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) n 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.