom and slump, and secure steady business activity.

(v) We recognize that it is possible but not easy to maintain a stable internal price-level and at the same time maintain parity of exchange with a country which has a fluctuating price-level. We definitely prefer stability of internal price-level; and, so far as exchange variation may become a problem beyond the dimensions of a reasonable stabilization fund, we would recommend that it be dealt with by rationing the exchange. In such rationing preference should be given to essential commodities not available from our own resources.

F. Langstone. J. W. Munro. H. M. Rushworth. F. W. Schramm.

APPENDIX.

LIST OF PERSONS OR ASSOCIATIONS WHO TENDERED ORAL EVIDENCE.

Associated Banks.
Beckerleg, B.
Carlisle, F.
Cederholm, W. S.
Closey, S. J. E. (Douglas Credit Movement of New Zealand).
Colbeck, F.
Douglas, C. H.
Feeney, J.
Field, A. N.
Findlay, J. C.
Fitzherbert, P. B.
Fitzherbert, S. W.
Forde, H. I.
Gatenby, W. J.
Gee, E. J.
Gray, W. A.
Haddow, H. W. U.
Holland, S. G.
Lysnar, W. D.
Mason, H. G. R.
Moore, F. T.
Moore, F. W.
Mullenger, G.
Nash, W.
Nicolaus, E. W. (Commonwealth Land Party of New Zealand).
Nicoll, F.
Roberts, R. H.
Russell, W. G., and Lang, W. S.
Sainsbury, A. G.
Schmidt, H.
Schreiber, H.
Scott, A. (New Economics Research Association).
Seddon, W.
Taylor, J.
Tingey, P.
Tocker, Professor A. H.
Treasury.
Tucker, J.
Valder, H. (Employee Partnership Institute, Ltd.).
Walker, L. C.
Williams, D. O.

LIST OF PERSONS OR ASSOCIATIONS WHO SUBMITTED PROPOSALS OR STATEMENTS WITHOUT ORAL EVIDENCE.

Adams, F., Blenheim.
Aiken, E. A., Waverley.
Associated Chambers of Commerce, Wellington.
Barker, H. C., Tauranga.
Bartle, A., Napier.
Beamish, N. (Co-operative Union of New Zealand), Hastings.
Bell, F., Midhirst.
Belshaw, Professor H., Auckland.
Bristed, A. H., Christchurch.
Broadbent, A. M., Carterton.
Buckleton, R. G., Wellington.
Burdan, B. R., Eastbourne.
Burgess, J., Matakohe.
Cawardine, J., Wanganui.
Chamberlain, W. E., Gisborne.
Chapple, A. H., Swanson.
Cooper, J. W., Gore.
Coulter, W. H., Auckland.
Cumber, K. M. H., Kaikohe.
Davies, W. H., Annandale, N.S.W.
Decimal coinage (various signatories).
Ellis, N. L., Takaka.
Gaffney, T. Paraparaumu.
Gibbs, F. G., Nelson.
Halibar, G., Auckland.
Hansen, A. K., Waipawa.
Harwood, J. L., Palmerston North.
Hawkes, G. A., Onerahi.
Hollings, L., Greymouth.
Jacombs, F. N., Thames.
Joblin, G. F., Opotiki.
Latham, H., Greenmeadows.
Long, A. F., Whangarei.
Mander, A. E. (Manufacturers' Federation, New Zealand), Wellington.
Marr, de, J. H., Auckland.
Martin, G., Pukekohe.
Masters, L. M., Kaitaia.
Mason, R. V., Masterton.
Morpeth, W. I., Rongotea.
McCarthy, A. P., Dunedin.
McClay, D. O.
McDonald, C. R., Henderson.
McLauchlan, E. J., Invercargill.
McLeavey, J. A., Palmerston North.
McLellan, J., Invercargill.
McMillan, J. D., Auckland.
New Zealand Fruit Control Board, Wellington.
Nunes, R., Christchurch.
Oldham, A., Auckland.
Picken, A., Rakauroa.
Sharp, C. A., Edendale.
Sinton, W., Ngaruawahia.
Smythe, M. B., Christchurch.
Squires, C. H., Auckland.
Stone, T. A. F., Auckland.
Thevenard, C. W., Kimbolton.
Thomsen, H. C., Masterton.
Vinnicombe, H., New Plymouth.
Watson, H., Wellington.
Watters, R., Auckland.
Weston, I. W., Canterbury.
White, C. L., Wanganui.
White, C. N., Dargaville.

NOTE.—A few additional schemes were received subsequent to the advertised closing-date, these being too late for consideration by the Committee.

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