

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 Government 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