192. *How Social Credit Works,* page 31:

Our survey of the principles, theories and policies governing Finance as the agent of Distribution must convince us why they are ineffective in distributing the goods and services provided by Industry with the least trouble to the community. It reveals that the true purpose of an economic system, which is to deliver goods and services to the limit of productive capacity, or the limit of consumptive capacity, whichever occurs first, has been perverted entirely to serve the interests of the Financial system.

Mr Young:

You will remember I disavowed . . . it had been deliberately perverted to that idea.

193. *How Social Credit Works,* page 45:

In New Zealand the Central Bank is the Reserve Bank; that is, the Central Bank belongs to the people and should function for their benefit. To-day it merely functions for the benefit of the private banks and by its control of currency, based, or supposedly based, on a gold and sterling basis, regulates the financial credit of New Zealand.

Mr Young:

We disagree [with the statement that "it merely functions for the benefit of the private banks".]

194. *How Social Credit Works,* page 53:

Discusses the A + B theorem at some length and in some detail. Mr Young agreed that the computation of the gap in the example given was incorrect. He also agreed that the example had no regard to the continuity of production and the continuity of payments out in the course of production.

195. *How Social Credit Works,* page 55, the heading:

"Prices always greater than incomes".

Mr Young:

It should be . . . nearly always greater than incomes.

196. *How Social Credit Works,* page 58:

A word or two about Savings. If Industry distributes £1,000,000 in wages, salaries and dividends, and the recipients save £100,000, it should be evident that goods to this value remain unsold. If this sum is then invested in production it ceases to be available as purchasing power, but creates a fresh lot of consumable goods.

Mr Young:

We are quite willing to concede that money spent in investment is purchasing power for capital goods and so forth. [Money spent on investment] . . . is purchasing power at the time it is spent.

197. *How Social Credit Works,* page 62:

Like most professions and industries the banking system of U.S.A. (and else-where) have their "trade journals". The following quotations taken from the *United States Bankers' Magazine* dated 26th August, 1924, would seem to indicate that the decision for a slump was certainly made about this time. The following can fairly be claimed to be an instruction to all banks:

"Capital must protect itself in every possible manner by combination and legislation. Debts must be collected, bonds and mortgages must be foreclosed as rapidly as possible. When through a process of law the common people lose their homes, they will become more docile and more easily governed through the influence of the strong arm of government, applied by a Central power of wealth under control of leading financiers. This truth is well known among our principal men now engaged in forming an imperialism of Capital to govern the world."

Question:

You disown that [the above quotation]?

Mr Young:

Yes.

198. *How Social Credit Works,* page 68:

. . . the general principles on which the necessary reform is based have been laid down by Douglas as follows:

1. That the cash credits of the population of any country shall at any moment be collectively equal to the collective cash price for consumable goods for sale in that country, and such cash credits shall be cancelled on the purchase of goods for consumption.
2. That the credits required to finance production be supplied, not from savings, but be new credits relating to new production.
3. That the distribution of cash credits to individuals shall be progressively less dependent upon employment. That is to say, that the National Dividend shall progressively displace the wage and salary.

Mr Young:

This at the present time is under consideration by the Dominion Executive of the Social Credit Political League for a re-statement. We are not happy with those three.

. . . it suggests arbitrarily that all future production should be financed from new bank credit, not from savings. We think people should have the right to use their savings if they so desire.

There is criticism within our own ranks to some extent that if you took it literally on its face value as actually stated there it would prohibit a man from using his savings if he wished to, which we think is unreasonable.

Question:

At the moment you do not accept them as the three basic principles for reform?

Mr Young:

No, sir. They are being re-stated.

199. *How Social Credit Works,* page 71:

(a) The second principle is: "That the Credits required to finance production shall be supplied, not from savings, but be new Credits relating to new production, and shall be recalled only in the ratio of general depreciation to general appreciation."

As we have shown, the problem of insufficient purchasing power is intensified by the question of savings. These, being a portion of A payments direct to individuals, should help to take goods off the market, but do not.

(b) There is no economic virtue whatsoever in savings, and the orthodox ideas that Capital is dependent on savings are either fallacious or rendered ineffective by the increasing use of Bank Credit. Savings prevent goods valued at a like amount from being sold, and when such savings are reinvested in production they create a new series of costs without generating any fresh purchasing power.

Mr Young:

(a) This is also being reconsidered by the League.

(b) We do not accept that [there is no economic virtue in savings.]

As I say it was done in a hurry and he took this from Stone's book and there was not the close attention given to it that there should have been. It is a warning to us in future to be much more careful in these matters.

200. *How Social Credit Works,* page 71:

The third principle is: "That the distribution of Cash Credits to individuals shall be progressively less dependent upon employment. That is to say, that the dividend shall progressively displace the wage and salary, as productive capacity increases per man hour."

Under the existing system employment is the only means of obtaining purchasing power, and this principle recognises the necessity of providing some form of income other than wages and salaries as machines progressively displace men from industry.

Mr Young:

We think so far as New Zealand is concerned that it is not within the foreseeable future.

201. *How Social Credit Works,* page 72:

For a hundred years the efforts of the scientist and inventor have been devoted to finding new and better processes, bigger and faster labour-saving machines. So successful have they been that it has been estimated that a period of from two to four hours' labour a week for men during 25 years only of their lives is sufficient to provide the total population with a very high standard of living and with complete economic security for all.

Mr Young:

You remember there was a question about these figures. We do not think that those are applicable to New Zealand at all.

202. *How Social Credit Works,* page 73:

When the shackles of the Monopoly of Credit are removed this idea of compulsory work will lose all relation to reality, because it will be impossible to adjust full scale employment to an increasingly mechanised industry. The national dividend is inevitable in a world of progress.

Mr Young:

That is in the distant future. A long way off.

Question:

Some time that you and I will never see?

Mr Young:

I think so.

203. *How Social Credit Works,* page 80:

This dividend, as by the illustrative figures given in our previous lecture, would be of the same total amount as the total of the retail discount, and would be paid by the National Credit Authority direct to individuals either through the Post Office, as pensions are now paid, or direct by cheques.

We do not doubt that both the discount schemes could be put into operation very easily. Only experience and a period, perhaps, of trial and error would determine the easiest and most effective methods of administration.

We think a combination of the two would be necessary. For instance, services such as transport, amusements, and any form of business where tickets are issued, and retail shops selling fruit and perishable goods, where quantities and qualities depend on indeterminate factors, would probably be better served by the second alternative. For the great bulk of consumable goods probably the first alternative is the better, but experience only will determine this.

Mr Young:

The whole page is a matter for consideration and we do not think that any useful purpose would be served, as far as New Zealand conditions are concerned, in discussing the thing.

204. *How Social Credit Works,* page 93:

THE PHILOSOPHY OF SOCIAL CREDIT

During the early days of the Social Credit Movement lecturers laid great stress on the A and B theorem, the Just Price regulating factor and other technical aspects of the New Economics.

Perhaps they overdid this, but it provided a sound and necessary basis of knowledge. In more recent years they have gone to the other extreme and have concentrated on bank-created credit, debt and taxation.

We have long held that the successful teaching of Social Credit as a practical reform must include both these aspects; they are complementary to each other.

But Social Credit is much more than a reform and a change in the financial system; it is a PHILOSOPHY, and experience has taught also that we have not given sufficient consideration at any time to this vital aspect of our teaching.

When we go out to preach Social Credit we find there are two powerful groups opposed to us – one representing conservatism and the vested interests that we may term the Sound Finance group; the other representing the mass of wage and salary earners that we may term the Socialist group.

These groups oppose one another, but they both agree to oppose Social Credit. Each stands for a definite Social and Economic system, and so does the Social Credit group.

Now Douglas, in one of his most important and valuable utterances, has stated that a Social and Economic system represents "the policy of a philosophy," and he defines "policy" in this connection as "action consciously directed towards a given objective."

If we look at the philosophy of Sound Finance we must recognise that the policy directed to make it effective develops into a system akin to Fascism. If we look at the philosophy of Socialism we must recognise that the policy directed to make it effective develops into Communism.

Both of these policies lead to a system of centralised control in the hands of a few – one through finance, the other through bureaucracy.

Both tend to destroy individual initiative – one by debt and taxation, the other by the elimination of private enterprise.

Both represent the will-to-power – one by money control, the other by political and social organisation.

Both believe in policy imposed from above – one by law and necessity, the other by force.

Both suppress individual freedom – one by economic compulsion, the other by economic regimentation.

Both have false ideals of an economic system – one as a means to make profits, the other as a means to provide employment.

Both believe in the Work State – one because it objects to leisure, the other because it conceives work as the only economic security.

Both believe that men exist to serve a system – one because it worships the supremacy of finance, the other because it worships the State as an abstraction.

As Social Crediters we disavow both these philosophies and the policies and systems that grow out of them. They are the enemies of progress and liberty and the negation of the free spirit of man. The philosophy of Social Credit is entirely opposed to them.

Social Credit believes in decentralised control, with the foundations of society laid on the complete independence of the individual. It believes that policy should come from the community through building up from the Individual, not down from the State.

It believes that systems are made for men and not men for systems.

It believes that the future of the world lies in co-operation, but only in the co-operation of reasoned assent, not in the forced co-operation of regimentation. It believes that the economic activity is simply a functional activity of men and women in the world and that progress is most rapid and effective through the free expansion of self-development.

It believes that science and invention must not be used to enslave men, but to free them from unnecessary work and so give them leisure and the chance of self-development.

It believes that men have "an inalienable right to life, liberty and the pursuit of happiness."

It believes that the system under which men live must represent truth and reality and not lies and falsity.

It believes that this system should develop a community of diversified and independent individuals and not a mass of standardised and servile ones.

It believes that this system should give not only security, but freedom, and that freedom, security and peace are one and indivisible.

It believes that every individual is a shareholder in the common heritage of Civilisation and that the wealth that flows from this heritage is part of his birthright.

It believes that absolute economic security is the first and basic requirement of a New Civilisation in which every man will be entitled "to sit under his own vine and under his own figtree and none shall make him afraid".

Unless we believe in this philosophy of Social Credit it is useless to bother about anything else. If we do believe in it then we must advocate the principles and policies to make it effective.

Mr Young:

That is of academic interest, we feel, at the present time.

205. *How Social Credit Works,* page 92:

6. What is the JUST PRICE? The Just Price of an article is the price representing its true cost. It is determined by the ratio which total production of all descriptions bears to total consumption and depreciation. The Just Price is also called the COMPENSATED PRICE.

7. What is the JUST PRICE FORMULA? This is the mathematical formula used to determine the just price of an article in relation to its financial cost . . . The "Just Price" of any article is the cost of the goods actually CONSUMED in its production. "The Cost of production is Consumption."

Mr Young:

. . . that argument is useless . . . It is of academic interest.

NOTE 2 TO APPENDIX E

Computations of the Social Credit "Gap" Published in Social Credit Literature

(Reference paragraph 82 of Appendix E)

206. Three computations of the "Gap" published in Social Credit literature were discussed by the Commission with Mr Young, a witness for the New Zealand Social Credit Association, and with the Government Statistician, in some detail. These computations were:

(a) The gap between incomes received and national production in 1950–51, published in the *New Zealand Social Crediter,* 15 March 1955, pages 6 and 7.

(b) The statement of the gap for 1951–52 in *Social Credit's Solution* (pages not numbered), a pamphlet published by the New Zealand Social Credit Political League in 1954.

(c) *"Production and Income, 1950–51"*, appearing at pages 8 and 9 of *Social Credit is the Key,* by G. Hinton Knowles, in collaboration with F. D. Danks.

Results of the examination in respect of these three computations are summarised in the following paragraphs.

The gap between incomes received and national production, 1950–51, from the *New Zealand Social Crediter*

207. This compilation sets out to compare *"money incomes of New Zealanders obtained through the production of consumer goods and services"* in 1950–51 with *"the total retail prices of such consumer goods and services"*.

208. The compilation as published was as follows:

VALUE OF PRODUCTION

		£
In the year ended 31/3/51 (see 1951–52 Year Book, page 961) ..		473,200,000
This figure represents value at point of production. Nothing added to cover costs of distribution. Services not included.		
DEDUCT EXPORTS (Calendar year 1950), (i.e. goods produced in N.Z. but not placed on N.Z. market)		

				£	
F.O.B. Value	..	..	..	183,700,000	
Less 25 per cent	..	..	..	45,900,000	
					137,800,000
					335,400,000

This deduction of 25 per cent is made to reduce F.O.B. value to value at point of production.

ADD IMPORTS (Calendar year 1950)	158,000,000
C.D.V. and 10 per cent added only.	
	493,400,000
ON COST	
At least 50 per cent must be added to cover distribution charges, etc.	246,700,000
Gross National Production at Retail Prices	£740,100,000

NOTE.—O.E.N.I. = Official Estimates of National Income.
I.I.T.S. = Income and Income Tax Statistics.
(Reports published by Census and Statistics Department, Wellington).

INCOME OF NEW ZEALANDERS
Available for purchase of National Production
(See Report on the Official Estimates of National Income, 1954)

	£
YEAR ENDED 31/3/1951	
O.E.N.I. Salaries and Wages	279,000,000
O.E.N.I. Armed Forces	6,000,000
O.E.N.I. S.S. Benefits and Pensions	48,000,000
O.E.N.I. Other Personal Income	193,000,000
I.I.T.S. Company Dividends	18,000,000
	544,000,000
O.E.N.I. Less Direct Taxes (excluding direct taxes on Companies,	
and as only dividends have been included above)	75,000,000
I.I.T.S.	
	£469,000,000

	£
Production Value (see above)	740,100,000
Private Net Income	469,000,000
Apparent "Gap"	£271,100,000

There are two major amendments to these figures which must be made before we can approximate the true "Gap". What portion of the Gross National Production is Capital Goods production and which theoretically does not make a demand on personal income? Of the total personal income computed for the year, what is the figure for transferred incomes? We have already made one deduction for transferred income – direct tax – but no deduction has been made of other transferred income, such as fees paid to doctors, etc.

Allowing the sum of £171,100,000 for the value of capital goods and £100,000,000 for transferred incomes, the estimated true "Gap" is as follows:

	£
Apparent Gap	271,100,000
Add transferred incomes (estimated)	100,000,000
	371,100,000
Deduct value of capital goods (estimated)	171,100,000
Estimated True Gap	£200,000,000

209. We would remark that direct compilation of incomes earned in production of consumer goods would be a most difficult, if not an impossible, statistical operation because it is the "end-use" that determines whether goods or services form part of capital goods or consumer goods. To take a simple example, timber may be used for repairs (consumer services) or for new construction (capital). How then are wages paid in the bush or in the timber mill to be apportioned? In the above table the compiler avoided this difficulty by including all salaries and wages and

other incomes, whether earned in production of capital goods or of consumer goods and services.

210. Notwithstanding inclusion of all such incomes, a subtraction of £171·1 million has been made from the figure for total production to obtain an estimated figure for the production of consumer goods and services, before comparing this with total incomes. This is, of course, a serious error. Mr Young agreed that if a deduction of this nature had been made on the production side without a corresponding deduction from incomes it *"would be quite a serious error of principle"*. The statement also omits Government and local authority expenditure on consumer goods.

211. No evidence was forthcoming to support the accuracy of the subtraction of 25 per cent as representing the reduction of the f.o.b. values of exports to the *"value at point of production"*. Nor was Mr Young able to substantiate the addition of 50 per cent as *"on cost"*. He agreed that the accuracy of the results of the table was dependent on the correctness of these percentages.

212. The Government Statistician said of this estimate that a statistician *"would have to disown it . . ."*. He also commented that the difference between the two sides of the statement was due to errors in compilation. Although the above table is admittedly an improvement on the other compilations discussed in this Appendix, we are satisfied from the evidence of Mr Young and of the Government Statistician that it is of no value as evidence of a gap between purchasing power and prices.

Computation of the gap for 1951–52 in *Social Credit's Solution*

213. This statement of the gap reads:

				£
Total price of all goods produced for sale in New Zealand		..	..	670,500,000
Total incomes earned by the people	..	..	..	477,000,000
Shortage of money or income	..	..	..	£193,500,000

214. From the evidence it appears to us that the above table was computed approximately as follows:

						£ (million)
VALUE OF PRODUCTION 1951–52		..	..	..		426·3
DEDUCT EXPORTS (Calendar Year 1951):						
F.O.B. ..	..	..	..	..	248·1	
Less 25%	..	..	..	..	62·0	
						186·1
						240·2
ADD IMPORTS (Calendar Year 1951):						
C.D.V. + 10%	..	..	..	..	..	206·5
						446·7
ADD "On Cost" 50%	..	..	..	..	223·4
Value of Goods at Retail Prices	..	..	..	£670·1
INCOMES						
Salaries and wages for 1950–51	..	..	..	..	275·3
Company and other incomes for 1949–50	..	..	..	201·5
						£476·8

215. It appears that the total income of £476·8 million was computed by multiplying the social security charge receipts for 1950–51 – £35·766 million – by 13½. Such receipts represent tax on salary and wages for 1950–51 and company and other incomes for 1949–50, at 1s. 6d. in the pound.

216. The computation of goods produced is subject to the same criticisms regarding the addition of arbitrary percentages as the table published in the *New Zealand Social Crediter* of March 1955. The remarkable thing about the statement published in *Social Credit's Solution* is that, as shown above, it compares an assessment of production for 1951–52 with salaries and wage incomes for 1950–51 plus company and other incomes for 1949–50. Such a comparison is quite worthless.

"Production and Income, 1950–51" in *Social Credit is the Key*

217. This computation of the gap for 1950–51 is as follows:

PRODUCTION AND INCOME, 1950–51

Does our financial system distribute sufficient purchasing power by way of wages, salaries, dividends and profits to pay the price of what is produced at any given period?

FIGURES FROM 1952 YEAR BOOK

		£
Total Production (page 961)		473,000,000
Material production only. Value at point of production. No amount added for transport or distribution through wholesaler or retailer. No valuation of services included.		
Deduct Exports (page 229)	£	
F.O.B. Value	184,000,000	
Less 25 per cent.	46,000,000	
		138,000,000
		335,000,000
This percentage deduction is necessary, as in all total production primary products are valued "on the hoof".		
Add Imports (page 251)		
C.D.V. and 10 per cent. only		158,000,000
		493,000,000
Add on Cost		
As nothing has been added to above figures for sales tax, excise or customs duties, transport, wholesale and retail distribution charges, then at least 40 per cent. must be added to find the cost to the consumer:		
40 per cent of £493,000,000 equals		197,000,000
Total Price Charges		690,000,000
Purchasing Power		
Wages, salaries, dividends, profits, other income, Social Security Tax gives a reasonably accurate figure for this item		477,000,000
Non-taxed income, including evasion (say)		23,000,000
		£500,000,000
Total Price Charges, as above		690,000,000
Nett Cash Income		500,000,000
		£190,000,000

It is obvious that £500,000,000 of income cannot liquidate £690,000,000 of price charges. There may be differences of opinion on the details given above and the percentages used, but it is submitted that there is clear proof in the above statement that costs are generated at a greater rate than incomes.

218. The above computation of production is similar to that published in *Social Credit's Solution* and is subject to similar limitations except that in this case *"on cost"* has been added at 40 per cent instead of 50 per cent. Again a mistake in income has been made by including wages and salaries for 1950–51 with company and other income for 1949–50 as total income for 1950–51. Mr Young admitted that this computation also was not competent statistical work.

219. Mr Young did not appear to have a competent understanding of these computations. He was under the impression that the gaps measured were before incomes received from public works or other supplements to income had been included. However, under cross-examination, he admitted that total incomes including incomes from public works had been included in the computations. Mr Young said, *"I would say as a practical observation round the country, for anyone to suggest there was a net gap of that sort, he was a dreamer"*.

220. In his evidence, the Government Statistician confirmed the erroneous nature of the three compilations referred to above. Furthermore, Mr Jordan disowned them and said, *"I should say truly that these statements have never been received as correct by the general body of social crediters, nor by the many who have always urged and have objected to these statements from time to time, on the ground that the compilers haven't the necessary information, and on the further ground that the state of full employment and the state of high prices under which our economy has existed during the past few years, have indicated that there could not be anything like the amount of gap that has been estimated"*.

221. We are satisfied that the statistical computations of the gap printed in publications of the New Zealand Social Credit Association and of the New Zealand Social Credit Political League are faulty statistical work having no value as evidence for or against the existence of a shortage of purchasing power and certainly providing no sound basis for any issues of debt-free money.

222. In answer to a request of the Commission the Government Statistician supplied the following statement setting out aggregate incomes and production over a period of years 1950–51 to 1954–55:

GOODS AND SERVICES COMPARED WITH INCOMES

(£million)

	1950–51	1951–52	1952–53	1953–54	1954–55
Goods and Services					
1. Gross National Product at market prices	696	722	754	834	927
2. Less imputed rental value of owner occupied houses	−14	−15	−16	−19	−21
3. Export surplus (−) or deficit (+) ..	−30	+30	+5	−28	+39
4. Total goods and services available at market prices	652	737	743	787	945

GOODS AND SERVICES COMPARED WITH INCOMES—*continued*
(£million)

	1950–51	1951–52	1952–53	1953–54	1954–55
Incomes					
5. Wages, salaries, interest, dividends and profits on which social security tax is paid:					
(a) Earned in current production of goods and services ..	580	589	621	689	755
(b) Interest paid to holders of the public debt domiciled in New Zealand	17	17	17	18	20
	597	606	638	707	775
6. From which Government has levied in taxation (including local authorities)	−113	−142	−146	−154	−168
7. Leaving in the hands of the public out of current incomes	484	464	492	553	607
8. But the Government has returned to the public tax free social security payments (including pensions) ..	48	54	54	58	61
9. In addition there are depreciation allowances on which no tax has been paid (therefore not included in (5) above)	39	43	46	50	57
10. Total incomes in the hands of the public to purchase goods and services ..	571	561	592	661	725
But the Government (General and Local Authority) spends the income it collects from the public. This amounts to:					
11. Direct taxation (deducted from private purchasing power (see (6) above) ..	113	142	146	154	168
12. Indirect taxation included in the prices of goods and services (4) above ..	56	71	67	68	82
Less subsidies on consumer goods ..	−9	−16	−15	−16	−13
Making	47	55	52	52	69
13. Profits from Government Departments trading and non-trading	16	19	18	24	27
14. Gross Government Income	176	216	216	230	264
15. The Government has returned to the public taxfree social security benefits (which it therefore cannot spend itself) (see (8) above)	−48	−54	−54	−58	−61
16. Interest on the public debt domiciled in New Zealand (included in (5) above) is also returned to the public so Government cannot spend it ..	−17	−17	−17	−18	−20
17. Net Government income from which it can purchase goods (e.g., materials for public works included in (4) above) and services (e.g., Civil servants' services included in (4) above)	111	145	145	154	183
18. Total incomes:					
In hands of – Public (10 above) ..	571	561	592	661	725
In hands of – Government (17 above)	111	145	145	154	183
Total Incomes	682	706	737	815	908

GOODS AND SERVICES COMPARED WITH INCOMES—*continued*
(£million)

——	1950–51	1951–52	1952–53	1953–54	1954–55
19. Decrease in overseas assets (+) or additions to overseas assets (−) ..	−30	+30	+5	−28	+39
20. Total (18 + 19)	652	736	742	787	947
21. Total value of goods and services available (4 above)	652	737	743	787	945
Rounding of figures causes these differences	..	−1	−1	..	+2

223. The above statement shows an equality between goods and services becoming available at market prices and total incomes (after allowing for changes in overseas assets). (See comment in paragraph 60 of this Appendix.) The Government statistician agreed that his tabulation was *"an effective statistical refutation of any contention that there has been a chronic shortage of purchasing power in the hands of the people relative to the price of total production in those years".* He also said that if statements on the same basis were prepared for other years the results would be similar.

224. The Government Statistician's statement does not prove that purchasing power is always sufficient to make the best use of the country's resources without generating inflation. It does, however, prove that there is no chronic defect in the industrial and financial system which must lead to a shortage of purchasing power and which would therefore justify issues of new money as a regular feature of budgetary policy.

Appendix F

SUBMISSION OF Mr H. J. KELLIHER AND THE MIRROR PUBLISHING COMPANY LIMITED

TABLE OF CONTENTS

I. Introduction

1. Mr H. J. Kelliher, in association with The Mirror Publishing Company Limited, made lengthy submissions to the Commission through his witness, Mr W. S. Otto. Mr Kelliher himself did not appear at the hearings, but was represented by counsel, Dr O. C. Mazengarb, Q.C. These submissions, which were obviously the result of much careful thought and preparation, comprised six parts dealing with the following subjects:

(a) Existing banking and economic system.
(b) Overseas trade – wages – fiscal policy – criticism of present system.
(c) Recommendations for reform of existing banking system.
(d) Other recommendations for reform.
(e) Summary of proposals for reform.
(f) A recommendation that New Zealand should not join the International Monetary Fund.

2. The hearing of Mr Otto's evidence and his examination and the addresses of counsel occupied a period of nearly twelve days. Wherever we ascribe matter to Mr Kelliher in this report we are referring to the preliminary documents placed before the Commission, to the prepared submissions, and to the remarks of Mr Kelliher's counsel. Where Mr Otto is mentioned we refer to his statements under examination, to his written replies to questions put to him during the hearings, and to documents presented in amplification of his evidence.

3. In general, these submissions comprised an analysis of the existing economic system with special emphasis on the banking system, a statement of the weaknesses which Mr Kelliher regarded as inherent in the economic and banking systems, and suggestions for curing such weaknesses.

4. Mr Kelliher asserted that the following defects were inherent in the existing banking system:

(a) The lending and investment operations of the trading banks were expanded in times of prosperity in the ordinary course of their business, and contracted in less prosperous times.
(b) These operations resulted in the creation and destruction of money, that is, an expansion and contraction in the volume of money.
(c) This expansion and contraction of the volume of money was the major cause of the rise and fall in prices.

Mr Kelliher claimed that the Loanable Funds Scheme would remedy these defects and achieve stability in the volume of money, and that the Loanable Funds Scheme in conjunction with certain associated proposals would ensure substantial stability in prices.

Volume of Money

5. In the course of his submissions Mr Kelliher gave a number of examples of the operation of the Loanable Funds Scheme, from which it is apparent that he attached the greatest importance to the maintenance of a constant or stable volume of money.

6. The volume of money, as defined by the Reserve Bank of New Zealand and accepted and used by Mr Kelliher in his analysis of the existing banking system, comprises the following:

- (a) Coin in circulation.
- (b) Notes in circulation.
- (c) Credit balances of customers in their current accounts at trading banks (demand deposits).
- (d) Credit balances of Government and marketing accounts at the Reserve Bank.

7. The volume of money, and especially the volume of demand deposits held by the public at the trading banks, is affected from time to time by certain banking transactions, e.g., an increase in total trading-bank advances may, but does not always, result in an increase in demand deposits and, consequently, in the volume of money. On the other hand, a net reduction in bank advances originating from free deposits would reduce the volume of money. A purchase of investments by a trading bank may also result in an increase in demand deposits and, consequently, in the volume of money. The sale of investments by a trading bank may be expected to have the reverse effect. The effect of transactions such as the above on the volume of money is illustrated hereunder:

	Volume of Money (£million)
Suppose the volume of money is	312·6
Increase in trading-bank advances of £10 million might cause customers' demand deposits to rise by	(+) 10·0
A net reduction in trading-bank advances of £5 million might reduce demand deposits by	(−) 5·0
The purchase by trading banks of investments costing £3 million might increase demand deposits by	(+) 3·0
The sale of investments for £2 million might reduce demand deposits by	(−) 2·0
Volume of money after above transactions	£318·6

8. All increases in advances do not necessarily cause corresponding increases in deposits. An advance on overdraft by an individual bank may result in a corresponding reduction in advances made by the same or by another bank; in that case, the volume of money as defined by the Reserve Bank would not be affected. Similarly, an advance used by a customer to purchase overseas exchange would not affect the total of free deposits and, consequently, would not affect the volume of money.

Creation of Credit

9. Terms such as "creation of money" or "creation of credit", as applied to trading-bank transactions, are misleading if they give the impression that the trading banks can create unlimited credit. This is far from true. The witnesses for the banks agreed that the trading banks do create money in the course of their lending operations. We believe that it is more nearly correct to say that the creation of new and additional money may, and in fact often does, occur as a consequence of lending by the banks rather than to say, as Mr Kelliher did, that the banks *"create the money they lend"*. When a trading bank makes

advances it may well lose an equivalent, or nearly equivalent, sum in bankers' cash or in overseas funds, and it must conduct its business within these limits. In addition, the lending operations of trading banks are subject to control by the Reserve Bank which, by the operation of the reserve ratio system, freezes a proportion of the balances held by the trading banks at the Reserve Bank. The extent of credit creation by the trading banks, therefore, is subject to important limitations and safeguards.

Views of Economists on Changes in the Volume of Money

10. As mentioned previously, Mr Kelliher, in his submissions, attached the greatest importance to changes in the volume of money as causes of price movements. This view is not generally accepted by economic authorities. Geoffrey Crowther, in his book *An Outline of Money,* page 124, says, *"The modern tendency in economic thinking, indeed, is to discard the old notion of the quantity of money as a causative factor in the state of business and a determinant of the value of money and to regard it as a consequence".* Paul A. Samuelson, in his book *Economics – An Introductory Analysis,* page 293, takes a similar view to Crowther's in the following passage: *"The fact, however, that the quantity theory is a simplification of the truth and does not always hold with great precision should not be used to damn it utterly. If at least it indicates the general direction of economic behaviour, that would be a great deal to be said in its favour. Unfortunately, even this limited claim cannot always be made for the quantity theory".* It is apparent from these quotations that these two recognised economists ascribe only a limited importance to changes in the volume of money as causes of price movements. Similar views are expressed in the *Economic Journal* of March 1955 by Messrs E. H. Phelps Brown and S. A. Ozga after a study of long-term price trends in the United Kingdom.

11. Recent statistics show that between 1946 and 1954 the money supply in the United Kingdom rose by some 15 per cent. Over the same period the index of retail prices rose by over 50 per cent. This seems to indicate a probability that, in the main, the price increases in the United Kingdom arose from causes other than the moderate increase in the money supply.

12. Under Mr Kelliher's scheme, he claimed that the volume of money would remain constant unless some independent action was taken by the State to increase or reduce it. He considered that such increases or reductions should result only from deliberate actions by the State.

Velocity of Circulation

13. Mr Kelliher was at some pains to show that, in his view, velocity of circulation of money was of only minor importance in any assessment of the causes of inflation. He recognised that the greater use of existing money (i.e., an increase in velocity of circulation) might in certain circumstances (e.g., increasing import prices) avoid the need for increasing the money supply. In discussing velocity of circulation, however, Mr Kelliher omits to take into account the possibility that the operations of the Loanable Funds Scheme, by transferring dormant funds to savings deposits and making increased advances on the basis of

additional savings deposits so acquired, might stimulate considerably the velocity of circulation of the remaining demand deposits. Any such stimulation could have a similar immediate effect on spending, and on the price level, to an increase in the money supply. According to the Reserve Bank computation, the index of the velocity of circulation of money fell from 100 in 1939 to 50 in 1945, and has since risen to 70. If the velocity of circulation were to increase again to anything like the pre-war level of 100, there is no doubt that the effect would be considerable.

Legality of Credit Creation

14. Mr Kelliher disputed the legal right of New Zealand trading banks to operate as they do. Mr Otto admitted, under examination, that even under the Loanable Funds Scheme the banks would create and destroy money according to the accepted definition of money supply. It would appear, therefore, that the accusations of illegality made by Mr Kelliher would apply with similar force to the operations of trading banks if conducted under the Loanable Funds Scheme. The legal position regarding creation of money by trading banks is discussed in paragraphs 432 to 433, and 541 of our report and in Appendix D.

Moral Issues

15. Mr Kelliher raised the question *"whether the banks have any legal or moral right to create the original issue of money and to expand the money supply"*, and sought a recommendation from the Commission, in respect of creation of money by trading banks, *"that there is no legal or moral right to do what they have been doing, and it ought to be stopped"*. The Commission would scarcely wish to set itself up as a judge of morals. The trading banks could no doubt be held morally culpable if the lending operations complained of were either deliberately injurious to the public interest or if they had been conducted selfishly or regardless of the public interest. There is no evidence before the Commission to suggest that the trading banks have acted in such a way.

16. The allegation of moral wrong seems to be based on the assumption that all blame or a very large part of any blame for price increases should be ascribed to the lending operations of trading banks. In our view, for reasons explained elsewhere, this assumption is not well founded.

II. Full Reserve or 100 Per Cent Money

Influence of "100 Per Cent Money" on the Kelliher Proposals

17. Before outlining the mechanism of the Loanable Funds Account, Mr Kelliher gave a summary of the principles of "Full Reserve or 100 per cent Money", from which it became apparent that those principles had exerted a strong influence in the development of the Loanable Funds Scheme. Proposals similar to those of full reserve money were also submitted to the Commission by Mr A. N. Field. Full reserve or 100 per cent money was first advanced during the years 1930 to 1935 by Professor Irving Fisher and a group of economists at Chicago, U.S.A. In essence, this scheme involved bringing the balances of the trading

banks at the Central Bank, plus notes and coin held by the trading banks, up to the equivalent of 100 per cent of customers' demand deposits at the trading banks; thereafter, this 100 per cent ratio was to be maintained. The general effect of the scheme was to limit future trading-bank lending to the equivalent of repayments of overdrafts, sales of investments or other assets, plus increases in time deposits with the trading banks and any borrowing from the Central Bank.

18. Professor A. G. Hart, in *The Review of Economic Studies*, Volume II, page 104, described the original main objectives of 100 per cent money as:

(a) Removal of risk to customers' deposits.

(b) Repayment of United States public debt held by the trading banks.

(c) Control of inflation and deflation.

Professor Hart noted in 1935 that, in the United States, (a) and (b) were of historical interest only.

19. Apart from a temporary and partial experiment in Mexico, which apparently was abandoned because the 100 per cent requirement for additional deposits proved to be too rigid, it appears that the 100 per cent money scheme has not been adopted anywhere. Mr Colin Clark mentioned 100 per cent money in his evidence before the Commission, but he did not recommend it for New Zealand or for any sterling area country. Mr Clark considered that control over trading-bank advances, as far as the system could give it, could be exercised under the existing ratio system, and he also agreed that any increase of advances which did occur under the 100 per cent money scheme would have the effect of increasing the money supply in the hands of the public.

20. Part III of Mr Kelliher's submissions contained the following quotation from Benjamin Higgins' *Comments on 100 Per Cent Money (1931)*: "*the degree of effectiveness of the plan in preventing over-investment depends upon the extent to which time deposits can be identified with savings and demand deposits with money*". This statement is fundamental to the argument for 100 per cent money. Its application to the banking system of New Zealand today is of doubtful validity, because the evidence shows that the large amounts of dormant money included in the free deposits of the banks are really savings. The mere segregation of them from the remaining free deposits as proposed under the Loanable Funds Scheme would not change their character. Under the Loanable Funds Scheme the trading banks would be in a position to compete not merely for current savings, but also for past savings, including those held in the Post Office Savings Bank and other savings institutions. Notwithstanding these facts, under the 100 per cent money scheme, and under the Loanable Funds Scheme, any demand deposits which were transferred to time deposits would automatically entitle the trading banks to make additional advances of an equivalent sum.

21. According to the demonstration of 100 per cent money given by Mr Kelliher, it would have been necessary for the Reserve Bank to lend to the trading banks £142·7 million as at 30 June 1954, in order to bring their balances at the Reserve Bank, plus coins and notes, up to 100 per cent of demand deposits. Mr Kelliher preferred to submit his own variation of 100 per cent money, the Loanable Funds Scheme.

III. The Loanable Funds Scheme

22. Under the Loanable Funds Scheme the permissible limit to increases in trading-bank advances (or investments) at any time is determined by the balance remaining in a "Loanable Funds Account" appearing on the assets side of the bank balance sheet. On the liabilities side of the balance sheet there appears an account called by Mr Kelliher "Bank Demand Deposits". These two accounts have been specially devised for purposes of the Loanable Funds Scheme and are in addition to and apart from the normal processes of bank book-keeping. The Loanable Funds procedure ensures that any increase in the "Loanable Funds Account", such as a reduction in total advances to customers, is reflected in a corresponding increase in the account called "Bank Demand Deposits" and likewise any decrease in the Loanable Funds Account, as would arise from an increase in total advances to customers, would similarly decrease "Bank Demand Deposits".

The "Loanable Funds Account"

23. As mentioned above, under the Loanable Funds Scheme, future trading-bank lending and investment transactions are to be limited by the balance available from time to time in the Loanable Funds Account. Such balance will be increased by:

(a) Existing and future loans repaid to the banks.

(b) Amounts which the banks borrow from their customers on fixed deposits or from other sources.

(c) The sale of overseas exchange to importers and travellers.

(d) The sale of securities or other investments held by the banks.

(e) The profit which the banks make from interest, discount, exchange, etc.

(f) Any additional amount which shareholders or others may subscribe for further share capital, in the same way as other companies obtain further share capital for their businesses.

(g) Any advances which the Reserve Bank may be prepared to make to a trading bank under section 13 of the Reserve Bank Act.

24. On the other hand, the balance in the Loanable Funds Account will be reduced by:

(a) Advances by overdraft or other loans.

(b) Discounting of export bills.

(c) The purchase of investments, securities, buildings, or other assets.

(d) Payments to visitors from overseas in return for overseas money.

(e) The payment of administration and other expenses and dividends to shareholders.

25. The Loanable Funds Scheme would commence on the basis of the level of trading-bank advances in existence at the inception of the scheme. Any repayments of existing advances would be available for relending to bank customers. The scheme would, therefore, not reduce trading-bank advances below the total outstanding at the commencement of the scheme.

26. The Loanable Funds Account would operate in this way. The totals of the transactions are to be recorded in the Loanable Funds Account by a series of entries additional to the normal process of bank book-keeping. As the asset account "Loanable Funds" is increased or

reduced, a *contra* account on the liabilities side of the bank balance sheet, called by Mr Kelliher "Bank Demand Deposits", is similarly increased or reduced. The entries are so arranged that the balance of one account will always be the *contra* of the other, and therefore the balances would always be equal in amount. For example, repayment to a trading bank of an advance of £1,000 would increase by that amount both Bank Demand Deposits Account and Loanable Funds Account and so make the repayment of £1,000 available for relending. Similarly, an increase in advances of £2,000 would reduce the balances of the two *contra* accounts and so reduce the unexercised lending margin of the bank. These *contra* entries and accounts are merely a method of computing and recording the unused lending potential for the time being of the trading banks under the Kelliher scheme. The Loanable Funds entries make no difference to the effects on the economy of bank lending or borrowing transactions.

27. It is intended by Mr Kelliher that a Loanable Funds Account and a Bank Demand Deposits Account should be kept in the books of each branch of each trading bank. The Associated Banks commented on this as follows: *"The balances would be at best useless, and at worst completely misleading, as information to the branch managers. Some areas are traditional sources, and other areas users of funds. No particular branch balance would have any meaning, except as part of the overall total, on which Head Office policy would be based"*. We agree that the balances of these accounts at a particular branch would not necessarily be of any value in determining the appropriate limit of total advances for that branch.

Demonstration of Credit Creation

28. As already noted, the demonstration that trading banks may create and destroy money, or expand and contract the volume of money or the money supply by their lending and investment transactions, was based on the Reserve Bank definition of money supply applied to some thirty-two hypothetical examples, of which transactions one to twelve increase the money supply, thirteen to twenty reduce it, and twenty-one to thirty-two neither increase nor decrease it.

Change of Definition of "Money Supply"

29. Mr Kelliher recognised in principle that it was necessary to adopt a consistent terminology with precise meanings when speaking of bank transactions and of the money supply. He claimed, indeed, that throughout his demonstrations the definitions adopted by the Reserve Bank were accepted and used. Mr Kelliher adhered to the Reserve Bank definition of money supply in Part I of his submissions where he demonstrated that certain trading-bank transactions under existing banking techniques led to increases and decreases in the money supply, or, in other words, to the creation and destruction of money. When he demonstrated the working of the Loanable Funds Scheme, however, he departed from the Reserve Bank definition of the money supply and, in effect, changed not only the meaning of the term "money supply", but also the content of the statistical table, the total of which constitutes the money supply at any time.

Apparent Constancy of Money Supply Under Loanable Funds Scheme

30. By so changing the definition or content of the money supply, Mr Kelliher achieved an apparent constancy in the money supply, demonstrated in Part III of his submission, where he purported to show that certain transactions which increase or decrease the money supply under the present banking technique did not do so under the Loanable Funds Scheme.

31. Using the Reserve Bank definition of money supply, a specimen transaction in Part I of Mr Kelliher's submissions, showed that increased advances of £10 million may result in increased demand deposits at the trading banks of the same amount. Since the transaction did not reduce or otherwise affect any other part of the money supply, such as coin, notes in circulation, or demand liabilities of the State at the Reserve Bank, Mr Kelliher concluded correctly that there could be a corresponding increase of £10 million in money supply as defined by the Reserve Bank.

32. In Part III of the submissions, however, where the same transaction was dealt with in accordance with the Loanable Funds procedure, there was the same increase of £10 million in demand deposits held by the public, and again no alteration in the other items included by the Reserve Bank in its computation of the money supply. In this case there was no apparent increase in total money supply because, in order to preserve a constant total, Mr Kelliher introduced into the money supply table the fictitious item which he called "Bank Demand Deposits" and which is not properly part of the money supply because it is not available for spending by bank customers.

Results of Change in Definition of Money Supply

33. The effects of the same specimen transaction on the money supply, with and without this change in definition or in the composition of the money supply, are shown below:

	Reserve Bank Definition Illustrated in Part I			Loanable Funds Definition Illustrated in Part III		
	Money Supply Before Trans-action	Change Resulting From Trans-action	Money Supply After Trans-action	Money Supply Before Trans-action	Change Resulting From Trans-action	Money Supply After Trans-action
	£ million	£ million	£ million	£ million	£ million	£ million
(a) Coin, notes, and demand deposits at Reserve Bank	71·7	..	71·7	71·7	..	71·7
(b) "Public demand" or "free" deposits	208·9	+10	218·9	208·9	+10	218·9
(c) "Bank demand deposits" ..	..	..	..	32·0	−10	22·0
(d) Total "money supply"	280·6	+10	290·6	312·6	Nil	312·6

34. A careful study of the above table reveals the following:

(a) *Coin, notes, and demand deposits at the Reserve Bank of New Zealand.*—There is no change in this item, which remains at £71·7 million in both instances.

(b) *Public Demand or Free Deposits.*—There is an increase of £10 million from £208·9 million to £218·9 million in this item in both cases. Up to this point, therefore, the effect of the transaction is identical in both cases.

(c) *"Bank Demand Deposits".*—It will be noted that, in the Loanable Funds examples, the increase in free deposits of £10 million is offset by a reduction of an equivalent amount in Bank Demand Deposits from £32 million to £22 million. Thus the real increase in the money supply which has occurred in both cases is obscured in the Loanable Funds example by introducing into the Loanable Funds computation of the money supply the fictitious item Bank Demand Deposits.

35. The details of the transactions used by Mr Kelliher in his demonstration to the Commission are shown in the table facing this page. It will be seen that in all these examples it is only by the introduction of the same fictitious item Bank Demand Deposits that he has maintained an apparently constant total of the money supply.

Loanable Funds Accounts at Other Branches of Trading Banks

36. In a special note Mr Otto suggested that Loanable Funds Accounts could be kept for each trading-bank branch at some branch of another trading bank. This variation, to which Mr Otto saw practical objections, would not justify the inclusion of Bank Demand Deposits in the Reserve Bank definition of money supply because paragraph (c) of the Reserve Bank definition, as set out by Mr Otto himself, includes these words *"free deposits held by customers in their bank accounts"*. Even if each trading-bank branch kept a Loanable Funds Account at some branch of another trading bank, the money could not be spent by bank customers and would not be purchasing power available to bank customers. **Thus the attempts to justify the inclusion of Bank Demand Deposits in the Reserve Bank definition of the money supply fail completely, not merely in logic but also in fact because, as mentioned above, Bank Demand Deposits, however they are recorded in the banks' books, are not money belonging to bank customers and therefore cannot be spent by them.**

37. The importance of definition upon the results of matters in argument can be gauged from Will Durant's *The Story of Philosophy*, page 59, where he says, *"How many a debate would have been deflated into a paragraph if the disputants had dared to define their terms! This is the alpha and omega of logic, the heart and soul of it, that every important term in serious discourse shall be subjected to the strictest scrutiny and definition. It is difficult, and ruthlessly tests the mind; but once done it is half of any task."* Again, in his book *Straight and Crooked Thinking*, Robert H. Thouless says, on page 192, *"The most obvious piece of crooked thinking which results from an absence of clear meanings is that in which a word is used in different senses in different parts of the same argument".* This is precisely what Mr Kelliher has done, where repeatedly throughout his submissions he gives to the term "money supply" one meaning where he demonstrates that trading banks create and destroy money under the existing system, and a different and, in our view, a fallacious meaning, when he purports to demonstrate that under the Loanable Funds Scheme the trading banks would not create and destroy money.
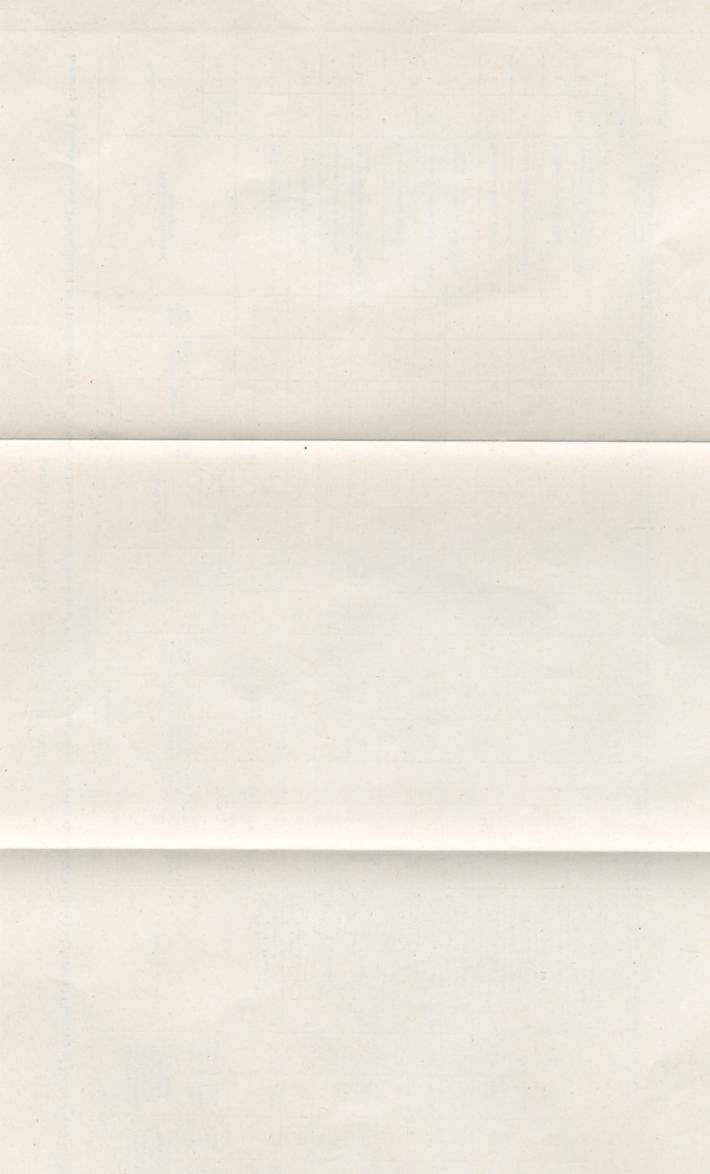
TABLE TO APPENDIX F (reference paragraph 35 of Appendix).

Summary of Loanable Funds Transactions 1 to 11 Submitted by Mr Kelliher to Demonstrate the Working of the Loanable Funds Scheme Showing the Entries by Which an Apparent Constancy of Money Supply is Achieved

(£ million)

| Transaction No. | | Details and Amount of Transaction | Trading Bank Liabilities | | | | | | | | Trading Bank Assets | | | | | | Loanable Funds Contra Entries | Money Supply | | | |
Pt. I	Pt. III		Total Liabilities	Capital and Reserves	Savings Deposits	Public Demand Deposits	Bank Demand Deposits* Movements	Bank Demand Deposits* Balance	Loanable Funds Movements	Loanable Funds Balance	Net Overseas Assets	Advances and Discounts	Investments	Land and Buildings	Coin, Notes, and Reserve Bank Balances	Total Assets	Dr. Cr.	Including Bank Demand Deposits and Departing from Accepted Definition of Money Supply — Effect of Transaction	Total After Transaction	Using Accepted Definition of Money Supply, i.e., Excluding "Bank Demand Deposits" — Effect of Transaction	Total After Transaction
13	1	Repayment of advances .. 5	299·3	7·6	50·8	240·9	+ 5*	5*	+ 5	5	21·3	149·4 / — 5	26·0	4·4	98·2	299·3	Loanable Funds To Bank Demand Deposits .. Dr. 5	— 5 / + 5*	312·6	— 5	307·6
14 and 29	2	Increase in savings deposits .. 5	..	..	+ 5	— 5	+ 5*	10*	+ 5	10	..	..	..	..	..	..	Loanable Funds To Bank Demand Deposits .. Dr. 5	— 5 / + 5*	312·6	— 5	302·6
15	3	Sale of exchange to importers .. 15	..	..	..	— 15	+15*	25*	+15	25	— 15	..	..	..	..	..	Loanable Funds To Bank Demand Deposits .. Dr. 15	—15 / +15*	312·6	—15	287·6
16	4	Sale of investments by trading banks .. 2	..	..	..	— 2	+ 2*	27*	+ 2	27	..	..	— 2	..	..	..	Loanable Funds To Bank Demand Deposits .. Dr. 2	— 2 / + 2*	312·6	— 2	285·6
..	5	Increase in trading bank capital .. 5	..	+ 5	..	— 5	+ 5*	32*	+ 5	32	..	..	..	..	..	..	Loanable Funds To Bank Demand Deposits .. Dr. 5	— 5 / + 5*	312·6	— 5	280·6
1	6	Increase in trading bank advances 10	..	..	..	+10	—10*	22*	—10	22	..	+10	..	..	..	..	Bank Demand Deposits To Loanable Funds .. Dr. 10	+10 / —10*	312·6	+10	290·6
2	7	Increase in trading bank investments .. 3	..	..	..	+ 3	— 3*	19*	— 3	19	..	..	+ 3	..	..	..	Bank Demand Deposits To Loanable Funds .. Dr. 3	+ 3 / — 3*	312·6	+ 3	293·6
3	8	Payment to finance exports .. 10	..	..	..	+10	—10*	9*	—10	9	+10	..	..	..	..	..	Bank Demand Deposits To Loanable Funds .. Dr. 10	+10 / —10*	312·6	+10	303·6
5	9	Capital transfer to New Zealand .. 2	..	..	..	+ 2	— 2*	7*	— 2	7	+ 2	..	..	..	..	..	Bank Demand Deposits To Loanable Funds .. Dr. 2	+ 2 / — 2*	312·6	+ 2	305·6
6	10	Purchase of bank building .. 1	..	..	..	+ 1	— 1*	6*	— 1	6	..	..	..	+ 1	..	..	Bank Demand Deposits To Loanable Funds .. Dr. 1	+ 1 / — 1*	312·6	+ 1	306·6
8	11	Repayment of savings deposits (wool retention) .. 4	..	..	— 4	+ 4	— 4*	2*	— 4	2	..	..	..	..	..	..	Bank Demand Deposits To Loanable Funds .. Dr. 4	+ 4 / — 4*	312·6	+ 4	310·6
		Final balances	305·3	12·6	51·8	238·9	..	2·0	..	2·0	18·3	154·4	27·0	5·4	98·2	305·3	..	..	..	..	310·6

*It is the inclusion of these fictitious items "Bank Demand Deposits" and contra entries marked * which enables the appearance of a constant money supply to be maintained throughout this series of Loanable Funds transactions. If the Reserve Bank definition of money supply is adhered to, the money supply would increase and decrease throughout these transactions as shown in the two columns on the extreme right of the table.

38. This point of definition is no mere formality but is of the greatest practical importance, because what is being measured in the Reserve Bank computation of money supply is spending power immediately available to the public or to the Government. It is through changes in money supply available to the public or to the Government that any inflationary or deflationary effects of expansion or contraction of bank credit work. If the public has more money to spend in the form of increased demand deposits at the trading banks, any measure of the money supply which does not reflect the increase is worthless and indeed misleading.

39. From the answers given by Mr Otto to the following questions it is clear that under the Loanable Funds Scheme a constant money supply is not achieved if the Reserve Bank definition of money supply is adhered to:

Question:

Do transactions 1 to 5 reduce public demand deposits from £240·9 million (see page 33 of Part III) to £208·9 million (see page 46 of Part III) . . . Do these transactions reduce the public demand deposits by £32 million?

Answer:

Yes.

Question:

In terms of the Reserve Bank definition does the combined result of entries 1 to 5 represent a reduction in the money supply of £32 million?

Answer:

Within the Reserve Bank definition – yes.

Also Mr Otto admitted that, in terms of the Reserve Bank definition, Loanable Funds transactions 6 to 11 *"represent an increase in the money supply or the creation of money by £30 million".*

40. Transactions 1 to 5 and 6 to 11 referred to above are the complete set of transactions submitted by Mr Kelliher in Part III of his submissions to illustrate the working of his Loanable Funds Scheme.

41. The claim by Mr Kelliher that the Loanable Funds Scheme eliminates the alleged fundamental defect of creating and destroying money through trading-bank lending and investment transactions therefore fails completely.

Further Claims for Loanable Funds Scheme

42. In addition to claiming that the Loanable Funds Scheme would remove what he called the fundamental defect in the existing banking procedure, Mr Kelliher made a number of other claims for the Loanable Funds Scheme which are discussed in the next few paragraphs.

Overseas Transactions Under the Loanable Funds Scheme

43. Mr Kelliher said that overseas transactions would neither increase nor decrease the money supply. However, the overseas transactions demonstrated (i.e., Loanable Funds transactions 3 and 8) caused part of the increases and decreases mentioned in paragraph 39 above. Mr Otto admitted these increases and decreases in the money supply provided that a consistent definition of money supply is adhered to.

Bank Advances in Times of Recession

44. Mr Kelliher claimed that under the Loanable Funds Scheme any calling up of bank loans during a recession would not destroy the nation's money supply. However, under cross-examination, Mr Otto admitted that a reduction of advances under the Loanable Funds Scheme could reduce demand deposits held by the public, and he also admitted that such a reduction would be destruction of money in terms of the Reserve Bank definition. Under the Loanable Funds Scheme the amount of money available for spending by the public would be reduced if there was a restriction of trading-bank advances. Any claim that the calling up of bank loans would produce less serious effects in a recession under the Loanable Funds Scheme than under the present system therefore fails.

"Borrowing to Lend" (refer main report – paras. 531 to 540)

45. Mr Kelliher contended that, under the Loanable Funds Scheme, the trading banks would *"borrow to lend"*, whereas he declared that at the present time they did not do so. Mr Otto admitted that under the Loanable Funds Scheme an advance might create a demand deposit. He also agreed that a demand deposit was a debt by the bank to the customer and was, in that sense, borrowed from the customer. The process of lending and borrowing under the Loanable Funds Scheme may be described as follows:

(a) An advance may create demand deposits.

(b) The trading bank may borrow the money so created – repayable on demand.

(c) By a change in the term of borrowing, i.e., from demand to, say, three months, the bank may acquire authority to lend further money.

(d) Such further lending may create more demand deposits which –

(e) The trading bank may borrow, repayable on demand, and –

(f) To the extent that customers agree that the term of borrowing may be changed to, say, three months, the bank acquires further authority to lend, and so the process could go on.

Indeed, according to Mr Otto, the above process could continue as long as the banks wanted to lend and as long as they could borrow from somebody. Thus it appears that, under the Loanable Funds Scheme, the trading banks would receive on fixed deposit some of the deposits which had originally been created as demand deposits through the process of bank lending.

46. When setting out to prove that the trading banks do not at present *"borrow to lend"*, Mr Kelliher made use of an example in which trading-bank advances were increased by £10 million and at the same time there was an increase of the same amount in demand deposits held by the public. He correctly pointed out that, in such an example, the trading banks have not used *"any part of their customers' demand deposits which were left completely untouched, nor do they use any part of their time deposits, which were also left completely untouched"*. On the strength of this demonstration Mr Kelliher concluded that the trading banks did not borrow to lend but created new money through increasing their

interest earning assets, i.e., their advances. Under cross-examination in respect of the demonstration of a similar transaction under the Loanable Funds technique, Mr Otto gave the following answers: .

Question:

Were any public demand deposits used in Loanable Funds Transaction No. 6?

Answer:

No.

Question:

Were any time or savings deposits used in Loanable Funds Transaction No. 6?

Answer:

No.

47. The above answers show that, under the Loanable Funds Scheme also, the trading banks would not use any of the money borrowed from their customers, in increasing advances by £10 million. Mr Kelliher has therefore completely failed to establish that any new principle of *"borrowing to lend"* is introduced by the Loanable Funds Scheme, but the effects on the money supply of bank lending are complicated and obscured by the special items Mr Kelliher has introduced. The "Loanable Funds Account" and its counterpart "Bank Demand Deposits" merely record the extent of the banks' authority to lend under the Kelliher scheme at any time.

48. The Loanable Funds Scheme does no more than place a variable upper limit on trading-bank lending and this could be achieved under the existing system. There is no device in the Loanable Funds Scheme to prevent a reduction in bank lending if the banks decide to reduce their lending, or if there is a scarcity of borrowers. Such a development, if on a serious scale, would require action by the Government, possibly through purchases of securities by the Reserve Bank or by Reserve Bank lending to the Government or to the trading banks. Mr Kelliher also contemplated the sale of securities by the Reserve Bank in certain circumstances if trading-bank advances rise too high. Therefore, under the Loanable Funds Scheme, there is no effective automatic limit to trading-bank advances; neither is there any reason why trading-bank advances or the volume of money should be at the level most appropriate in the circumstances prevailing from time to time. As under the present system, some authority would require to exercise judgment as to the timing and nature of the intervention by the Reserve Bank.

49. A vital feature of the Loanable Funds Scheme is the fact that the extent to which the trading banks would be able to expand their lending operations would depend in the main on their ability to attract additional savings or fixed deposits.

50. Difficulty in achieving this could so circumscribe their operations that they would be unable to fulfil the traditional functions of the trading banks. Under examination Mr Otto conceded that the Loanable Funds Account would lack the flexibility of the existing banking system.

51. Despite this admission of lack of flexibility, Mr Kelliher stated in the pamphlet *Why your £ Buys Less and Less:* "*I advocate a more elastic and vastly improved banking technique whereby trading banks would be enabled to lend from the existing stockpile of money to the limit of credit-worthy borrowing . . .*". In our opinion, expansion of bank lending "*to the limit of credit-worthy borrowing*" in recent years would have meant

that trading-bank advances would have been substantially higher than they are under the existing system. We can see nothing in the Loanable Funds Scheme itself which would offset the inflationary effects on the economy of such an expansion of trading-bank lending. Mr Kelliher suggested that increased lending under the Loanable Funds Scheme might be offset by open market operations by the Reserve Bank. We are very doubtful whether this would be effective because large-scale sales would upset the limited market for Government stock in New Zealand. In our view, expansion of trading-bank lending to the limit of credit worthiness of customers desiring to borrow would be highly undesirable under buoyant business conditions such as have existed in recent years.

Effects on Balance of Payments

52. It was submitted that the Loanable Funds Scheme would *"establish a mechanism which in itself would at all times contain forces working towards equilibrium in balance of payments"*. There are, however, certain features of the scheme which might well have the opposite effect. Mr Otto admitted that there was no special control in the Loanable Funds Scheme to prevent a spiral of advances arising from repeated transfers of demand deposits to savings deposits. He suggested open market operations by the Central Bank in the event of *"a dishoarding movement from past savings"*. We are doubtful whether the sale of securities in the open market on a scale sufficient to be a corrective would be possible in New Zealand without seriously upsetting the market. Such a spiral could increase the demand for imports and therefore accentuate any tendency to a balance of payments deficit. It was also admitted that running down their holdings of overseas funds would increase the Loanable Funds of the trading banks and thereby increase their lending ability and consequently their profits if lending was expanded. This part of the scheme, therefore, might accentuate disequilibrium in balance of payments.

53. It is appreciated, of course, that under the Loanable Funds Scheme the trading banks would be required to work within current receipts of overseas funds. Nevertheless it does appear that the two features mentioned in the previous paragraph would tend to make it more difficult for them to do so. The trading banks would either have to pay special regard to their balances of overseas funds and operate virtually on a sterling exchange standard by restricting advances to the extent necessary to curb the demand for overseas exchange, or else lend as freely as loanable funds would permit and take other steps to ration the available overseas exchange.

Loanable Funds Scheme as a Means of Controlling Bank Advances

54. There are important defects in the Loanable Funds Scheme as a means of limiting bank advances. The danger of a substantial expansion of advances, which would be possible if there was a free flow from demand deposits to savings deposits, has already been referred to. Mr Otto admitted that the increase of £39·7 million in bank advances, which took place in the year ended 31 March 1955, could have occurred under the Loanable Funds Scheme if there had been a shift of £40 million from free to fixed deposits. It appears possible, but not likely, that a very substantial increase in bank advances might take place on the institution

of the Loanable Funds Scheme through a transfer from demand to savings deposits especially if, as is proposed by Mr Kelliher, the trading banks were free to increase interest rates on deposits.

55. The evidence given by both Mr Whyte and Mr Fussell showed that there was a substantial amount of dormant or inactive money included in the free deposits at the trading banks. Tests conducted by the trading banks revealed that there was an amount of from £60 million to £85 million which had lain dormant for a period of at least a year. This was interpreted by the banks' witnesses to mean that the holders of these deposits preferred to keep them in a form which made them immediately available if required, rather than invest them. This view is strengthened by the fact that these depositors have available to them the opportunity of placing their moneys on fixed deposit with the banks for various periods of time, or, for that matter, of investment in a variety of securities.

56. It is apparent from the evidence that, in the main, the holders of these deposits will not be induced to move them from free to fixed or savings deposits by current rates of interest. In his evidence, Mr Otto said that the banks might need to offer a rate of interest as high as 4 per cent in order to obtain a substantial movement from free to fixed deposits. Mr Fussell thought the rate would need to be about 7 per cent to effect a shift of the order of £60 million to £85 million.

57. As the Kelliher proposals included the freeing of interest rates from control, it would appear that Mr Kelliher recognises that the rates of interest charged by the trading banks for advances would have to be increased substantially. Under his proposals the profits of the trading banks would arise chiefly from the excess of their lending rates over those paid for savings deposits.

58. Under the existing system the trading banks are able to conduct their lending operations without the need to effect any substantial movements from free to fixed deposits, whilst still deriving the advantages for this purpose which the dormant deposits provide. If, under the Loanable Funds Scheme, the banks were unable to induce a transfer from free to savings deposits of a considerable order, they would be unable to meet the needs of an expanding economy by increasing advances, or to meet emergencies which may arise from time to time, such as financing exporters (when stocks of primary products were accumulating) or merchants (when heavy shipments of imports may arrive in the country following a shipping strike).

59. Mr Otto admitted that, in circumstances similar to those mentioned above, the trading banks might have to seek the assistance of the Reserve Bank. Mr Whyte's evidence revealed a strong antipathy on the part of the trading banks to seeking the support of the Reserve Bank, no doubt arising from a traditional confidence in their ability to manage their own affairs.

60. It is obvious that Mr Kelliher's scheme would provide no assurance that the money supply would automatically be maintained at a level which was adequate, but no more than adequate, to enable the best use to be made of the country's resources. Judgment by the monetary authorities as to whether more or less money was required would be no less necessary under his scheme than under the present system.

61. Under the Loanable Funds Scheme there would be no independent control by the Reserve Bank, apart from any open market operations, and the trading banks would therefore be free to increase the existing level of advances by the equivalent of any increases in savings deposits.

62. Through the possibility of customers drawing suddenly on un-exercised overdraft authorities, the banks would always be exposed to the risk of advances rising beyond the limit fixed under the Loanable Funds Scheme. This risk might compel the banks to adopt an ultra-conservative lending policy, by restricting advances until they had built up adequate working balances of loanable funds.

63. An important aspect of banking practice to which the Loanable Funds Scheme appears to attach little significance is bankers' cash. It is apparent to us that a situation could easily arise in which a trading bank had a balance available for lending in its Loanable Funds Account but insufficient bankers' cash to enable lending to proceed. For instance, a trading bank may have secured transfers from free to savings deposits, of, say, £2 million, thereby increasing its ability to lend, according to the Loanable Funds Scheme, by that amount. These transfers would not of themselves effect any change in bankers' cash, but increased lending would cause a drain on bankers' cash which the bank might not be in a position to meet.

64. If a bank's customers transferred through the operation of the cheque system more funds to customers of other banks than they received from them, that bank would lose bankers' cash to the other banks and its ability to make further loans to its customers would deteriorate. This situation could arise at a time when, according to the criteria of the Loanable Funds Scheme, the bank had increased its lending potential.

Possible Run on Savings Deposits

65. The Loanable Funds Scheme gives no protection to the trading banks in the event of a possible run on savings deposits and such a run could easily take place if previously the banks had been pressing their customers to transfer demand deposits to savings deposits. Under the Loanable Funds Scheme it is contemplated that savings deposits would increase substantially. The risk of a substantial draw-off from savings deposits would, therefore, be correspondingly greater. Under the Loanable Funds Scheme, also, advances would require to be contracted on a pound for pound basis to offset the effect of a run on savings deposits. It is clear that the scheme provides no safeguard against fluctuations in bank advances.

Summary of Conclusions Regarding the Loanable Funds Scheme

66. The results of the Commission's deliberations on the Loanable Funds Scheme are now summarised. The 100 per cent money scheme from which the Loanable Funds proposals were developed is not recommended for New Zealand, either by Mr Kelliher or by Mr Colin Clark. Its basic assumption that time deposits can be identified with savings is of doubtful validity if applied to this country at the present time. The Loanable Funds Scheme, which is a variant of 100 per cent money, is based on a similar assumption.

67. By changing the content and meaning of the term "money supply", Mr Kelliher completely destroys the validity of his demonstration that certain transactions increase or decrease the money supply under the existing system, but would not do so under the Loanable Funds Scheme. This change of definition is of the utmost practical importance because it is only money supply in the hands of the public or of the Government which is available for spending by them. The claim that the Loanable Funds Scheme introduces the principle of *"borrowing to lend"* is in our view untenable. The trading banks would create and destroy money under the Loanable Funds Scheme in the same manner as under the present system.

68. In practice, the scheme could also be too rigid to provide for emergencies, while we do not consider that the Loanable Funds Scheme provides a reliable means of limiting bank advances or of avoiding any excessive use of overseas funds.

69. Under the Loanable Funds Scheme, Reserve Bank control of trading-bank lending and investment through the reserve ratio system would no longer exist. Mr Kelliher claimed that the scheme would be self-regulatory. The evidence shows that this claim could not be sustained. In our view, therefore, adoption of the Loanable Funds Scheme would expose the banking system to the very weaknesses which control of the operations of the trading banks by the Reserve Bank is designed to combat. We do not recommend that the Loanable Funds Scheme be adopted.

IV. Insulation of the New Zealand Economy

70. To assist in stabilising the price level in New Zealand, Mr Kelliher suggested that import prices in New Zealand and export incomes should be stabilised by means of what he called *"exchange adjustments"* for both imports and exports.

71. Under the proposed scheme, part of future increases or decreases in the prices of imports and exports as compared with the prices in selected base periods would be absorbed by payments to and from a Stabilisation Account at the Reserve Bank. In this way, farmers would receive only 25 per cent of any increases in price above a *"basic price"*, and would be protected against 75 per cent of any fall in overseas realisations below the *"basic price"*. Similarly, only part of any increases or decreases in import prices would be reflected in the prices of imports in New Zealand currency.

72. The general purpose of the scheme was to limit the effect on prices and incomes in New Zealand currency of price movements in any overseas market. The scheme was not based on *"exchange adjustments"* in the sense of overall variations in the exchange rate.

73. Mr Otto admitted that his insulation proposals were in substance a bounty and levy scheme. We would comment that the real nature of the scheme is disguised by a very complicated series of payments by and to exporters and importers which Mr Kelliher refers to as *"exchange adjustments"*.

Procedure for Stabilising Import Prices

74. Mr Kelliher recognised that because of the multiplicity of import items, and because some were raw materials, some partly processed, and some finished goods, it would be impracticable to make separate

"exchange adjustments" in respect of individual import items. He proposed, therefore, to compile a separate *"import cost index"* for each of, say, three main classifications of imports, based on essentiality, as follows:

"A": most essential imports.
"B": imports of average essentiality.
"C": non-essential imports.

75. Adjustments of exchange rates at six-monthly intervals were suggested on the basis of movements in the above indices. In explaining the scheme, Mr Kelliher gave the following illustration of its working:

(a) If the respective indices or any of them indicate any increase in overseas costs – For the "A" classification (most essential), *reduce* the overseas cost of each consignment by an amount representing 90% of the increase in the index, so that only 10% of the increase would be reflected in internal costs. For the "B" classification (average essentiality) *reduce* the overseas cost of each consignment by an amount representing 75% of the increase in the index, so that only 25% of the increase would be reflected in internal costs. For the "C" classification (least essential) *reduce* the overseas cost of each consignment by an amount representing 50% of the increase, so that only 50% of the increase would be reflected in internal costs.

(b) If the respective indices, or any of them, indicate a decrease in overseas costs – For the "A" classification (most essential) *increase* the overseas cost of each consignment by an amount representing 10% of the decrease in the index, so that 90% of the decrease is reflected in internal costs. For the "B" classification (average essentiality) *increase* the overseas cost of each consignment by an amount representing 25% of the decrease in the index, as that 75% of the decrease would be reflected in internal costs. For the "C" classification (least essential) *increase* the overseas cost of each consignment by an amount representing 50% of the decrease in the index, so that 50% of the decrease would be reflected in internal costs.

76. In an example quoted by Mr Kelliher, importers were required to pay only £8 million in New Zealand currency for imports costing £10 million in overseas exchange. It is not specified by Mr Kelliher whether these particular imports belong to category "A", "B", or "C", but assuming that they come within Mr Kelliher's category "C" in which 50 per cent of any increase in the overseas cost would be absorbed by the Stabilisation Account, this would mean that the overseas cost of the goods had risen by £4 million from £6 million to £10 million. The importer in this case would be called upon to pay 50 per cent of the increase in price and the Stabilisation Account at the Reserve Bank would bear the other 50 per cent of the increase.

77. The effect of this transaction on purchasing power in New Zealand is the same as if under the existing system imports were subsidised from Reserve Bank credit to the extent of £2 million. That is, purchasers of imports get the imports £2 million cheaper than they otherwise would and therefore have that much more to spend on other things. In respect of such transactions, Mr Kelliher claimed that:

there would be no effect whatever on the New Zealand money supply, so that there could not possibly be any inflationary or deflationary consequences.

78. We are satisfied that the effects of the transaction would be just as inflationary as if imports were subsidised from Reserve Bank credit. One of the economic effects of imports is to absorb purchasing power in New Zealand. To meet part of the cost of imports from Reserve Bank credit in any form would mean that so much less purchasing power would be absorbed by the imports. To cheapen imports in this way

would increase the demand for them. The claim that *"there could not possibly be any inflationary or deflationary consequences"* is therefore in our opinion unfounded.

79. Classification of imports in terms of essentiality, as Mr Kelliher proposed, must necessarily present practical difficulties. "Essentiality" will change from time to time with technological improvements, betterment of standards of living, changes in the structure of local industry and employment, and the availability of overseas exchange.

80. There is also a technical objection, that such a classification cuts across normal trade and tariff categories. Motor spirit would no doubt be classified as essential, but this heading would include petrol used for commercial transport which is essential and also petrol used for nonessential purposes. Essentiality or otherwise depends in many instances upon the use made of the import. Wherever essentiality has to be determined an arbitrary decision takes precedence over the wishes of the public whose scale of preferences may not conform to the official pattern. In the past, similar arbitrary decisions have been justified on the grounds of wartime necessity or short-term exchange crises. It is another matter to adopt such a scheme permanently.

81. It may be argued that the determination of high essentiality does not exclude goods but merely gives preference to various classes of goods. In this form the discrimination is in effect a disguised tax on the least essential goods as determined by arbitrary decision.

82. One effect of the proposals would be that in the course of time the real cost of imports, which is the cost in overseas exchange, would become divorced from the price paid by importers and purchasers in New Zealand currency. When prices of New Zealand imports are rising overseas, demand for goods in the most essential class may be sustained because the major part of a price increase to the buyer is eliminated by the stabilisation scheme. In this way desirable shifts to substitutes could be impeded.

83. The uniform exchange rate applying to all commodities within a category would be based on the average change in all prices of such commodities. But the price change for any particular commodity within the category may be very different from the average for the whole category. In the circumstances, applications of the uniform exchange rate to a particular commodity could defeat the protective or other purpose of the Customs Tariff rate for that commodity.

84. For a particular commodity the scheme could abruptly remove or diminish the effect of a tariff protection designed to assist a New Zealand manufacturer. On the other hand it could result in an unintentional protection.

85. Such a scheme could have a highly disruptive effect on both manufacturing and importing businesses in New Zealand. As an importer must always place his orders well in advance of delivery and payment, the variations in exchange rate likely to result from the scheme would introduce disturbing factors which an importer could not possibly anticipate and would result in needless disturbance to business.

86. The variations in exchange rates suggested by Mr Kelliher could also seriously disrupt the arrangements made under the General Agreement on Tariffs and Trade and other international agreements.

87. Mr Kelliher suggested that his scheme did not involve "taxing exports" to subsidise the cost of imports. It is true that there are no taxes as such, but as previously pointed out the practical effect on farm incomes and on prices of imports would be the equivalent of taxes or levies on the one hand and subsidies or bounties on the other. Any additional payments to exporters or importers would be paid in the first place by the trading banks when the transaction was settled in New Zealand currency and recovered later from the Reserve Bank. Any imposts would be received by the trading banks and later paid to the Reserve Bank.

88. Mr Kelliher proposed that the scheme could be used to discriminate against hard-currency imports. This concept is opposed to the ideals of liberalisation of trade.

Procedure for Stabilising Export Incomes

89. The proposals recommended by Mr Kelliher for stabilisation of export incomes were summarised by him as follows:

Compute the average overseas realisations for all types of produce exported from New Zealand, over a period of say five years immediately preceding the adoption of these proposals, taking into account the different types and grades of produce in each main classification. This computation would be the basic "stabilised price" for all exports, and would apply from the commencement of the insulation scheme – preferably at the end of the export season, and continue for all time.

90. Thereafter in respect of any variations in overseas prices, in any market of the world, part of the variation from the basic stabilised price would be absorbed through what Mr Kelliher called "exchange techniques" as follows:

(a) Increased oversea realisations for any *type* of export at any *time* adjusted by exchange absorption of 75% of such increase so that the New Zealand producer or his representative marketing organisation would be paid the basic "stabilised price" plus 25% of the increase in the overseas price.
(b) Conversely a decreased oversea realisation for any *type* of export at any *time* would be adjusted by exchange absorption of 75% of such fall in price, so that the New Zealand pay-out would be the basic "stabilised price" less 25% of the *decrease* in the overseas realisation.

91. Mr Kelliher's proposal would operate in the following way:

(a) The basic price for each export commodity would be determined according to type and grade on the basis of the average price realised for that type and grade during the immediately preceding five years.
(b) When the scheme came into operation adjustment would have to be made in respect of every shipment of export produce and for each type and grade on the following basis:
    (i) If the price realised is in excess of the basic price, 75 per cent of that excess will be withheld from the producer and paid into the Stabilisation Account.
    (ii) If the price realised is less than the basic price, 75 per cent of the deficiency would be withdrawn from the Stabilisation Account.

The effect of this proposal would be that the producer would receive only 25 per cent of any realisation in excess of the basic price, and would be required to bear only 25 per cent of any fall below the basic price.

92. Mr Otto admitted that in principle the scheme amounted to a bounty and levy system and that his reason for using the technique of *"exchange adjustments"* was that a subsidy and levy scheme had been *"turned down very abruptly on the grounds that it would never be acceptable to conflicting interests in the community"*. Mr Otto sought to avoid fiscal or other repercussions and so overcome or avoid opposition from conflicting groups in the community. We consider that the scheme proposed by Mr Kelliher merely attempts to conceal the true nature of the adjustments, and that the New Zealand producer would soon become well aware of their true nature. In any event, in our opinion, it is highly undesirable to adopt any scheme designed to hide its purpose and results from those most closely affected, or from the public as a whole.

93. The Kelliher proposal involves serious practical difficulties for wool and for stock sold at auction. It would involve a serious departure from the principle of public auction in that the real cost to the overseas buyer would not be the amount bid in New Zealand currency. This could lead to confusion in comparing New Zealand sale prices with those of overseas sales.

94. Furthermore, the practical difficulty would arise that all wool would require to be appraised as to type and yield before the basic price could be determined, and buyers would have to know the official appraisal before they could work out their bids for particular lots. Although the adjustment takes place when the buyer settles, he is not affected because he will have taken the adjustment into account in making his bid. The benefit of the bounty therefore goes to the producer who also bears the burden of any levy.

95. Wool is classified for sale basically according to type, of which there are approximately eight hundred in New Zealand. There will, however, be varying yields of clean wool within each type. The yield is also a consideration in determining the price which the buyer is prepared to pay. Accordingly, it would be necessary to fix a basic price not only for each type of wool, but also for each yield within each type.

96. Mr Otto considered that the type numbers could be reduced from over eight hundred to fifty. This shows a lack of knowledge of wool marketing. Through long usage the present types are firmly established in all wool importing countries. Any attempt to reduce them to fifty (for our own internal purposes) would not be in the interest of the country. Furthermore, if, overall, sixteen of the present classifications are to be grouped together to form one new type, every new type would comprise wools of varying qualities, styles, and grades. They would also comprise wools which, under normal circumstances, show wide variations in comparative prices. The basic price for each type is to be fixed on the previous five years' average of all wools within the type. The effect of this would be to reduce permanently the existing margins between the better quality wools and the lower quality or less valuable wools. It would be equivalent to placing a levy on the former and giving a bounty to the latter. This would be unjust and would discourage individual growers from improving the quality and presentation of their clip, leading to a progressive deterioration in the New Zealand wool clip.

97. We are satisfied that the need to make allowance in basic prices for variations in yield within each type and the number of basic prices involved would involve such difficulty as to make wool auctions virtually impossible.

98. With meat, as with wool, Mr Kelliher did not satisfy us that he had worked out the application of his scheme to the existing marketing practices.

99. Further, we are by no means satisfied that the scheme proposed by Mr Kelliher would prove advantageous from the viewpoint of productivity and of the best allocation of our resources among the various uses to which they may be put.

100. New Zealand's growing population demands a regular yearly increase in primary production. This is necessary not only to feed the increased population, but also to provide through exports the overseas exchange needed to pay for an increasing supply of finished goods which we cannot economically produce in New Zealand, and for the additional imports of raw materials and equipment which our growing manufacturing and service industries will require. Otherwise the standard of living must fall, and we must find it difficult to maintain full employment of our labour force.

101. Fortunately, there has been a great improvement in farming equipment and in the application of science to farming in recent years. High returns from the sales of the farmer's produce, and the offset against taxation which he has been able to gain from development expenditure, have given him the market inducement and the financial capacity to take advantage of these improvements. This has so far enabled us to keep the volume of farm production more or less in step with our rising population.

102. It would be unwise to adopt any scheme which, if prices rose in the future, took so much of the additional purchasing power away from the farming industry in the interests of stability that desirable development was retarded. It would also not be in our interest to adopt a scheme which so obscured permanent changes in the relative prices paid overseas for our exports that our farming industry had insufficient incentive to switch resources away from the production of those goods which had become relatively less valuable to those which had become relatively more valuable to people overseas. By this we do not mean that the primary industries should switch production in response to every short-term change in overseas demand, but it is essential, if we are to earn as much foreign exchange as we can, that our pattern of production be altered in accordance with longer term changes in the relative prices which people overseas are willing to pay for our various exports.

103. Mr Kelliher's export stabilisation scheme seems to us to be excessively rigid in these respects. An example will perhaps make this clear. Let us assume that butter is selling at its basic price under the scheme, say, 3s. per pound, which is equal to the net price being realised overseas. Due to competition from substitutes the overseas price of butter falls over two or three years to 1s. per pound and remains at that level. If there were no stabilisation scheme in force, those who produced butter would suffer a severe reduction in their income if they persisted in producing butter and they would therefore have every incentive to switch to other products. Under Mr Kelliher's scheme, however, the price producers received in domestic currency would never fall below 2s. 6d. per pound for they are permitted to suffer only 25 per cent of the 2s. reduction in the price of their product. The incentive to switch

production to lines which were much better earners of overseas exchange would be considerably reduced. Similarly, of course, if a particular export product rises in price relative to other products only one-quarter of the increase in its basic price is reflected in returns to the farmer. This is unlikely to provide him with sufficient inducement to turn to the production of this commodity.

104. Mr Kelliher commented that *"seasonal guaranteed prices for dairy produce would be a thing of the past. These . . . are not sufficiently flexible to meet the short-term requirements of dynamic free marketing conditions"*. While there are many arguments about the value of the guaranteed price system most authorities are agreed that one of its greatest values to producers and to internal stability is the fixing of an internal price before the beginning of each season. Within the limits of seasonal climatic and other fluctuations, this enables the farmer to estimate his income for the season, on the basis of which he plans his expenditure including paid employment and development.

105. Mr Kelliher also considered his scheme would provide *"incentives to seek the advantages offered by a rising short-term demand in world markets"*. By absorbing 75 per cent of any increases above the basic price for exports, Mr Kelliher's scheme becomes subject to the same criticism as he levels against seasonal guaranteed price schemes. His own scheme is not sufficiently flexible to meet the short-term requirements of dynamic free marketing conditions. Short-term price advantages would not be worth seeking if 75 per cent of the advantage was absorbed by the Stabilisation Account and the exporter received only 25 per cent of the increase. These advantages are usually prices slightly above those currently offered in the main market. It seems very doubtful whether producers or marketing organisations would take the risk of exploiting such markets for the sake of only 25 per cent of the small gain, which is all they would receive under Mr Kelliher's proposals. Indeed, the costs of exploiting new markets might well be more than the 25 per cent of the gain.

106. The insulation scheme proposed would be likely to cause difficulties in keeping overseas expenditure within export earnings. In a period of falling export and import prices, export incomes would be maintained by the stabilisation scheme and the prices of imports, and particularly of essential imports, would be permitted to fall substantially in terms of New Zealand currency. In those circumstances the demand for imports would be most likely to exceed the overseas funds being earned. The position in this respect would be even worse if export prices fell and import prices rose.

107. If, for the reasons mentioned above, the demand for imports exceeded the overseas funds being earned, the trading banks would have no option but to ration overseas exchange, because under the Loanable Funds Scheme they would not be permitted to sell to their customers more than current annual receipts of overseas exchange.

108. Mr Kelliher agreed in principle that *"incomes of one section of the community must be related to the incomes of other sections"* and he suggested that the fixing of prices for primary products was therefore the responsibility of the State in its overall stabilisation policy. A difficulty with stabilisation schemes is not only to deal fairly with the

sections of the community competing for shares of the national income (and that is difficult enough), but also to secure acceptance of these schemes by the main sections in the community.

109. The introduction, after a period of rising import and export prices, of a scheme for stabilising internal prices such as that proposed by Mr Kelliher appears to us to be open to the following disadvantages:

(a) Farm incomes would necessarily suffer an immediate reduction because the basic price would be computed on the average of the previous five years.

(b) At the commencement of the scheme and in the period following, farm incomes stabilised on the basis of an average for the last five years would bear a less favourable relationship to import prices than they had before the commencement of the scheme. The latter would be stabilised on the basis of the six months prior to commencement of the scheme.

(c) Internal costs and prices generally would presumably be stabilised in relationship to prices at the commencement of the scheme.

In the above circumstances farmers would be at a distinct disadvantage, because their incomes would be stabilised on a relatively lower level than their costs.

110. We are satisfied that the scheme for insulation of the New Zealand economy should not be adopted because:

(a) It is in substance a scheme of bounties and levies disguised as so-called *"exchange adjustments"*.

(b) In certain circumstances the scheme could maintain the demand for imports beyond what could be paid for from current earnings.

(c) Through its effects on import prices, the scheme would upset existing tariff protection, including margins established by international agreements.

(d) The resultant changes in import prices could be most disturbing to New Zealand industries competing with imports.

(e) In detail the scheme appears incapable of practical application with the existing market practices for meat and wool.

(f) It would minimise the effects on farm incomes of permanent and severe reductions in price for any particular export commodity, and thus remove the greater part of the incentive for farmers to change to another product.

(g) It would remove the greater part of the inducement to farm development which increased prices provide, and would likewise remove a substantial part of the financial resources available to finance farm development.

(h) The scheme as a whole could operate very unfairly for the farming community, especially if introduced after a period of rising costs.

111. In final result Mr Kelliher's very complicated and very inflexible scheme could achieve no more than could be done by much less complicated and more flexible methods. We agree that there are times when it may be beneficial to adopt a general stabilisation scheme or to take special measures to avoid very great fluctuations in export incomes such as occurred in the recent wool boom. Nevertheless, we are not satisfied that such schemes should be introduced as a permanent

feature of the economy with a view to reducing all price fluctuations to a minimum. If it were desired at any time to introduce a permanent overall stabilisation scheme, then, for the reasons given, we could not recommend Mr Kelliher's scheme.

V. Capital Investment

112. As a supplement to his Loanable Funds Scheme, Mr Kelliher made proposals which he described as *"Methods for Rational Allocation of Investment Among Competing Needs"*. These proposals were intended to be considered in conjunction with his suggestions for raising the level of private savings.

113. In introducing his proposals, Mr Kelliher made the following observations, *inter alia:*

(a) For some years, the demand for capital investment had been heavy and it was likely to remain heavy because of the need to make proper provision for an increasing population and an economy which was expanding rapidly.

(b) The savings of the community had not been sufficient in recent years to match the rate of capital investment.

(c) The excess of investment over savings had been met by the creation of new money which had been the major cause of inflation.

(d) Unless voluntary savings could be raised to a much higher level, regulation of capital investment must be continued, because the high level of spending by the public in conjunction with the heavy demand for capital investment was overtaxing the physical resources of the country.

114. Mr Kelliher contended that the existing restrictions on capital expenditure, maintained through building, capital issues, and local body controls, were not satisfactory because, *inter alia:*

(a) Suggestions have been made that the private sector has not been fairly treated in the competition for scarce economic resources, and for access to the necessary investment funds. There is very strong feeling indeed that the Capital Issues Committee has exercised a bias towards the satisfaction of national requirements rather than private, and that its actions are coloured very strongly by Treasury policy.

(b) In the Local Body field also there is dissatisfaction with the administration of the Local Bodies Loans Board, and more recently with the grave shortage of investment funds available at the controlled rate of interest.

(c) . . . the controls have not been applied effectively or equitably and also because as a people we resent direct control against the investment plans of individuals, businesses, firms, or local bodies.

115. It is patent from Mr Kelliher's proposals that he seeks to control the amount and direction of capital investment, at least until the time is reached when savings are adequate to match investment. He believes, however, that this can be done more effectively by the methods he proposes than by the existing controls.

116. The procedure he suggested was briefly as follows:

(1) Obtain annually from the private sector Budgets of immediate as well as projected capital development – this should be sought not only from companies but also from private businesses, and should include housing construction budgets from Building Societies, Insurance Companies and similar institutions.

(2) Obtain annually from each State Department and local authority similar Budgets of immediate and projected capital developments, including housing.

(3) Having regard to State priorities in the provision of capital investment essential for the welfare of the community, and having regard to the total level of current private savings which may be anticipated in any year, allocate to the State and to local bodies the share of savings available for public investment purposes . . .

(4) To the extent of the residue of current private savings over and above the allocation for capital investment to the public sector, allocate such savings as follows:

(a) On an industry basis, classified in accordance with economic priority – greater investment in the industries whose needs for capital development are greatest on the criterion of social good. The proportion of permitted capital formation should be greater for high priority industries than for those less essential to the public good.

(b) Allocation to *industries* to be determined on a percentage of subscribed capital plus reserves, that is to say "shareholders' funds", invested in each industry classification . . .

117. In brief, Mr Kelliher proposed the computation of an annual estimate of savings from current incomes and their allocation among the Government, local body, and private sectors. He recognised the need for essential capital development in an expanding economy, but believed that it should be financed from current savings if inflation were to be held in check. In current conditions of inflation he considered that investors would generally prefer industrial securities to Government and local body securities, as the former generally responded in price to inflation whereas the latter two had a fixed redemption value, so that when money lost its purchasing power there was a loss of capital.

118. It would appear from the submissions that, in the allocation of funds for investment in the prevailing circumstances, preference would be given to the requirements of the Government and local body sectors, although it was clearly intended that the basis of allocation as between the various sectors would be changed from time to time according to circumstances. In the Government and local body sectors the allocation for investment made to each would be determined according to the degree of essentiality of the proposed works. The allocation of the private sector would be ascertained, in the first instance, by requiring each unit in the sector to furnish, as an addendum to the annual income-tax return, a budget of immediate capital requirements in the succeeding year, together with an estimate of general requirements for the next succeeding two or three years. The amount of savings allocated to the private sector would then be determined on an industry basis, having regard to the needs and the relative importance of each industry in the economy. Each industry's allocation would, in turn, be divided among the units in the industry, or those which had provided a budget of their requirements, as a percentage or ratio of shareholders' funds, allowance being made for new units in the industry. By the above means Mr Kelliher expected to dispense with the existing controls on investment such as capital issues, building controls, and the like. In the initial stages of the scheme, it was proposed, in the public interest, to put the greatest emphasis on the requirements of the Government and local bodies. As the requirements of these sectors diminished, an increasing share of savings would be made available to the private sector.

119. In examining the proposals for the allocation of moneys likely to be available for investment, we must necessarily look at the difficulties which are likely to be encountered in implementing them because, unless these can be satisfactorily overcome, the scheme is not likely to work. The first difficulty is estimating savings out of current incomes, as the

success of any scheme for the allocation of funds will depend in a great measure on the accuracy of the savings forecast. This, by itself, is an extremely difficult task, which requires an accurate forecast of the habits of spending and saving of the people. In a time of inflation reliable precedents on which to base an estimate are usually lacking because of the lack of stability in the economy.

120. Apart from the difficulties inherent in making an estimate of savings, the allocation of the savings between the various sectors of the economy, in a manner likely to prove generally acceptable, might well prove to be an even more difficult problem. It would involve the consideration and determination of priorities in fixing the overall requirements of each sector. This might not be so difficult in respect of the Government and local body sectors, but in the private sector, which in recent years has been responsible for a large and increasing proportion of capital expenditure, many of the problems which would arise appear almost insurmountable, both with respect to reliable estimates of expenditure and a reasonable and equitable allocation of the available funds. Somebody would have to determine the percentage basis of allocation for each industry. In our view this determination by official fiat of the extent to which all the businesses in an industry could incur capital expenditure, would constitute a far more onerous control than the existing controls operated through the Capital Issues Committee and the Building Controller. Thus while seeking freedom from controls, Mr Kelliher would impose more onerous controls than those which now exist.

121. Mr Kelliher, in his submissions, stated that attempts made in the past in other countries to compile a budget of capital expenditure for the private sector of the economy were not conspicuously successful. We agree that there would be a temptation to over-estimate requirements, prompted by the belief that some scaling down would be necessary in order to equate demand with supply. In the long-range estimates, difficulty would most certainly be experienced in forecasting with any degree of accuracy. Changes in economic conditions, and other circumstances, would frequently necessitate amendment to earlier intentions and forecasts. Even if the problem of the budget of proposed expenditure could be resolved in a generally acceptable way, the real problem of an equitable allocation of money resources would remain. Mr Kelliher's proposal was that this allocation should be made on the basis of shareholders' or proprietors' funds. In the case of a limited liability company, "shareholders' funds" means the paid-up capital plus all free reserves, which is another way of expressing what is commonly called "the shareholders' equity". In a privately owned business the proprietors' interest or equity would be the relevant factor. An allocation of money resources, as a ratio of proprietors' or shareholders' equity, would not, in our opinion, be likely to meet the varying needs and circumstances of a great variety of businesses. In cases where the proprietors' equity is high in relation to total assets, the share or allocation of funds would be greatest. These, however, would also be cases where the finance was more soundly based and therefore the very instances where it had probably been found possible in the past to make reasonable provision for future expansion. With two companies or businesses in which the assets were equal in value, the one in which the proprietors' funds bore the highest

ratio to assets would, all other things being equal, experience the least difficulty in arranging finance for development. The proprietors' equity, as a basis for allocation of available funds, appears likely to make the allocation in inverse ratio to needs.

122. Another very serious objection to the percentage or ratio basis of allocation is the economic waste which is bound to result from the freezing or immobilising of a large sum of money representing capital development proposals which cannot be completed because of the lack of an adequate allocation of money resources. It is apparent that, in a majority of cases, rationing by ratio would result in an allocation that would bear no relation to the value of the capital works to be undertaken. The construction of such works would have to be spread over an unduly and unnecessarily long period. The delay in bringing them to the stage at which they would become income producing would involve the country in a great deal of avoidable economic waste.

123. In introducing his proposals, Mr Kelliher referred to a strong feeling in the community that the private sector had not been equitably treated in the allocation of investment funds by the Capital Issues Committee which had exercised a bias towards the satisfaction of national requirements. His basis of allocation of investment funds would make available to the private sector only *"the extent of the residue of current private savings over and above the allocation for capital investment to the public sector"*. From this it seems clear that the private sector would not receive a positive allocation but merely a residue. In our opinion the allocation to the private sector would be less favourable than at present.

124. It is important to point out that Mr Kelliher's suggestions for the allocation of investment funds are intended to operate in conjunction with his Loanable Funds Scheme, and its associated proposals which include the freeing of interest rates from the existing controls.

125. Our conclusions respecting Mr Kelliher's proposals for the allocation of investment funds are:

(a) They might operate satisfactorily in the Government and local body sectors because reliable information about the cost and degree of urgency of Government and local body projects for development is readily available. In current circumstances the Government obtains a substantial share of the finance which it requires for capital investment from savings effected through such channels as the Post Office Savings Bank, national savings, the Government Life Insurance Office, and from taxation. Mr Kelliher does not contemplate any change in the availability to the Government of funds from the above sources. His proposals do not appear to contemplate any significant change in the prevailing methods as applied to the Government sector.

(b) In the local body sector it is apparent that Mr Kelliher proposes to dispense with the existing control by the Local Government Loans Board over local body works. It would appear, however, that the authority which he proposes to set up to control the whole question of an allocation of investment funds would be required to make an allotment of funds to the local body sector. In doing this it would have to decide priorities as between a number of competing interests. So long as control

is considered necessary, we are of the opinion that it is preferable that it should continue to be exercised by the Local Government Loans Board which has already acquired a wide experience in this class of works.

(c) For the reasons set out above we consider that Mr Kelliher's proposals in respect of the private sector are unrealistic and quite impracticable. If imposed, they would constitute far more onerous controls than those at present existing.

We strongly recommend that Mr Kelliher's proposals described as *"Methods for Rational Allocation of Investment Among Competing Interests"* should not be adopted.

VI. Suggestions for a Realistic and Equitable Wage Policy

126. Our order of reference contemplates as a national objective the maintenance of full employment of labour. Mr Kelliher, in his submission, went further and recommended that *"the State should positively guarantee full employment in New Zealand"*. The Commission does not think it is called upon to comment upon this recommendation.

127. Mr Kelliher stressed the great social need for stable purchasing power of the salaries, wages, pensions, and other incomes of the people, and claimed that the adoption of his proposals would achieve avoidance of monetary inflation, insulation against external price repercussions, and equation of current savings with investment. By this course he believed a relatively stable price level would be attained. He considered, however, that any improvements in the standard of living must depend upon increased production, that, to achieve such increased production, incentives must be provided for workers in industry, and that the fruits of production must be equitably distributed.

128. Mr Kelliher therefore proposed that wage rates should be tied to productivity and should rise *only* to the extent of the annual increase in production over the whole of the economy.

129. We make the following comments upon the proposals:

(a) While wage rates would be stabilised except for increases warranted by overall increases in productivity, the incomes of primary producers under Mr Kelliher's scheme of insulation would not be stabilised to the same extent. Between 1947–48 and 1953–54, the export prices index rose from 77·4 to 113·8 and the index of productivity per unit of total labour force increased from 102 to 115 (provisional). If it be assumed that productivity in primary producing industries rose to the same extent as the index of overall productivity, and the Kelliher formula had been applied, the payout to the primary producers would have increased during the period by 26 per cent while wage rates would have been increased by only 12·7 per cent. Again, if the formula had been applied between 1951–52 and 1953–54 – during which period the export prices index rose from 100·5 to 113·8 and the index of productivity from 113 to 115 – the payout to the primary producer would have increased by 5·1 per cent and wage rates by only 1·8 per cent.

(b) It seems quite possible that in circumstances akin to the position in which the dairy industry recently found itself, the payout to all primary producers under Mr Kelliher's scheme would fall despite the benefits of increased overall productivity and partial insulation. A situation would then arise in which all wage rates would be raised in accordance with the increased productivity, while the incomes of the primary producers would fall. It seems very doubtful whether such a situation would be tolerated.

(c) Wage rates which, up to the present have usually been the main issue in industrial disputes, would be eliminated from the field of collective bargaining. We do not think this innovation would be welcomed either by organised labour or by management.

(d) Wage adjustments related to changes in productivity would necessarily be delayed for practical reasons.

(e) The stabilisation of wage rates at present levels, except for adjustments based upon increased productivity, would perpetuate present wage relationships and any existing anomalies. Such a step would definitely not be conducive to good industrial relations, nor would it assist in the effective functioning of industry in general.

(f) An increase in wages is not the only form in which benefits of higher productivity have been or may in future be distributed to workers. Shorter hours, longer annual holidays, rest periods during working hours, supply of industrial clothing, better working conditions, and improved social services all benefit the worker and all involve a charge against increased productivity. To the extent that the cost of any such future improvements would have to be met, so would the progressive increase in rates of wages have to be less than the estimated gain in productivity. This would doubtless give rise to much industrial controversy.

(g) Mr Kelliher contended that if workers had the knowledge and assurance that the price level would be held relatively stable, and if rates of remuneration were related to rates of production, there would be an incentive to increase production. If future increases in wages were based on long-term trends of productivity in the past, we do not think that there would be any appreciable incentive to increase production. Even if wage rates for a current year were based on overall productivity for the previous year – ignoring the difficulties of prompt compilation of the necessary index – we doubt whether it would prove an effective incentive, for the reason that incentive is largely a matter of individual appeal with the prospect of immediate or very early beneficial results.

(h) If long-term tendencies in productivity were used for the determination of short-term wage adjustments, we consider that grave economic difficulties would be encountered. On the other hand, if short-term tendencies in productivity were followed, the possibility of wage reductions would from time to time have to be faced.

(i) It is possible that general price levels could fall. In such circumstances it would not necessarily be equitable that wage levels should continue to rise proportionately with increases in productivity. Indeed if they did so, unemployment might be likely to ensue.

(j) In a dynamic and reasonably free economy there is continuous need for flexibility in wage fixation in the various industries, depending on changes in economic environment, ability to pay, and so forth. A notable example of such flexibility in New Zealand has been the manner in which the wage rates of shearers have been determined for a number of years by relating them to the prices received for wool.

(k) Again, variations in productivity must occur in different industries and it is conceivable that, for one given period, some industries would show increases in productivity well above the overall average for the Dominion. Under the proposals placed before us, the workers in such industries, could not receive commensurate recognition through an increase in their wage rates until all workers throughout the whole of industry achieved, on the average, a similar increase in productivity. Indeed, they might even suffer a reduction in wages through a drop in average productivity per head of population. We do not think that the rigidity inherent in the scheme would be acceptable to the parties directly concerned or be in the best interests of the public.

130. We conclude that Mr Kelliher's suggestions on wage policy are an attempt to over-simplify the complex problem of wage determination, and that, despite his contentions, they do not constitute a realistic and equitable wage policy. At the same time it should be mentioned that productivity is not ignored under the present system of wage determination. One of the considerations which the Court of Arbitration is required to take into account in making a general wage order under the Economic Stabilisation Regulations 1953 is *"any increase or decrease in the volume and value of production in primary and secondary industries of New Zealand"*. (Regulation 3 (3).)

VII. Other Ancillary Proposals

131. In Parts IV, V, and VI of this Appendix we comment on the ancillary proposals put forward by Mr Kelliher in connection with insulation of the New Zealand economy, the allocation of capital investment funds, and suggestions regarding wage policy. Other ancillary proposals made by Mr Kelliher, e.g., those for raising the level of private savings and for their mobilisation, for freeing interest rates from control, and for a permanent Council of Economic Advisers, are examined in the sections of our report dealing with such subjects.

Appendix G

COMMODITY CURRENCY PROPOSALS

1. Mr Colin Clark, M.A., Director of the Institute of Agricultural Economics, Oxford, England, and formerly Economic Adviser to the Government of Queensland, who was visiting New Zealand, was invited by the Commission to give evidence. He advanced proposals for stabilising the value of our currency. These proposals are best explained in Mr Clark's own words:

. . . there has recently been among economists some original and useful thinking on how a currency's purchasing power could be maintained by giving it a proper backing, without causing depressions or falling prices. The solution to the problem is that currency should be backed, not by gold, but by stocks of commodities. This would genuinely preserve the value of the currency against both downward or upward fluctuations. Reserve Bank credit would be issued against stocks of commodities, and against them only. Stocks of commodities could always be exchanged for money, and money for stocks of commodities. This would mean that either a serious rise in prices, or a serious depression, would alike become impossible. If a depression threatened, the producer would know that he always had the right to hand over his stocks of commodities, and to receive a fixed amount of money in exchange. The consumer would know, on the other hand, that he would always be able to get the same amount of goods in exchange for his money. If prices were showing a tendency to rise, stocks of commodities would be drawn upon, the issue of new money would be checked, and some of the existing currency withdrawn until equilibrium was restored.

It should be made clear, however, that the use of this form of currency would stabilise prices in general, but would not stabilise the price of every single commodity (which would not be desirable, even if it were practicable). The producer would be protected against a general fall in prices, but he would still be expected to switch production from one commodity to another, as their relative economic value changed.

The method by which currency would be issued and the price level in general stabilised, while leaving the prices of individual commodities free to fluctuate, would be as follows:

The Reserve Bank would prepare a list of the staple commodities whose stocks could be taken into account, and of the relative importance of each. This list of commodities, and the figures provided for the relative quantities to be taken into account, could not be changed, at any rate for a long period of years. Reserve Bank credit would only be issued (in the form of currency notes or Reserve Bank advances) to brokers who could deposit with the Reserve Bank warrants or liens giving them possession over stocks of *all* of the specified commodities, with the quantities in the correct proportions. It is unlikely in fact that any broker or merchant would himself have stocks of all the required commodities and he would have to hire, for a few months at a time, liens from other merchants (and might have to pay quite a high interest rate on them at a time when commodities were scarce).

The broker could not himself directly use a Reserve Bank credit, but would deposit it with his trading bank (who would offer him interest on it). At the same time the trading banks would be required (as now) to hold a specified proportion of all their assets in the form of cash or Reserve Bank credits. This proportion, which would probably be somewhere between 10% and 20%, would have to be finally and definitely fixed, and also made unalterable over a long period of years.

When choosing a list of commodities to act as a basis for the currency, it is of course desirable to choose those which can be stored for long periods, and whose specifications do not change too considerably. For most countries it would be fairly easy to draw up a list of staple commodities. In New Zealand however it might make a considerable difference according to whether export

or import commodities were chosen. Choosing the former would do more to stabilise the incomes of producers, the latter to stabilise the purchasing power of consumers. These two desirable objectives are, to a certain extent, incompatible. It would probably be desirable to prepare a list including export and import goods in more or less equal proportions.

The stored commodities would at no time become the property of the Reserve Bank. They would remain the property of merchants, brokers, farm co-operatives, etc., who would also remain responsible for meeting storage costs. In other words, they would be lent, rather than sold, to act as a basis for the national currency.

Such a system, once instituted, would be technically very easy to administer. It might however find itself, on many occasions, under tremendous political pressure to issue additional currency, at a time when available stocks of commodities did not justify it. In countries like Australia, Canada, or the United States, which have a written Constitution which cannot be altered by a simple Parliamentary enactment, but only by a referendum of the whole people, or similar lengthy procedure, any such provision for safeguarding the currency could be inserted in the Constitution, and thereby protected against political pressure. It is not clear whether any such provision is possible in New Zealand.

It is however important to make the point that, while the prevention of changes in the value of the currency is our principal objective, nevertheless it is not possible to check fluctuations by controlling the supply of currency alone. In general terms, to fulfil the objective of checking undesirable economic fluctuations, whether upward or downward, it may be necessary to regulate from time to time (though not always necessary to regulate all of) the following:

Supply of currency;

Rates of taxation;

Government expenditure on both capital and current accounts;

Certain forms of private capital expenditure; and possibly also business stocks.

Governments now find it fairly easy to regulate economic fluctuations by changes in budgetary policy. To check a downward fluctuation, they can either incur expenditure or remit taxation. Such procedure of course would not be so easy when the stock of money was strictly regulated, according to the stock of commodities, for the Government just as much as for any other borrower. In order to be able to have the financial resources necessary to meet a downward economic fluctuation if it came, any prudent Government, in such circumstances, should keep, at all times, a considerable cash reserve.

Finally, it is clear that, when stability of prices has been achieved, general increases in wages will then only be possible insofar as the general productivity of the country, per man-hour of labour performed, has increased, or there has been a marked and sustained improvement in the terms of trade on which the country can exchange its exports for imports, or that it is practicable and desirable permanently to increase labour's share in the national product, at the expense of the shares of property and enterprise. The extent of the general increase in wages permitted by such increase in productivity etc. should be determined at three-yearly intervals by a special commission formed by trade unions, employers and the Government each nominating qualified statisticians and economists to represent them.

2. Examined, Mr Clark said that the commodity currency scheme had not been tried in any country in the world and had been under discussion for only a short period. In the absence of practical test, the Commission has had to base its recommendations on close analysis of the theory.

3. It is clear that the scheme would have a limited value to New Zealand unless it would stabilise the average of the prices of the main exports and imports, since New Zealand's external trade is a large proportion of her total trade.

4. Basic needs of the scheme appeared to be:

(a) An adequate stock of the chosen commodities.

(b) Choice of durable commodities which will not deteriorate with storage.

(c) Choice of commodities which would include some of the chief items of external trade.

(d) Operation in conjunction with a flexible exchange rate, and without Government interference.

5. Mr Clark expressed the opinion that, to operate the scheme, the total value of stocks of commodities would need to be between 10 per cent and 20 per cent of the total volume of money and that the chosen ratio would have to be permanent. If 10 per cent were the ratio and it was based on the volume of money at the end of June 1955 (£317 million), stocks valued at between £30 million and £32 million would be needed.

6. Mr Clark gave it as the opinion of economists supporting this scheme that between twelve and one hundred commodities would be needed. In his opinion between thirty and forty commodities would be needed to stabilise prices effectively in New Zealand.

7. He explained that the choice of commodities depended largely on objectives. A scheme designed to stabilise the price of exports in New Zealand currency would involve choosing a range and type of commodities in which greater weight was given to our exports.

8. At least 85 per cent of New Zealand's export income, on which our economy is based, comes from the sale of dairy products, meat, and wool. Deterioration in quality during lengthy storage makes dairy products and meat unsuitable as commodity stocks. Mr Clark agreed that this would seriously limit the usefulness of the scheme in New Zealand.

9. Wool is durable but, as it is the product of a comparatively short season, it would provide adequate commodity stocks only during a relatively small part of the year. The method of marketing wool raises another more serious difficulty. As weather allows, the bulk of the wool clip is shorn between the beginning of September and the end of December. It is sold at a series of auctions in various centres from about October until the following May. Once sold the wool becomes the property of the purchaser who is an overseas buyer except where the wool has been bought for domestic use. This local demand absorbs only a small part of the clip. Shipment overseas is made as soon as possible after the sale, so that comparatively little wool is carried in stock in New Zealand, except for the short period during the season's peak.

10. When these circumstances were explained to him, Mr Clark appreciated the difficulties and suggested that a broker might be able to obtain a lien over some of the stocks sold at auction on condition that they remained in store for a specified period of months. Mr Clark was then reminded that the wool market is subject to sudden price changes which would make it difficult and almost impossible to persuade overseas purchasers to allow their wool to remain in stock in New Zealand for several months. In these circumstances, he suggested, it might be necessary to obtain liens on wool held overseas, but he admitted that this would probably involve payment of a high rate of interest.

11. In view of (a) the importance Mr Clark put upon wool as a commodity stock and the difficulties in the way of using it, and (b) the unsuitability of dairy produce and meat as commodity stocks, it is difficult to see how the commodity currency scheme could be used successfully to stabilise export prices in New Zealand currency.

12. Mr Clark agreed that storage operations by New Zealand could not affect the prices of imports and said that his proposal would only

work in New Zealand with a moveable exchange rate. Such an exchange rate, with changes made from time to time on the basis of changes in the balance of payments, would not necessarily stabilise internal prices and costs. For example, if balance of payments difficulties were caused by internal inflation the exchange rate would rise, thereby increasing the cost of imported goods and giving to exporters a greater share of the national income. Wage rates in New Zealand are influenced by changes in the consumers' price index, which, in turn, is affected by changes in the cost of imported goods. A steady rise in the rate of exchange could cause a spiralling of the prices of consumer goods and wage rates which would eventually frustrate the purpose of the change in the exchange rate.

13. Mr Clark considered it essential that the commodity currency scheme should be administered by an authority independent of Parliament. Administration in this way would certainly be necessary to the successful operation of the scheme, but it would be impracticable in New Zealand and, in any event, quite unacceptable in a democratic community.

14. Mr Clark agreed that the commodity currency scheme would not of itself be enough to prevent fluctuations in the economy. He admitted that it would still be necessary for the Government to use its judgment on what fiscal measures and additional monetary measures were needed in the public interest.

15. Other difficulties of the scheme which in our opinion render it unsuitable for adoption in New Zealand are:

(a) It would be costly to administer. In Mr Clark's own words, *"If we could rely on the discretion of Government and bankers and have a purely fiduciary currency it would be very much cheaper"* (than a commodity currency scheme).

(b) It would be difficult to institute the scheme during a period of rising prices. Further increases in prices would probably be required in order to acquire the necessary stocks of commodities. This would aggravate inflation at a time when every effort should be directed to checking it.

(c) According to Mr Clark, specialist brokers would be required to obtain the stocks of the selected commodities in the right proportions as the basis for the issue of currency and credit by the Reserve Bank. In our opinion great difficulty would be experienced by these brokers in persuading exporters and importers to part with the title to and the control of their goods (which may be subject to sudden changes in prices) even for a money consideration by way of interest.

16. Proposals for an *"automatic currency"*, very similar in its basic principles to Mr Clark's commodity currency, were made in written submissions by Mr A. N. Field, of Nelson. Mr Field's proposals did not, however, involve a stock of commodities. Under his scheme dealings would be confined to *"titles"* to commodities. The absence of a stock pile could in certain circumstances cause quite serious difficulties which Mr Field acknowledged in his submissions in these words:

The position would not be so simple in a time of rising prices, with no commodity stock piles to draw upon. With market prices above the Bank's selling prices, purchasers of our export commodities would all be inside the Bank to buy at its lower figure. The Bank would have no means of meeting the demand. The best

we could do would be to give the Government power, on request of the Bank, to suspend the buying obligation for thirty days, with extensions of 15 days at a time as necessary. This would give the bank time to tighten up financial conditions sufficiently to stop any demand on it.

17. New Zealand support for adoption of a commodity currency scheme on an international basis was proposed in a written submission by Mr I. W. Weston, of Christchurch.

18. Useful information about international commodity reserve currency schemes is to be found in a report of a Committee of the United Nations Organisation on *Commodity Trade and Economic Development* published in 1953. The Committee was composed of a number of leading world economic authorities, and was presided over by Professor J. Goudriaan, one of the originators of the commodity currency proposals. It had the benefit of the advice of a number of leading economists, in particular the advice of Mr Benjamin Graham, one of the foremost exponents of a commodity based currency.

19. It is clear from the Committee's report that commodity currency proposals need further examination and consideration before a decision could be reached on their suitability as the basis for an international commodity currency. The following are some observations made by the Committee on the proposals it examined:

An ideal standard of value would be related in the same way to all goods and services entering trade; but of course the number of distinguishable goods and services is extremely large, and the services are difficult to define in a standardised way, while goods (especially manufactured goods) are constantly changing with technical progress and changes in taste and fashion. In practice, the number of items included in the commodity unit has to be cut down from possible thousands to perhaps ten or twenty. This means that the scheme will operate only imperfectly in stabilising the value of money, and that supplementary measures to deal with particular price problems or distortions may be needed. But the degree of correlation between prices is so great that there is reason to hope that the stabilisation of the prices of a few major commodities would exercise a powerful influence in lessening fluctuations in other prices.

The practical criteria which must be met by commodities to be included in the unit are these:

(a) They must be goods in general use, not liable to large changes in specification or style; and likely to maintain their role in economic life for a considerable period;

(b) They must be merchandised in well known and clearly defined standard grades or qualities;

(c) They must be storable for a reasonable time (at least a year) without serious deterioration, physical loss or excessive cost;

(d) They must be sufficiently important in economic life to warrant the trouble of enlarging the unit to contain them." . . .

. . . the importance of commodities in world production diminishes rapidly as we go down the list. It seems reasonable to suggest that the scheme would not have enough stabilising influence with fewer than ten commodities, nor be conveniently workable with more than thirty. Some special problems are:

(a) Whether to include such commodities as wool, tea, skins and hides, and timber, which are sold wholly or in part at auctions and whose classification into standard grades presents technical difficulties.

(b) Whether to include agricultural commodities and minerals in the same composite unit. Their price characteristics are very different, the agricultural commodities being in general less flexible in supply but having in most cases a steadier market than the minerals. In fact, the cyclical movements of prices in the two groups have been similar, and . . . the fear that they might de-stabilise each other seriously, if tied together in the same commodity unit, may be unfounded.

(c) Whether to include such minerals as coal, petroleum, pig-iron, steel and aluminium, which are subject in some countries to price regulations by private interests.

These are technical matters which would require special examination at the time of establishing of the scheme. It may be worth noting that any excluded commodities could be separately stabilised by ordinary (non-monetised) individual or collective buffer stocks. Indeed, subsidiary buffer stocks would stand a much better chance of success if the price level of more important basic commodities had already been stabilised.

20. Some of the points recommended for further study were, *inter alia:*

Is the stability of a commodity unit over a period of years desirable in itself, or does economic progress go faster under the stimulus of a slightly rising price level? Precisely what economic conditions must be satisfied before the commodity reserve currency system can operate? Do they, for instance, include universal convertibility of currencies?

It is not certain how far the scheme when modified to soften its impact on the rigid elements of the economic system, would remain effective. Thus, if the full autonomy of central banks is preserved, may they not use their power to frustrate and distort the policies of the stabilising authority? If free wage bargaining is permitted, will it be possible to hold wages beneath the limit set by the slow change of productivity, without resort to the discipline of heavy unemployment? . . .

If the scheme requires revision by bringing in new commodities, dropping commodities already included or altering the weights, can the resultant transitional problems be overcome without serious hardship to producers or consumers? . . .

It may also be asked whether the attractiveness of the scheme as an automatic stabilising device is not seriously compromised by the degree of flexibility that must be introduced in order to make it work in a complex and dynamic world and by the frequent revisions in the commodity unit and its valuation that may be necessary . . .

The commodity reserve currency scheme has to be judged, not only against the present situation but against possible enlightened alternatives. Its advantages lie especially in its automatic operation on an important source of variability. But is it from the money side, better than other forms of monetary management? It can be argued that success in this field depends more on the quality of the managers than on the ingenuity of the scheme of management; in each country the "managers" include, in a sense, all citizens who share in effective power.

21. The report concludes with the following paragraph:

This is not an exclusive list of questions requiring study and answer. We found ourselves sufficiently attracted by the scheme to think further effort worth while. This is as much as we, as experts, can say at this point. For obvious reasons, we did not enquire into the problem of political feasibility; but we are not, of course, unaware of it. What the world has to decide is whether the degree of stability to be expected from schemes of this kind is worth the change in habits and thinking which would be required.

22. One of the members added the following note to the report, *inter alia:*

I wish to state that, though fully associating myself with the idea expressed . . . and, especially, with the recommendation for further study of the commodity currency scheme, it is obvious to me that a proposal like this is not now within the reach of practical politics. I have grave doubts whether the system can work satisfactorily in the world as it now exists or is likely to exist in the foreseeable future. The great virtue of the scheme – automaticity – seems also to be its great defect; it may prove impossible to remedy its defect without losing its virtue.

Conclusion

23. To sum up, we do not recommend the adoption of a commodity reserve currency scheme by New Zealand alone, for the following main reasons:

(a) Its usefulness in New Zealand would be limited because meat and dairy products deteriorate in storage, and because it would be difficult to arrange for the accumulation of stocks of wool.

(b) New Zealand could not influence the prices of exported or imported goods to any great extent by practicable storage operations.

(c) It follows from the above two considerations that the scheme would have to be operated in conjunction with a flexible exchange rate. But changes in the exchange rate might, in certain circumstances, merely aggravate inflation in New Zealand.

(d) During a period of inflation, it would be difficult to accumulate the stocks necessary to initiate the scheme without aggravating the inflation.

(e) The scheme would be costly to administer and great difficulties would face brokers attempting to acquire titles to the required stocks.

(f) Adoption of the scheme would not guarantee that the supply of money was adequate, and no more than adequate, to serve the best interests of the country, taking all objectives into account. Judgment by the Government and the monetary authorities would still be necessary as to the fiscal and monetary policy which should be adopted.

24. Neither do we recommend that New Zealand should press for the adoption of a commodity reserve currency scheme on an international basis. The report of the Committee of the United Nations makes it clear that there are many questions which demand study and answer before such a scheme could be safely introduced. If the commodity currency scheme could be developed to a point where it was generally acceptable as a basis for an international currency, its adoption universally might have some advantages for New Zealand in view of the fact that so large a part of our trade is external.

25. Until such a stage is reached, however, it appears to us that the scheme has no worth-while advantages to offer.

Appendix H

STATISTICAL TABLES

TABLE 1

New Zealand Mean Population (including Maoris), 1934 to 1955

Year Ended 31 December	Males				Females			
	0–14	15–64	65+	Total	0–14	15–64	65+	Total
1934([1]) ..	214,079	528,987	46,967	790,033	205,222	509,620	45,413	760,255
1935([1]) ..	212,226	534,076	48,905	795,207	203,197	514,997	47,421	765,615
1936 ..	212,326	535,856	51,541	799,723	203,222	521,366	50,920	775,508
1937 ..	211,406	542,700	53,150	807,256	202,641	527,275	52,800	782,716
1938 ..	210,941	549,825	54,975	815,741	202,447	533,875	54,700	791,022
1939 ..	211,825	558,125	56,875	826,825	203,337	541,525	56,825	801,687
1940 ..	214,415	549,550	58,850	822,815	206,015	549,025	59,450	814,490
1941 ..	217,956	525,800	60,925	804,681	209,692	554,775	61,800	826,267
1942 ..	223,585	514,750	63,400	801,735	213,687	560,125	64,025	837,837
1943 ..	224,275	499,800	64,875	788,950	216,435	563,850	66,400	846,685
1944 ..	227,842	503,725	67,450	799,017	219,803	567,825	69,150	856,778
1945([2]) ..	233,228	523,848	69,858	826,934	224,019	571,830	71,931	867,780
1946([2]) ..	240,256	565,652	73,823	879,731	231,420	572,703	77,545	881,668
1947([2]) ..	250,417	575,925	76,175	902,517	241,395	577,925	80,800	900,120
1948([2]) ..	261,578	583,050	78,375	923,003	252,303	582,375	83,850	918,528
1949([2]) ..	273,270	590,700	80,450	944,420	263,098	586,975	86,625	936,698
1950([2]) ..	285,129	598,050	82,550	965,729	273,942	591,525	89,750	955,217
1951 ..	291,971	600,820	85,085	977,876	281,353	595,180	93,120	969,653
1952 ..	306,383	610,580	86,400	1,003,363	293,841	603,080	95,865	992,786
1953 ..	319,214	623,090	87,865	1,030,169	305,602	614,390	98,665	1,018,657
1954 ..	331,034	633,430	88,945	1,053,409	316,621	623,650	101,230	1,041,501
1955 ..	([4])	([4])	([4])	1,076,018([3])	([4])	([4])	([4])	1,067,949([3])

([1]) For these years total population was adjusted in accordance with the 1936 census results but no adjustment was made for age estimates.

([2]) For these years total population was adjusted in accordance with the 1951 census results but no adjustment was made for age estimates.

The totals shown for cases ([1]) and ([2]) above do not therefore agree with revised total population figures published later.

([3]) Provisional.

([4]) Not yet available.

Source: Department of Statistics

TABLE 2

Estimated Distribution of Total Labour Force, 1936, 1939, and 1946 to 1955

(in thousands)

Industrial Group	1936 [1]	1939 [1]	October 1946 [2]	April 1947 [2]	April 1948 [2]	April 1949 [2]	April 1950 [2]	April 1951 [2]	April 1952 [2]	April 1953 [2]	April 1954 [2]	April 1955 [2]	October 1955
Primary	187	179	150·9	149·8	149·4	148·6	148·3	148·1	148·1	148·7	149·2	150·3	151·8
Manufacturing	117	131	165·0	171·6	175·8	178·0	182·2	185·6	186·3	187·2	194·2	198·8	196·1
Power, water, and sanitary services			9·3	9·2	9·3	9·7	10·1	10·4	10·5	11·5	11·6	11·8	11·9
Building and construction	37	56	49·1	49·3	51·0	51·9	54·1	53·8	57·1	61·6	66·0	69·2	70·3
Other industry:													
Transport and communication	48	57	67·6	69·4	71·3	73·8	74·8	73·8	77·0	77·2	77·4	77·5	78·0
Distribution and finance	96	100	105·9	108·1	110·9	112·1	114·5	117·8	120·3	122·4	126·9	130·8	131·4
Domestic and personal	63	51	42·9	43·3	43·9	44·7	44·6	44·1	43·7	44·9	45·7	45·7	45·4
Administration and professional	65	76	90·2	89·9	91·2	92·9	94·4	96·0	98·0	101·5	104·8	106·6	107·5
Total all industry	613	650	680·9	690·6	702·8	711·7	723·0	729·6	741·0	755·0	775·8	790·7	792·4
Armed Forces	2	3	14·1	13·1	8·2	7·6	8·9	10·8	10·9	12·1	11·8	10·5	9·6
Unemployed	57	19	·3	·1	··	·1	··	··	··	··	·1	··	··
Total labour force	672	672	695·3	703·8	711·0	719·4	731·9	740·4	751·9	767·1	787·7	801·2	802·0

[1] Half-yearly Survey of Employment, Department of Labour and Employment, July 1950, pages 5–9.

[2] Labour and Employment Gazettes, Department of Labour: February 1954, pages 55–56; August 1954, page 58; August 1955, page 58.

Source: Department of Labour

TABLE 3

Estimated Distribution of Total Labour Force by Sex, 1946 to 1955(¹)
(in thousands)

―		Male	Female	Total
As at—				
1946 – 15 October	..	534	162	696
1947 – 15 April ..	..	543	161	704
1948 ,,	..	547	164	711
1949 ,,	..	553	166	719
1950 ,,	..	562	170	732
1951 ,,	..	566	174	740
1952 ,,	..	576	176	752
1953 ,,	..	589	178	767
1954 ,,	..	603	185	788
1955 ,,	..	610	191	801
1955 – 15 October	..	611	191	802

(¹) Adjusted in line with 1951 census data.

Source: Department of Labour

TABLE 4

Total Vacancies in Surveyed Industries, 1946 to 1955(¹)

―		Male	Female	Total
As at—				
1946 – 15 October	..	14,745	14,060	28,805
1947 – 15 April ..	..	18,224	14,771	32,995
1948 ,,	..	17,153	12,562	29,715
1949 ,,	..	16,377	12,626	29,003
1950 ,,	..	20,801	13,080	33,881
1951 ,,	..	21,404	11,392	32,796
1952 ,,	..	21,607	8,510	30,117
1953 ,,	..	14,197	6,217	20,414
1954 ,,	..	15,233	7,496	22,729
1955 ,,	..	18,983	8,545	27,528
1955 – 15 October	..	17,757	7,664	25,421

(¹) Total vacancies as recorded in half-yearly surveys.

Source: Department of Labour

TABLE 5

Disengaged Persons at End of Month, 1946 to 1955

Average for Calendar Year			Male	Female	Total
1946	..	..	..	368	18	386
1947	..	..	..	83	9	92
1948	..	..	..	61	6	67
1949	..	..	..	88	4	92
1950	..	..	..	34	4	38
1951	..	..	..	29	9	38
1952	..	..	..	33	14	47
1953	..	..	..	67	18	85
1954	..	..	..	48	10	58
1955	..	..	..	44	12	56

Source: Department of Labour

TABLE 6

Average Weekly Wage Payout in Surveyed Industries, 1946 to 1955(¹)
(Week ended 15 April or 15 October)

Year		*Per Capita*	Year		*Per Capita*
		£ s. d.			£ s. d.
1946 – October	..	6 5 10	1952 – April	..	10 7 10
1947 – April	..	6 13 3	1953 ,,	..	11 1 5
1948 ,,	..	7 7 6	1954 ,,	..	12 2 5
1949 ,,	..	7 14 8	1955 ,,	..	12 15 2
1950 ,,	..	8 4 6	1955 – October	..	13 4 0
1951 ,,	..	9 15 2			

(¹) The figures shown cover males and females, including juveniles and salaried executives. Overtime and bonus earnings, etc., are included.

Source: Department of Labour

TABLE 7

Production and Exports of Butter (Including Whey Butter) and Cheese, 1933–34 to 1954–55

| Production Year | Production (Dairy Factories) | | | | Exports, June Years | | | |
| | Butter | | Cheese | | Butter | | Cheese | |
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
	Cwt.(000)	£(000)	Cwt.(000)	£(000)	Cwt. (000)	£(000)	Cwt. (000)	£(000)
1933–34 ..	3,238·0	12,679	2,135·6	4,487	2,825·9	11,830	1,992·2	4,732
1934–35 ..	3,157·1	13,244	1,914·5	4,067	2,575·6	10,625	1,858·7	4,524
1935–36 ..	3,366·6	17,702	1,770·0	4,708	2,786·6	14,790	1,620·4	4,509
1936–37 ..	3,553·1	20,457	1,826·3	5,494	2,991·4	16,434	1,662·2	5,282
1937–38 ..	3,307·4	20,731	1,769·4	6,045	2,917·7	18,285	1,690·8	6,069
1938–39 ..	2,957·2	20,174	1,705·3	6,345	2,461·9	15,813	1,605·2	5,727
1939–40 ..	3,155·1	21,508	1,952·7	7,274	2,319·9	16,059	1,749·0	6,776
1940–41 ..	3,303·3	22,475	2,447·4	9,104	2,689·8	18,676	2,505·6	10,155
1941–42 ..	2,675·3	18,232	3,153·2	11,692	2,141·9	14,952	2,633·2	11,505
1942–43 ..	2,839·8	19,999	2,056·9	7,932	2,057·8	14,724	2,226·1	10,014
1943–44(¹)	2,727·9	19,544	1,843·0	7,252	2,071·8	15,019	1,600·0	7,269
1944–45(¹)	3,093·3	22,219	2,073·5	8,277	2,442·9	21,709	1,860·8	9,905
1945–46(¹)	2,534·0	18,227	1,890·6	7,578	2,110·6	19,706	1,568·5	8,541
1946–47(¹)	2,914·8	21,020	1,832·9	7,421	2,355·0	25,081	1,766·2	11,177
1947–48 ..	3,039·6	33,147	1,728·9	10,023	2,541·1	31,492	1,664·5	12,254
1948–49 ..	3,310·3	37,340	1,989·8	11,971	2,948·9	35,122	1,667·2	11,277
1949–50 ..	3,376·9	40,114	2,107·5	13,360	2,963·5	37,042	1,793·8	12,711
1950–51 ..	3,637·2	45,877	2,170·5	14,582	2,729·4	37,366	1,921·4	14,535
1951–52 ..	3,831·2	54,058	1,909·6	14,540	3,085·7	45,186	2,013·9	16,626
1952–53 ..	4,000·5	59,893	2,149·0	17,398	3,545·6	56,014	1,868·9	16,738
1953–54 ..	3,679·1	57,713	2,059·1	17,753	2,862·1	46,963	2,023·5	18,618
1954–55(²)	3,801·1(²)	59,798(²)	2,035·7(²)	17,440(²)	2,664·2	46,697	1,363·0	11,045

(¹) Allowances to cover increases in manufacturing and wages costs were paid to dairy factories during these years, and these allowances have been apportioned to butter and cheese produced and included in the value figures as shown. Similar allowances to cover increased farm costs and paid to suppliers have not been so included.

(²) Provisional.

Source: Department of Statistics

TABLE 8

Value of Production in New Zealand, by Groups, 1933–34 to 1953–54

(£ million)

Production Year	Agricultural	Pastoral	Dairying, Poultry, and Bees	Total Farming Groups	Mining	Fisheries	Forestry	Factory([2])	Building and Miscellaneous	All Groups
1933–34 ..	8·7	31·7	22·5	62·9	3·5	0·4	2·0	18·6	11·0	98·4
1934–35 ..	7·9	28·0	23·0	58·9	3·8	0·4	2·6	20·7	10·3	96·7
1935–36 ..	9·2	33·8	28·8	71·8	4·0	0·4	3·0	23·2	11·4	113·8
1936–37 ..	8·8	46·3	33·3	88·4	4·0	0·5	3·6	26·7	12·7	135·9
1937–38 ..	8·6	40·1	35·1	83·8	4·2	0·6	4·1	30·0	13·1	135·8
1938–39 ..	8·3	37·5	33·3	79·1	4·4	0·6	4·0	30·5	14·7	133·3
1939–40 ..	9·6	38·8	36·3	84·7	4·9	0·6	4·4	33·5	15·4	143·5
1940–41 ..	10·3	46·3	39·3	95·9	5·1	0·6	4·5	37·1	14·4	157·6
1941–42 ..	11·4	45·9	37·9	95·2	5·4	0·6	4·5	41·2	14·8	161·7
1942–43 ..	13·3	46·9	36·6	96·8	5·3	0·6	5·0	45·2	15·5	168·4
1943–44 ..	14·4	48·1	36·2	98·7	5·7	0·7	5·3	49·4	15·9	175·7
1944–45 ..	16·4	56·3	43·3	116·0	5·8	0·7	5·4	52·0	16·4	196·3
1945–46 ..	15·9	55·0	39·8	110·7	6·0	0·9	6·1	55·6	19·0	198·3
1946–47 ..	15·9	64·9	48·4	129·2	6·4	1·0	6·6	61·7	23·1	228·0
1947–48 ..	17·4	81·1	55·9	154·4	6·3	1·1	8·7	70·8	24·4	265·7
1948–49 ..	19·6	84·4	62·7	166·7	6·9	1·2	10·5	77·0	27·8	290·1
1949–50 ..	20·8	118·0	68·9	207·7	8·2	1·4	10·9	84·5	31·1	343·8
1950–51 ..	20·8	213·0	77·4	311·2	9·4	1·4	12·8	97·4	36·8	469·0
1951–52 ..	23·5	136·8	89·5	249·8	9·3	1·5	15·5	112·3	41·4	429·8
1952–53 ..	24·4	167·5	100·3	292·2	11·0	1·8	15·5	115·9	43·0	479·4
1953–54([1]) ..	30·9	180·2	98·0	309·1	11·0	2·1	17·2	130·5	48·2	518·1

([1]) Provisional.
([2]) Excluding processing of primary products included in other groups.

NOTE.—Owing to a revision of methods for the farming group which has been carried back only to 1938–39, the figures for earlier years are not on identical bases, but general comparisons are not invalidated.

Source: Department of Statistics

TABLE 9

Index Numbers of Total Value and Volume of Production, 1933–34 to 1953–54
(Base: 1938–39 = 100)

Production Year	Farm		Factory([2])		Total (Including Other)	
	Value	Volume	Value	Volume	Value	Volume
1933–34	77	99	61	59	72	87
1934–35	72	96	68	69	71	87
1935–36	88	101	76	76	84	93
1936–37	108	104	88	90	100	99
1937–38	102	104	98	95	100	100
1938–39	100	100	100	100	100	100
1939–40	107	104	110	110	108	106
1940–41	121	115	122	114	118	112
1941–42	120	111	135	117	121	110
1942–43	122	107	148	122	126	109
1943–44	125	106	162	129	132	109
1944–45	147	115	170	132	147	114
1945–46	140	107	182	136	149	112
1946–47	163	111	202	146	171	118
1947–48	195	114	232	159	199	123
1948–49	211	118	252	167	218	130
1949–50	263	123	277	174	258	137
1950–51	393	127	319	184	352	141
1951–52	316	126	368	196	322	144
1952–53	369	132	380	196	360	147
1953–54([1])	391	133	428	211	389	152

([1]) Provisional.
([2]) Excluding processing of primary products included in other groups.

Source: Department of Statistics

TABLE 10

Index Numbers of Value and Volume of Production Per Head, 1933–34 to 1953–54

Production Year	Value Per Head of Mean Population, June Years	Volume Per Head of—		
		Mean Population, June Years	Approximate Mean Population, Persons Aged 15–64, June Years	Labour Force as Estimated by Department of Labour
		(Base: 1938–39 = 100)		(Base: 1946–47 = 100)
1933–34	76	91	91	..
1934–35	74	91	91	..
1935–36	86	96	96	..
1936–37	102	101	101	..
1937–38	101	101	101	..
1938–39	100	100	100	..
1939–40	106	105	105	..
1940–41	117	111	112	..
1941–42	120	109	112	..
1942–43	125	108	112	..
1943–44	130	108	112	..
1944–45	142	111	115	..
1945–46	139	104	109	..
1946–47	156	107	112	100
1947–48	177	110	116	102
1948–49	190	113	121	107
1949–50	221	117	127	110
1950–51	295	118	130	113
1951–52	265	118	131	113
1952–53	288	118	131	114
1953–54([1])	303	118	133	115

([1]) Provisional.

Source: Department of Statistics

to be switched to more profitable lines. He said that farmers producing the goods whose price had fallen would be encouraged to switch although, pending transfer, they would receive their full cost, plus a reasonable profit, from debt-free money. Farmers would not be directed to change production, but they could not expect financial help to continue if they persisted in producing things which were not wanted.

176. We would observe that market trends overseas could not be ignored completely if the prices of all New Zealand's export products fell drastically. Although, in such circumstances, import prices would be likely to fall also, they would probably fall less than export prices if past experience can be taken as a guide. Thus, each unit of goods exported would be exchangeable for a lower volume of imports than before. The total volume of imports could be maintained for a time by drawing on our foreign exchange reserves, but if the fall in export prices persisted, it would eventually be necessary to reduce imports. Mr Young acknowledged that no administration could prevent a decline in New Zealand's standard of living if this should happen.

177. Mr Young was questioned on the danger of inflationary pressure arising as a result of maintaining domestic incomes while the volume or value of imports fell off. He replied that this could be avoided by *"voluntary price regulation"*, by the use of any surplus reserves of foreign exchange, by some switch of production from capital to consumer goods, and by avoiding an over-issue of money. Towards the end of his evidence, Mr Young said that if the gap was not sufficient to justify financing subsidies out of debt-free money, he would *"tax or stop some other work in favour of this particular purpose the money is required for"*. The statement indicates a notable departure from the fundamental principles of the Association's original case, and the adoption of a view much more in line with current financial opinion.

XIII. Social Credit, International Trade, and Control by the State

178. Both Miss King and Mr Young stated that import selection would be an essential element of Social Credit policy. It would be necessary to prevent excessive spending on imports and to ensure that, if overseas funds were scarce, those imports which were least essential to the New Zealand economy would be excluded.

179. We would make two comments on the foregoing statement. First, a system of import selection would not be sufficient to safeguard our foreign exchange reserves if the money supply were excessively inflated; for such inflation would mean that costs in the export industries would be driven up in relation to prices received for exports and these industries would become less attractive in relation to those producing predominantly for the home market. Unless exports were subsidised, the tendency would ultimately be for the volume of exports to decline, thus reducing our earnings of foreign exchange. At the same time, the demand for foreign exchange would be increased as a result of domestic inflation and the difficulty of administering the controls would be considerably increased.

180. Secondly, this is another of those direct controls by Government to which the Social Credit Association and the Social Credit Political League have declared themselves opposed in principle. Mr Young was unable to point to any control in existence today which Social Credit

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could abolish. In fact, his evidence showed that control by the State would be expanded considerably. Not only would we revert to a system of detailed import selection and exchange control, but we would also have comprehensive price regulation and a much stricter control of bank advances; probably control of building, interest rates, and rents; and possibly, in an emergency, rationing plus the freezing of certain money holdings. If the views of those with more grandiose ideas than the Association about issuing debt-free money were accepted by the Government, the country, in our opinion, would soon have to be subjected to even more rigid controls, conceivably even including the direction of labour, in order to hold down costs and prices and preserve a measure of equity in the distribution of the available goods and services.

181. We do not intend in this report to discuss the ultimate objectives of Social Credit but if, as Miss King said, two of the long-term aims of social crediters are the replacement of wages and salaries by a universal national dividend and the abolition of interest, we cannot see how at the same time they could preserve a system of private ownership and private enterprise. The two former objectives are completely incompatible with the third.

XIV. Summary and Conclusion

182. It was apparent from the remarks of counsel for the Social Credit Association in opening his case that the version of Social Credit put before the Commission by the Association was designed to avoid some of the more extravagant features of that put to the electors of New Zealand by the Social Credit Political League in 1954. It was also more cautious than that advanced by most of the other witnesses who appeared before the Commission and who claimed to be social crediters. Even in its original submissions the Association gave us no assurances of the speedy abolition of debt and taxation or of the practicability of the institution of a universal national dividend financed from debt-free money. In the early stages, the representatives of the Association maintained a firm conviction that there was a large gap to be filled between purchasing power and prices, which would justify an issue of debt-free money by the Government to enable taxation to be reduced, subsidies to be paid to retailers, social security benefits to be increased, and non-commercial works to be financed without an increase in the public debt. But no attempt was made to measure the extent of the alleged gap, and under examination Mr Young admitted that all the previous estimates which had been made were full of serious errors. There was no readiness to assert that it was safe to issue £90 million or £190 million of debt-free money at the present time and in fact, in evidence, Mr Young said that it would be a mistake to promise any reduction of taxation or increase in benefits.

183. The original convictions of the Association's witnesses about the gap and its size obviously weakened as our hearings proceeded. Major Douglas's "A + B theorem" upon which most Social Credit literature in the past has relied to prove conclusively the extent of the alleged chronic gap, and which still formed the basis of the representations of some of the other Social Credit witnesses, is now regarded by the Association as being *"of academic interest"* only. In their submissions it was made clear that the belief of the Association's representatives in the existence of a

chronic gap rested primarily on *"evidence from experience"*, namely, the occurrence of depressions in the past and the growth of debt in New Zealand since 1936. But under examination their faith in this evidence practically disappeared; for instance, towards the end of our hearings, Mr Jordan admitted that *"increases in debts, public and private, are neither a measure of the 'gap', nor conclusive proof of it"*. Indeed, he went so far as to say that the Association does *"not postulate a chronic shortage of purchasing power"* and asked us for a recommendation that *"the war against inflation be carried on"*.

184. The only positive suggestion which the Association recommended to us for immediate application was that a National Credit Authority should be set up and a national survey made to ascertain, *inter alia,* whether or not a gap existed. It was clearly indicated that the soundness of the remedy which they proposed for later application – the issue of debt-free money to finance various items of Government expenditure – depended on the demonstration of a gap. Miss King and Mr Young agreed that, if the case for the gap failed, the case for the application of Social Credit failed.

185. No Social Credit witness produced evidence to satisfy us of the existence of a gap, chronic or temporary, at the present time. In fact, as indicated above, the Social Credit Association appeared to have realised by the end of our hearings that New Zealand is currently suffering from an excess, not from a shortage of spending power. In such circumstances, there is nothing to warrant the adoption of Social Credit's financial proposals. We are convinced that implementation of the proposition of some witnesses that all Government expenditure should be financed with debt-free money would result in disastrous inflation.

186. The main submissions made by counsel for the Social Credit Association in his final address were that it was necessary to have a national survey and to set up an authority *"to watch carefully inflation and deflation and to take the appropriate steps in the case of imbalance"*. These recommendations are discussed in other sections of our report dealing with research and statistics and with the co-ordination of policy. The principal surviving variation in the Association's case from generally accepted financial opinion was that, if there were justification in the future for an issue of new money, this should preferably be made debt free to the Government to pass on to consumers or to finance non-commercial works. We do not favour this proposal. To believe that it would reduce costs, prices, and total indebtedness is illusory. Moreover, it would give a completely false picture of the real cost of Government works and would be a potent inducement to extravagance in the granting of benefits and tax concessions.

187. The Association's final views were substantially different from the submissions which the Association originally presented, and from the version of Social Credit advanced by most other witnesses, which followed more closely the traditional doctrine of a chronic gap. It is not surprising that this doctrine should have flourished during a depression. In a period when large numbers of people are unemployed, wages and prices are falling, and considerable stocks of goods are unsold, there is every reason to believe that placing more purchasing power in the hands of the people will improve the operation of the economic machine. But, as changes in the Association's attitude show, it is impossible to sustain

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a contention that there has been a general shortage of purchasing power during a period when there has been virtually no unemployment, a very large number of employment vacancies, recurrent shortages of goods and services, and continually rising prices.

188. Perhaps the continuing belief of many witnesses that the issue of large quantities of new money would be beneficial in such a period rests mainly on a confusion between what is good for the individual and what is good for the community as a whole. We know that if, as individuals, we won a lottery or received a substantial increase in pay, we could buy more of what we want. But if an issue of debt-free money for tax reductions or increased benefits gave us all the equivalent of a lottery prize or a pay increase, no-one would be better off at a time when labour and resources were fully employed. The issue of debt-free money in such circumstances would not enable any more goods or services in the aggregate to be provided.

189. The additional money would not remain unspent; nor would it be cancelled out of existence as soon as it was spent as some witnesses contended. We would merely have much more money chasing a relatively constant supply of goods and services. Inevitably prices would be driven up by extra competition for the things which were available for sale. If the tax concessions and increased benefits were repeated in subsequent years, necessitating further issues of debt-free money, the country would be engulfed in a rapid inflation, bringing in its train economic, political, and social problems of a magnitude and severity which it is to be hoped New Zealand will never be required to face.

NOTE 1 TO APPENDIX E

Points of Difference Between Witnesses for the New Zealand Social Credit Association and the Book How Social Credit Works *Compiled by Mr Wilfrid B. Owen*

(Reference paragraph 6 of Appendix E)

190. In view of the difficulty which the Commission found in reconciling the views expressed by witnesses for the Social Credit Association with published Social Credit literature – in particular with the book *How Social Credit Works* compiled by Mr Wilfrid B. Owen, President of the New Zealand Social Credit Political League – Mr R. G. Young, Vice-President of the League, agreed, in response to a request from the Commission, to state concisely the points of difference. These are set out herewith.

191. *How Social Credit Works,* page 29 :

The Social Credit idea is that, under modern conditions, complete employment in Industry is neither possible nor desirable; that the national dividend must progressively replace the wage and salary; that credit must be issued free to consumers to bridge the gap between purchasing power and prices, and that this Consumer Credit shall be the controlling factor in Distribution.

Mr Young:

Our comment is that that is not practicable in New Zealand, that full employment is necessary and desirable in this country, and that we see nothing in the foreseeable future that the national dividend would replace the wage and salary systems.

192. *How Social Credit Works,* page 31:

Our survey of the principles, theories and policies governing Finance as the agent of Distribution must convince us why they are ineffective in distributing the goods and services provided by Industry with the least trouble to the community. It reveals that the true purpose of an economic system, which is to deliver goods and services to the limit of productive capacity, or the limit of consumptive capacity, whichever occurs first, has been perverted entirely to serve the interests of the Financial system.

Mr Young:

You will remember I disavowed . . . it had been deliberately perverted to that idea.

193. *How Social Credit Works,* page 45:

In New Zealand the Central Bank is the Reserve Bank; that is, the Central Bank belongs to the people and should function for their benefit. To-day it merely functions for the benefit of the private banks and by its control of currency, based, or supposedly based, on a gold and sterling basis, regulates the financial credit of New Zealand.

Mr Young:

We disagree [with the statement that "it merely functions for the benefit of the private banks".]

194. *How Social Credit Works,* page 53:

Discusses the A + B theorem at some length and in some detail. Mr Young agreed that the computation of the gap in the example given was incorrect. He also agreed that the example had no regard to the continuity of production and the continuity of payments out in the course of production.

195. *How Social Credit Works,* page 55, the heading:

"Prices always greater than incomes".

Mr Young:

It should be . . . nearly always greater than incomes.

196. *How Social Credit Works,* page 58:

A word or two about Savings. If Industry distributes £1,000,000 in wages, salaries and dividends, and the recipients save £100,000, it should be evident that goods to this value remain unsold. If this sum is then invested in production it ceases to be available as purchasing power, but creates a fresh lot of consumable goods.

Mr Young:

We are quite willing to concede that money spent in investment is purchasing power for capital goods and so forth. [Money spent on investment] . . . is purchasing power at the time it is spent.

197. *How Social Credit Works,* page 62:

Like most professions and industries the banking system of U.S.A. (and elsewhere) have their "trade journals". The following quotations taken from the *United States Bankers' Magazine* dated 26th August, 1924, would seem to indicate that the decision for a slump was certainly made about this time. The following can fairly be claimed to be an instruction to all banks:

"Capital must protect itself in every possible manner by combination and legislation. Debts must be collected, bonds and mortgages must be foreclosed as rapidly as possible. When through a process of law the common people lose their homes, they will become more docile and more easily governed through the influence of the strong arm of government, applied by a Central power of wealth under control of leading financiers. This truth is well known among our principal men now engaged in forming an imperialism of Capital to govern the world."

Question:

You disown that [the above quotation]?

Mr Young:

Yes.

198. *How Social Credit Works,* page 68:

. . . the general principles on which the necessary reform is based have been laid down by Douglas as follows:

1. That the cash credits of the population of any country shall at any moment be collectively equal to the collective cash price for consumable goods for sale in that country, and such cash credits shall be cancelled on the purchase of goods for consumption.
2. That the credits required to finance production be supplied, not from savings, but be new credits relating to new production.
3. That the distribution of cash credits to individuals shall be progressively less dependent upon employment. That is to say, that the National Dividend shall progressively displace the wage and salary.

Mr Young:

This at the present time is under consideration by the Dominion Executive of the Social Credit Political League for a re-statement. We are not happy with those three.

. . . it suggests arbitrarily that all future production should be financed from new bank credit, not from savings. We think people should have the right to use their savings if they so desire.

There is criticism within our own ranks to some extent that if you took it literally on its face value as actually stated there it would prohibit a man from using his savings if he wished to, which we think is unreasonable.

Question:

At the moment you do not accept them as the three basic principles for reform?

Mr Young:

No, sir. They are being re-stated.

199. *How Social Credit Works,* page 71:

(a) The second principle is: "That the Credits required to finance production shall be supplied, not from savings, but be new Credits relating to new production, and shall be recalled only in the ratio of general depreciation to general appreciation."

As we have shown, the problem of insufficient purchasing power is intensified by the question of savings. These, being a portion of A payments direct to individuals, should help to take goods off the market, but do not.

(b) There is no economic virtue whatsoever in savings, and the orthodox ideas that Capital is dependent on savings are either fallacious or rendered ineffective by the increasing use of Bank Credit. Savings prevent goods valued at a like amount from being sold, and when such savings are reinvested in production they create a new series of costs without generating any fresh purchasing power.

Mr Young:

(a) This is also being reconsidered by the League.

(b) We do not accept that [there is no economic virtue in savings.]

As I say it was done in a hurry and he took this from Stone's book and there was not the close attention given to it that there should have been. It is a warning to us in future to be much more careful in these matters.

200. *How Social Credit Works,* page 71:

The third principle is: "That the distribution of Cash Credits to individuals shall be progressively less dependent upon employment. That is to say, that the dividend shall progressively displace the wage and salary, as productive capacity increases per man hour."

Under the existing system employment is the only means of obtaining purchasing power, and this principle recognises the necessity of providing some form of income other than wages and salaries as machines progressively displace men from industry.

Mr Young:

We think so far as New Zealand is concerned that it is not within the foreseeable future.

201. *How Social Credit Works,* page 72:

For a hundred years the efforts of the scientist and inventor have been devoted to finding new and better processes, bigger and faster labour-saving machines. So successful have they been that it has been estimated that a period of from two to four hours' labour a week for men during 25 years only of their lives is sufficient to provide the total population with a very high standard of living and with complete economic security for all.

Mr Young:

You remember there was a question about these figures. We do not think that those are applicable to New Zealand at all.

202. *How Social Credit Works,* page 73:

When the shackles of the Monopoly of Credit are removed this idea of compulsory work will lose all relation to reality, because it will be impossible to adjust full scale employment to an increasingly mechanised industry. The national dividend is inevitable in a world of progress.

Mr Young:

That is in the distant future. A long way off.

Question:

Some time that you and I will never see?

Mr Young:

I think so.

203. *How Social Credit Works,* page 80:

This dividend, as by the illustrative figures given in our previous lecture, would be of the same total amount as the total of the retail discount, and would be paid by the National Credit Authority direct to individuals either through the Post Office, as pensions are now paid, or direct by cheques.

We do not doubt that both the discount schemes could be put into operation very easily. Only experience and a period, perhaps, of trial and error would determine the easiest and most effective methods of administration.

We think a combination of the two would be necessary. For instance, services such as transport, amusements, and any form of business where tickets are issued, and retail shops selling fruit and perishable goods, where quantities and qualities depend on indeterminate factors, would probably be better served by the second alternative. For the great bulk of consumable goods probably the first alternative is the better, but experience only will determine this.

Mr Young:

The whole page is a matter for consideration and we do not think that any useful purpose would be served, as far as New Zealand conditions are concerned, in discussing the thing.

204. *How Social Credit Works,* page 93:

THE PHILOSOPHY OF SOCIAL CREDIT

During the early days of the Social Credit Movement lecturers laid great stress on the A and B theorem, the Just Price regulating factor and other technical aspects of the New Economics.

Perhaps they overdid this, but it provided a sound and necessary basis of knowledge. In more recent years they have gone to the other extreme and have concentrated on bank-created credit, debt and taxation.

We have long held that the successful teaching of Social Credit as a practical reform must include both these aspects; they are complementary to each other.

But Social Credit is much more than a reform and a change in the financial system; it is a PHILOSOPHY, and experience has taught also that we have not given sufficient consideration at any time to this vital aspect of our teaching.

When we go out to preach Social Credit we find there are two powerful groups opposed to us – one representing conservatism and the vested interests that we may term the Sound Finance group; the other representing the mass of wage and salary earners that we may term the Socialist group.

These groups oppose one another, but they both agree to oppose Social Credit. Each stands for a definite Social and Economic system, and so does the Social Credit group.

Now Douglas, in one of his most important and valuable utterances, has stated that a Social and Economic system represents "the policy of a philosophy," and he defines "policy" in this connection as "action consciously directed towards a given objective."

If we look at the philosophy of Sound Finance we must recognise that the policy directed to make it effective develops into a system akin to Fascism. If we look at the philosophy of Socialism we must recognise that the policy directed to make it effective develops into Communism.

Both of these policies lead to a system of centralised control in the hands of a few – one through finance, the other through bureaucracy.

Both tend to destroy individual initiative – one by debt and taxation, the other by the elimination of private enterprise.

Both represent the will-to-power – one by money control, the other by political and social organisation.

Both believe in policy imposed from above – one by law and necessity, the other by force.

Both suppress individual freedom – one by economic compulsion, the other by economic regimentation.

Both have false ideals of an economic system –, one as a means to make profits, the other as a means to provide employment.

Both believe in the Work State – one because it objects to leisure, the other because it conceives work as the only economic security.

Both believe that men exist to serve a system – one because it worships the supremacy of finance, the other because it worships the State as an abstraction.

As Social Crediters we disavow both these philosophies and the policies and systems that grow out of them. They are the enemies of progress and liberty and the negation of the free spirit of man. The philosophy of Social Credit is entirely opposed to them.

Social Credit believes in decentralised control, with the foundations of society laid on the complete independence of the individual. It believes that policy should come from the community through building up from the Individual, not down from the State.

It believes that systems are made for men and not men for systems.

It believes that the future of the world lies in co-operation, but only in the co-operation of reasoned assent, not in the forced co-operation of regimentation. It believes that the economic activity is simply a functional activity of men and women in the world and that progress is most rapid and effective through the free expansion of self-development.

It believes that science and invention must not be used to enslave men, but to free them from unnecessary work and so give them leisure and the chance of self-development.

It believes that men have "an inalienable right to life, liberty and the pursuit of happiness."

It believes that the system under which men live must represent truth and reality and not lies and falsity.

It believes that this system should develop a community of diversified and independent individuals and not a mass of standardised and servile ones.

It believes that this system should give not only security, but freedom, and that freedom, security and peace are one and indivisible.

It believes that every individual is a shareholder in the common heritage of Civilisation and that the wealth that flows from this heritage is part of his birth-right.

It believes that absolute economic security is the first and basic requirement of a New Civilisation in which every man will be entitled "to sit under his own vine and under his own figtree and none shall make him afraid".

Unless we believe in this philosophy of Social Credit it is useless to bother about anything else. If we do believe in it then we must advocate the principles and policies to make it effective.

Mr Young:

That is of academic interest, we feel, at the present time.

205. *How Social Credit Works,* page 92:

6. What is the JUST PRICE? The Just Price of an article is the price representing its true cost. It is determined by the ratio which total production of all descriptions bears to total consumption and depreciation. The Just Price is also called the COMPENSATED PRICE.

7. What is the JUST PRICE FORMULA? This is the mathematical formula used to determine the just price of an article in relation to its financial cost . . . The "Just Price" of any article is the cost of the goods actually CONSUMED in its production. "The Cost of production is Consumption."

Mr Young:

. . . that argument is useless . . . It is of academic interest.

NOTE 2 TO APPENDIX E

Computations of the Social Credit "Gap" Published in Social Credit Literature

(Reference paragraph 82 of Appendix E)

206. Three computations of the "Gap" published in Social Credit literature were discussed by the Commission with Mr Young, a witness for the New Zealand Social Credit Association, and with the Government Statistician, in some detail. These computations were:

(a) The gap between incomes received and national production in 1950–51, published in the *New Zealand Social Crediter,* 15 March 1955, pages 6 and 7.

(b) The statement of the gap for 1951–52 in *Social Credit's Solution* (pages not numbered), a pamphlet published by the New Zealand Social Credit Political League in 1954.

(c) *"Production and Income, 1950–51",* appearing at pages 8 and 9 of *Social Credit is the Key,* by G. Hinton Knowles, in collaboration with F. D. Danks.

Results of the examination in respect of these three computations are summarised in the following paragraphs.

The gap between incomes received and national production, 1950–51, from the *New Zealand Social Crediter*

207. This compilation sets out to compare *"money incomes of New Zealanders obtained through the production of consumer goods and services"* in 1950–51 with *"the total retail prices of such consumer goods and services".*

208. The compilation as published was as follows:

VALUE OF PRODUCTION

£

In the year ended 31/3/51 (see 1951–52 Year Book, page 961) .. 473,200,000
    This figure represents value at point of production. Nothing added to cover costs of distribution. Services not included.
DEDUCT EXPORTS (Calendar year 1950), (i.e. goods produced in N.Z. but not placed on N.Z. market)

				£	
F.O.B. Value	..	..	..	.. 183,700,000	
Less 25 per cent	..	..	..	.. 45,900,000	
					137,800,000
					335,400,000

This deduction of 25 per cent is made to reduce F.O.B. value to
value at point of production.

ADD IMPORTS (Calendar year 1950)	158,000,000
C.D.V. and 10 per cent added only.	
	493,400,000
ON COST	
At least 50 per cent must be added to cover distribution charges, etc.	246,700,000
Gross National Production at Retail Prices	£740,100,000

NOTE.—O.E.N.I. = Official Estimates of National Income.
       I.I.T.S. = Income and Income Tax Statistics.
(Reports published by Census and Statistics Department, Wellington).

INCOME OF NEW ZEALANDERS
Available for purchase of National Production
(See Report on the Official Estimates of National Income, 1954)

	£
YEAR ENDED 31/3/1951	
O.E.N.I. Salaries and Wages ..	279,000,000
O.E.N.I. Armed Forces	6,000,000
O.E.N.I. S.S. Benefits and Pensions	48,000,000
O.E.N.I. Other Personal Income	193,000,000
I.I.T.S. Company Dividends	18,000,000
	544,000,000
O.E.N.I. Less Direct Taxes (excluding direct taxes on Companies,	
and as only dividends have been included above) ..	75,000,000
I.I.T.S.	
	£469,000,000

	£
Production Value (see above)	740,100,000
Private Net Income	469,000,000
Apparent "Gap"	£271,100,000

There are two major amendments to these figures which must be made before we can
approximate the true "Gap". What portion of the Gross National Production is Capital
Goods production and which theoretically does not make a demand on personal income?
Of the total personal income computed for the year, what is the figure for transferred
incomes? We have already made one deduction for transferred income – direct tax –
but no deduction has been made of other transferred income, such as fees paid to doctors,
etc.

Allowing the sum of £171,100,000 for the value of capital goods and £100,000,000
for transferred incomes, the estimated true "Gap" is as follows:

	£
Apparent Gap	271,100,000
Add transferred incomes (estimated)	100,000,000
	371,100,000
Deduct value of capital goods (estimated)	171,100,000
Estimated True Gap	£200,000,000

209. We would remark that direct compilation of incomes earned in
production of consumer goods would be a most difficult, if not an
impossible, statistical operation because it is the "end-use" that determines
whether goods or services form part of capital goods or consumer goods.
To take a simple example, timber may be used for repairs (consumer
services) or for new construction (capital). How then are wages paid in
the bush or in the timber mill to be apportioned? In the above table the
compiler avoided this difficulty by including all salaries and wages and

other incomes, whether earned in production of capital goods or of consumer goods and services.

210. Notwithstanding inclusion of all such incomes, a subtraction of £171·1 million has been made from the figure for total production to obtain an estimated figure for the production of consumer goods and services, before comparing this with total incomes. This is, of course, a serious error. Mr Young agreed that if a deduction of this nature had been made on the production side without a corresponding deduction from incomes it *"would be quite a serious error of principle"*. The statement also omits Government and local authority expenditure on consumer goods.

211. No evidence was forthcoming to support the accuracy of the subtraction of 25 per cent as representing the reduction of the f.o.b. values of exports to the *"value at point of production"*. Nor was Mr Young able to substantiate the addition of 50 per cent as *"on cost"*. He agreed that the accuracy of the results of the table was dependent on the correctness of these percentages.

212. The Government Statistician said of this estimate that a statistician *"would have to disown it . . ."*. He also commented that the difference between the two sides of the statement was due to errors in compilation. Although the above table is admittedly an improvement on the other compilations discussed in this Appendix, we are satisfied from the evidence of Mr Young and of the Government Statistician that it is of no value as evidence of a gap between purchasing power and prices.

Computation of the gap for 1951–52 in *Social Credit's Solution*

213. This statement of the gap reads:

			£
Total price of all goods produced for sale in New Zealand	..	..	670,500,000
Total incomes earned by the people	..	..	477,000,000
Shortage of money or income	..	..	£193,500,000

214. From the evidence it appears to us that the above table was computed approximately as follows:

					£ (million)
VALUE OF PRODUCTION 1951–52	..	..	..		426·3
DEDUCT EXPORTS (Calendar Year 1951):					
F.O.B. ..	..	..	..	..	248·1
Less 25%	..	..	..	..	62·0
					186·1
					240·2
ADD IMPORTS (Calendar Year 1951):					
C.D.V. + 10% ..	..	..	..		206·5
					446·7
ADD "On Cost" 50%	..	..	..	..	223·4
Value of Goods at Retail Prices	..	..	..		£670·1
INCOMES					
Salaries and wages for 1950–51	..	..	..		275·3
Company and other incomes for 1949–50	..	..	..		201·5
					£476·8

215. It appears that the total income of £476·8 million was computed by multiplying the social security charge receipts for 1950–51 – £35·766 million – by 13⅓. Such receipts represent tax on salary and wages for 1950–51 and company and other incomes for 1949–50, at 1s. 6d. in the pound.

216. The computation of goods produced is subject to the same criticisms regarding the addition of arbitrary percentages as the table published in the *New Zealand Social Crediter* of March 1955. The remarkable thing about the statement published in *Social Credit's Solution* is that, as shown above, it compares an assessment of production for 1951–52 with salaries and wage incomes for 1950–51 plus company and other incomes for 1949–50. Such a comparison is quite worthless.

"Production and Income, 1950–51" in *Social Credit is the Key*

217. This computation of the gap for 1950–51 is as follows:

PRODUCTION AND INCOME, 1950–51

Does our financial system distribute sufficient purchasing power by way of wages, salaries, dividends and profits to pay the price of what is produced at any given period?

FIGURES FROM 1952 YEAR BOOK

		£
Total Production (page 961)		473,000,000
Material production only. Value at point of production. No amount added for transport or distribution through wholesaler or retailer. No valuation of services included.		
Deduct Exports (page 229)	£	
F.O.B. Value	184,000,000	
Less 25 per cent.	46,000,000	
		138,000,000
		335,000,000
This percentage deduction is necessary, as in all total production primary products are valued "on the hoof".		
Add Imports (page 251)		
C.D.V. and 10 per cent. only		158,000,000
		493,000,000
Add on Cost		
As nothing has been added to above figures for sales tax, excise or customs duties, transport, wholesale and retail distribution charges, then at least 40 per cent. must be added to find the cost to the consumer:		
40 per cent of £493,000,000 equals		197,000,000
Total Price Charges		690,000,000
Purchasing Power		
Wages, salaries, dividends, profits, other income, Social Security Tax gives a reasonably accurate figure for this item		477,000,000
Non-taxed income, including evasion (say)		23,000,000
		£500,000,000
Total Price Charges, as above		690,000,000
Nett Cash Income		500,000,000
		£190,000,000

It is obvious that £500,000,000 of income cannot liquidate £690,000,000 of price charges. There may be differences of opinion on the details given above and the percentages used, but it is submitted that there is clear proof in the above statement that costs are generated at a greater rate than incomes.

218. The above computation of production is similar to that published in *Social Credit's Solution* and is subject to similar limitations except that in this case *"on cost"* has been added at 40 per cent instead of 50 per cent. Again a mistake in income has been made by including wages and salaries for 1950–51 with company and other income for 1949–50 as total income for 1950–51. Mr Young admitted that this computation also was not competent statistical work.

219. Mr Young did not appear to have a competent understanding of these computations. He was under the impression that the gaps measured were before incomes received from public works or other supplements to income had been included. However, under cross-examination, he admitted that total incomes including incomes from public works had been included in the computations. Mr Young said, *"I would say as a practical observation round the country, for anyone to suggest there was a net gap of that sort, he was a dreamer"*.

220. In his evidence, the Government Statistician confirmed the erroneous nature of the three compilations referred to above. Furthermore, Mr Jordan disowned them and said, *"I should say truly that these statements have never been received as correct by the general body of social crediters, nor by the many who have always urged and have objected to these statements from time to time, on the ground that the compilers haven't the necessary information, and on the further ground that the state of full employment and the state of high prices under which our economy has existed during the past few years, have indicated that there could not be anything like the amount of gap that has been estimated"*.

221. We are satisfied that the statistical computations of the gap printed in publications of the New Zealand Social Credit Association and of the New Zealand Social Credit Political League are faulty statistical work having no value as evidence for or against the existence of a shortage of purchasing power and certainly providing no sound basis for any issues of debt-free money.

222. In answer to a request of the Commission the Government Statistician supplied the following statement setting out aggregate incomes and production over a period of years 1950–51 to 1954–55:

GOODS AND SERVICES COMPARED WITH INCOMES
(£million)

—	1950–51	1951–52	1952–53	1953–54	1954–55
Goods and Services					
1. Gross National Product at market prices	696	722	754	834	927
2. Less imputed rental value of owner occupied houses	−14	−15	−16	−19	−21
3. Export surplus (−) or deficit (+) ..	−30	+30	+5	−28	+39
4. Total goods and services available at market prices	652	737	743	787	945

GOODS AND SERVICES COMPARED WITH INCOMES—*continued*

(£million)

—	1950–51	1951–52	1952–53	1953–54	1954–55
Incomes					
5. Wages, salaries, interest, dividends and profits on which social security tax is paid:					
(a) Earned in current production of goods and services	580	589	621	689	755
(b) Interest paid to holders of the public debt domiciled in New Zealand	17	17	17	18	20
	597	606	638	707	775
6. From which Government has levied in taxation (including local authorities)	−113	−142	−146	−154	−168
7. Leaving in the hands of the public out of current incomes	484	464	492	553	607
8. But the Government has returned to the public tax free social security payments (including pensions) ..	48	54	54	58	61
9. In addition there are depreciation allowances on which no tax has been paid (therefore not included in (5) above)	39	43	46	50	57
10. Total incomes in the hands of the public to purchase goods and services ..	571	561	592	661	725
But the Government (General and Local Authority) spends the income it collects from the public. This amounts to:					
11. Direct taxation (deducted from private purchasing power (see (6) above) ..	113	142	146	154	168
12. Indirect taxation included in the prices of goods and services (4) above ..	56	71	67	68	82
Less subsidies on consumer goods ..	−9	−16	−15	−16	−13
Making	47	55	52	52	69
13. Profits from Government Departments trading and non-trading ..	16	19	18	24	27
14. Gross Government Income	176	216	216	230	264
15. The Government has returned to the public taxfree social security benefits (which it therefore cannot spend itself) (see (8) above)	−48	−54	−54	−58	−61
16. Interest on the public debt domiciled in New Zealand (included in (5) above) is also returned to the public so Government cannot spend it ..	−17	−17	−17	−18	−20
17. Net Government income from which it can purchase goods (e.g., materials for public works included in (4) above) and services (e.g., Civil servants' services included in (4) above)	111	145	145	154	183
18. Total incomes:					
In hands of − Public (10 above) ..	571	561	592	661	725
In hands of − Government (17 above)	111	145	145	154	183
Total Incomes	682	706	737	815	908

GOODS AND SERVICES COMPARED WITH INCOMES—*continued*

(£million)

—	1950–51	1951–52	1952–53	1953–54	1954–55
19. Decrease in overseas assets (+) or additions to overseas assets (−) ..	−30	+30	+5	−28	+39
20. Total (18 + 19)	652	736	742	787	947
21. Total value of goods and services available (4 above)	652	737	743	787	945
Rounding of figures causes these differences	..	−1	−1	..	+2

223. The above statement shows an equality between goods and services becoming available at market prices and total incomes (after allowing for changes in overseas assets). (See comment in paragraph 60 of this Appendix.) The Government statistician agreed that his tabulation was *"an effective statistical refutation of any contention that there has been a chronic shortage of purchasing power in the hands of the people relative to the price of total production in those years"*. He also said that if statements on the same basis were prepared for other years the results would be similar.

224. The Government Statistician's statement does not prove that purchasing power is always sufficient to make the best use of the country's resources without generating inflation. It does, however, prove that there is no chronic defect in the industrial and financial system which must lead to a shortage of purchasing power and which would therefore justify issues of new money as a regular feature of budgetary policy.

GOODS AND SERVICES COMPARED WITH INCOMES—continued

(£million)

	1950-51	1951-52	1952-53	1953-54	1954-55
19. Increase in overseas assets (+) or decline in overseas assets (—) ..	−30	+30	+5	−28	+30
20. Total (18 + 19) ..	622	736	742	787	947
21. Total value of goods and services available (3 above) ..	632	737	743	787	945
Rounding of figures causes these differences ..	..	−1	−1	..	+2

223. The above statement shows an equality between goods and services becoming available at market prices and total incomes (after allowing for changes in overseas assets). [See comment in paragraph 50 of this Appendix.] The Government statistician agreed that his tabulation was "an effective statistical valuation of any variation that there has been a change relative to the price of total production in those years". He also said that if statements on the same basis were prepared for other years the results would be similar.

224. The Government Statistician's statement does not prove that purchasing power is always sufficient to make the best use of the country's resources without generating inflation. It does, however, prove that there is no chronic defect in the industrial and financial system which must lead to a shortage of purchasing power and which would therefore justify issues of new money as a regular feature of budgetary policy.

Appendix F

SUBMISSION OF Mr H. J. KELLIHER AND THE MIRROR PUBLISHING COMPANY LIMITED

TABLE OF CONTENTS

I. Introduction

1. Mr H. J. Kelliher, in association with The Mirror Publishing Company Limited, made lengthy submissions to the Commission through his witness, Mr W. S. Otto. Mr Kelliher himself did not appear at the hearings, but was represented by counsel, Dr O. C. Mazengarb, Q.C. These submissions, which were obviously the result of much careful thought and preparation, comprised six parts dealing with the following subjects:

(a) Existing banking and economic system.
(b) Overseas trade – wages – fiscal policy – criticism of present system.
(c) Recommendations for reform of existing banking system.
(d) Other recommendations for reform.
(e) Summary of proposals for reform.
(f) A recommendation that New Zealand should not join the International Monetary Fund.

2. The hearing of Mr Otto's evidence and his examination and the addresses of counsel occupied a period of nearly twelve days. Wherever we ascribe matter to Mr Kelliher in this report we are referring to the preliminary documents placed before the Commission, to the prepared submissions, and to the remarks of Mr Kelliher's counsel. Where Mr Otto is mentioned we refer to his statements under examination, to his written replies to questions put to him during the hearings, and to documents presented in amplification of his evidence.

3. In general, these submissions comprised an analysis of the existing economic system with special emphasis on the banking system, a statement of the weaknesses which Mr Kelliher regarded as inherent in the economic and banking systems, and suggestions for curing such weaknesses.

4. Mr Kelliher asserted that the following defects were inherent in the existing banking system:

(a) The lending and investment operations of the trading banks were expanded in times of prosperity in the ordinary course of their business, and contracted in less prosperous times.
(b) These operations resulted in the creation and destruction of money, that is, an expansion and contraction in the volume of money.
(c) This expansion and contraction of the volume of money was the major cause of the rise and fall in prices.

Mr Kelliher claimed that the Loanable Funds Scheme would remedy these defects and achieve stability in the volume of money, and that the Loanable Funds Scheme in conjunction with certain associated proposals would ensure substantial stability in prices.

Volume of Money

5. In the course of his submissions Mr Kelliher gave a number of examples of the operation of the Loanable Funds Scheme, from which it is apparent that he attached the greatest importance to the maintenance of a constant or stable volume of money.

6. The volume of money, as defined by the Reserve Bank of New Zealand and accepted and used by Mr Kelliher in his analysis of the existing banking system, comprises the following:

(a) Coin in circulation.
(b) Notes in circulation.
(c) Credit balances of customers in their current accounts at trading banks (demand deposits).
(d) Credit balances of Government and marketing accounts at the Reserve Bank.

7. The volume of money, and especially the volume of demand deposits held by the public at the trading banks, is affected from time to time by certain banking transactions, e.g., an increase in total trading-bank advances may, but does not always, result in an increase in demand deposits and, consequently, in the volume of money. On the other hand, a net reduction in bank advances originating from free deposits would reduce the volume of money. A purchase of investments by a trading bank may also result in an increase in demand deposits and, consequently, in the volume of money. The sale of investments by a trading bank may be expected to have the reverse effect. The effect of transactions such as the above on the volume of money is illustrated hereunder:

	Volume of Money (£million)
Suppose the volume of money is	312·6
Increase in trading-bank advances of £10 million might cause customers' demand deposits to rise by	(+) 10·0
A net reduction in trading-bank advances of £5 million might reduce demand deposits by	(−) 5·0
The purchase by trading banks of investments costing £3 million might increase demand deposits by	(+) 3·0
The sale of investments for £2 million might reduce demand deposits by	(−) 2·0
Volume of money after above transactions	£318·6

8. All increases in advances do not necessarily cause corresponding increases in deposits. An advance on overdraft by an individual bank may result in a corresponding reduction in advances made by the same or by another bank; in that case, the volume of money as defined by the Reserve Bank would not be affected. Similarly, an advance used by a customer to purchase overseas exchange would not affect the total of free deposits and, consequently, would not affect the volume of money.

Creation of Credit

9. Terms such as "creation of money" or "creation of credit", as applied to trading-bank transactions, are misleading if they give the impression that the trading banks can create unlimited credit. This is far from true. The witnesses for the banks agreed that the trading banks do create money in the course of their lending operations. We believe that it is more nearly correct to say that the creation of new and additional money may, and in fact often does, occur as a consequence of lending by the banks rather than to say, as Mr Kelliher did, that the banks *"create the money they lend"*. When a trading bank makes

advances it may well lose an equivalent, or nearly equivalent, sum in bankers' cash or in overseas funds, and it must conduct its business within these limits. In addition, the lending operations of trading banks are subject to control by the Reserve Bank which, by the operation of the reserve ratio system, freezes a proportion of the balances held by the trading banks at the Reserve Bank. The extent of credit creation by the trading banks, therefore, is subject to important limitations and safeguards.

Views of Economists on Changes in the Volume of Money

10. As mentioned previously, Mr Kelliher, in his submissions, attached the greatest importance to changes in the volume of money as causes of price movements. This view is not generally accepted by economic authorities. Geoffrey Crowther, in his book *An Outline of Money,* page 124, says, *"The modern tendency in economic thinking, indeed, is to discard the old notion of the quantity of money as a causative factor in the state of business and a determinant of the value of money and to regard it as a consequence".* Paul A. Samuelson, in his book *Economics – An Introductory Analysis,* page 293, takes a similar view to Crowther's in the following passage: *"The fact, however, that the quantity theory is a simplification of the truth and does not always hold with great precision should not be used to damn it utterly. If at least it indicates the general direction of economic behaviour, that would be a great deal to be said in its favour. Unfortunately, even this limited claim cannot always be made for the quantity theory".* It is apparent from these quotations that these two recognised economists ascribe only a limited importance to changes in the volume of money as causes of price movements. Similar views are expressed in the *Economic Journal* of March 1955 by Messrs E. H. Phelps Brown and S. A. Ozga after a study of long-term price trends in the United Kingdom.

11. Recent statistics show that between 1946 and 1954 the money supply in the United Kingdom rose by some 15 per cent. Over the same period the index of retail prices rose by over 50 per cent. This seems to indicate a probability that, in the main, the price increases in the United Kingdom arose from causes other than the moderate increase in the money supply.

12. Under Mr Kelliher's scheme, he claimed that the volume of money would remain constant unless some independent action was taken by the State to increase or reduce it. He considered that such increases or reductions should result only from deliberate actions by the State.

Velocity of Circulation

13. Mr Kelliher was at some pains to show that, in his view, velocity of circulation of money was of only minor importance in any assessment of the causes of inflation. He recognised that the greater use of existing money (i.e., an increase in velocity of circulation) might in certain circumstances (e.g., increasing import prices) avoid the need for increasing the money supply. In discussing velocity of circulation, however, Mr Kelliher omits to take into account the possibility that the operations of the Loanable Funds Scheme, by transferring dormant funds to savings deposits and making increased advances on the basis of

additional savings deposits so acquired, might stimulate considerably the velocity of circulation of the remaining demand deposits. Any such stimulation could have a similar immediate effect on spending, and on the price level, to an increase in the money supply. According to the Reserve Bank computation, the index of the velocity of circulation of money fell from 100 in 1939 to 50 in 1945, and has since risen to 70. If the velocity of circulation were to increase again to anything like the pre-war level of 100, there is no doubt that the effect would be considerable.

Legality of Credit Creation

14. Mr Kelliher disputed the legal right of New Zealand trading banks to operate as they do. Mr Otto admitted, under examination, that even under the Loanable Funds Scheme the banks would create and destroy money according to the accepted definition of money supply. It would appear, therefore, that the accusations of illegality made by Mr Kelliher would apply with similar force to the operations of trading banks if conducted under the Loanable Funds Scheme. The legal position regarding creation of money by trading banks is discussed in paragraphs 432 to 433, and 541 of our report and in Appendix D.

Moral Issues

15. Mr Kelliher raised the question *"whether the banks have any legal or moral right to create the original issue of money and to expand the money supply"*, and sought a recommendation from the Commission, in respect of creation of money by trading banks, *"that there is no legal or moral right to do what they have been doing, and it ought to be stopped"*. The Commission would scarcely wish to set itself up as a judge of morals. The trading banks could no doubt be held morally culpable if the lending operations complained of were either deliberately injurious to the public interest or if they had been conducted selfishly or regardless of the public interest. There is no evidence before the Commission to suggest that the trading banks have acted in such a way.

16. The allegation of moral wrong seems to be based on the assumption that all blame or a very large part of any blame for price increases should be ascribed to the lending operations of trading banks. In our view, for reasons explained elsewhere, this assumption is not well founded.

II. Full Reserve or 100 Per Cent Money

Influence of "100 Per Cent Money" on the Kelliher Proposals

17. Before outlining the mechanism of the Loanable Funds Account, Mr Kelliher gave a summary of the principles of "Full Reserve or 100 per cent Money", from which it became apparent that those principles had exerted a strong influence in the development of the Loanable Funds Scheme. Proposals similar to those of full reserve money were also submitted to the Commission by Mr A. N. Field. Full reserve or 100 per cent money was first advanced during the years 1930 to 1935 by Professor Irving Fisher and a group of economists at Chicago, U.S.A. In essence, this scheme involved bringing the balances of the trading

banks at the Central Bank, plus notes and coin held by the trading banks, up to the equivalent of 100 per cent of customers' demand deposits at the trading banks; thereafter, this 100 per cent ratio was to be maintained. The general effect of the scheme was to limit future trading-bank lending to the equivalent of repayments of overdrafts, sales of investments or other assets, plus increases in time deposits with the trading banks and any borrowing from the Central Bank.

18. Professor A. G. Hart, in *The Review of Economic Studies,* Volume II, page 104, described the original main objectives of 100 per cent money as:

(a) Removal of risk to customers' deposits.

(b) Repayment of United States public debt held by the trading banks.

(c) Control of inflation and deflation.

Professor Hart noted in 1935 that, in the United States, (a) and (b) were of historical interest only.

19. Apart from a temporary and partial experiment in Mexico, which apparently was abandoned because the 100 per cent requirement for additional deposits proved to be too rigid, it appears that the 100 per cent money scheme has not been adopted anywhere. Mr Colin Clark mentioned 100 per cent money in his evidence before the Commission, but he did not recommend it for New Zealand or for any sterling area country. Mr Clark considered that control over trading-bank advances, as far as the system could give it, could be exercised under the existing ratio system, and he also agreed that any increase of advances which did occur under the 100 per cent money scheme would have the effect of increasing the money supply in the hands of the public.

20. Part III of Mr Kelliher's submissions contained the following quotation from Benjamin Higgins' *Comments on 100 Per Cent Money (1931): "the degree of effectiveness of the plan in preventing over-investment depends upon the extent to which time deposits can be identified with savings and demand deposits with money".* This statement is fundamental to the argument for 100 per cent money. Its application to the banking system of New Zealand today is of doubtful validity, because the evidence shows that the large amounts of dormant money included in the free deposits of the banks are really savings. The mere segregation of them from the remaining free deposits as proposed under the Loanable Funds Scheme would not change their character. Under the Loanable Funds Scheme the trading banks would be in a position to compete not merely for current savings, but also for past savings, including those held in the Post Office Savings Bank and other savings institutions. Notwithstanding these facts, under the 100 per cent money scheme, and under the Loanable Funds Scheme, any demand deposits which were transferred to time deposits would automatically entitle the trading banks to make additional advances of an equivalent sum.

21. According to the demonstration of 100 per cent money given by Mr Kelliher, it would have been necessary for the Reserve Bank to lend to the trading banks £142·7 million as at 30 June 1954, in order to bring their balances at the Reserve Bank, plus coins and notes, up to 100 per cent of demand deposits. Mr Kelliher preferred to submit his own variation of 100 per cent money, the Loanable Funds Scheme.

III. The Loanable Funds Scheme

22. Under the Loanable Funds Scheme the permissible limit to increases in trading-bank advances (or investments) at any time is determined by the balance remaining in a "Loanable Funds Account" appearing on the assets side of the bank balance sheet. On the liabilities side of the balance sheet there appears an account called by Mr Kelliher "Bank Demand Deposits". These two accounts have been specially devised for purposes of the Loanable Funds Scheme and are in addition to and apart from the normal processes of bank book-keeping. The Loanable Funds procedure ensures that any increase in the "Loanable Funds Account", such as a reduction in total advances to customers, is reflected in a corresponding increase in the account called "Bank Demand Deposits" and likewise any decrease in the Loanable Funds Account, as would arise from an increase in total advances to customers, would similarly decrease "Bank Demand Deposits".

The "Loanable Funds Account"

23. As mentioned above, under the Loanable Funds Scheme, future trading-bank lending and investment transactions are to be limited by the balance available from time to time in the Loanable Funds Account. Such balance will be increased by:

(a) Existing and future loans repaid to the banks.
(b) Amounts which the banks borrow from their customers on fixed deposits or from other sources.
(c) The sale of overseas exchange to importers and travellers.
(d) The sale of securities or other investments held by the banks.
(e) The profit which the banks make from interest, discount, exchange, etc.
(f) Any additional amount which shareholders or others may subscribe for further share capital, in the same way as other companies obtain further share capital for their businesses.
(g) Any advances which the Reserve Bank may be prepared to make to a trading bank under section 13 of the Reserve Bank Act.

24. On the other hand, the balance in the Loanable Funds Account will be reduced by:

(a) Advances by overdraft or other loans.
(b) Discounting of export bills.
(c) The purchase of investments, securities, buildings, or other assets.
(d) Payments to visitors from overseas in return for overseas money.
(e) The payment of administration and other expenses and dividends to shareholders.

25. The Loanable Funds Scheme would commence on the basis of the level of trading-bank advances in existence at the inception of the scheme. Any repayments of existing advances would be available for relending to bank customers. The scheme would, therefore, not reduce trading-bank advances below the total outstanding at the commencement of the scheme.

26. The Loanable Funds Account would operate in this way. The totals of the transactions are to be recorded in the Loanable Funds Account by a series of entries additional to the normal process of bank book-keeping. As the asset account "Loanable Funds" is increased or

reduced, a *contra* account on the liabilities side of the bank balance sheet, called by Mr Kelliher "Bank Demand Deposits", is similarly increased or reduced. The entries are so arranged that the balance of one account will always be the *contra* of the other, and therefore the balances would always be equal in amount. For example, repayment to a trading bank of an advance of £1,000 would increase by that amount both Bank Demand Deposits Account and Loanable Funds Account and so make the repayment of £1,000 available for relending. Similarly, an increase in advances of £2,000 would reduce the balances of the two *contra* accounts and so reduce the unexercised lending margin of the bank. These *contra* entries and accounts are merely a method of computing and recording the unused lending potential for the time being of the trading banks under the Kelliher scheme. The Loanable Funds entries make no difference to the effects on the economy of bank lending or borrowing transactions.

27. It is intended by Mr Kelliher that a Loanable Funds Account and a Bank Demand Deposits Account should be kept in the books of each branch of each trading bank. The Associated Banks commented on this as follows: *"The balances would be at best useless, and at worst completely misleading, as information to the branch managers. Some areas are traditional sources, and other areas users of funds. No particular branch balance would have any meaning, except as part of the overall total, on which Head Office policy would be based".* We agree that the balances of these accounts at a particular branch would not necessarily be of any value in determining the appropriate limit of total advances for that branch.

Demonstration of Credit Creation

28. As already noted, the demonstration that trading banks may create and destroy money, or expand and contract the volume of money or the money supply by their lending and investment transactions, was based on the Reserve Bank definition of money supply applied to some thirty-two hypothetical examples, of which transactions one to twelve increase the money supply, thirteen to twenty reduce it, and twenty-one to thirty-two neither increase nor decrease it.

Change of Definition of "Money Supply"

29. Mr Kelliher recognised in principle that it was necessary to adopt a consistent terminology with precise meanings when speaking of bank transactions and of the money supply. He claimed, indeed, that throughout his demonstrations the definitions adopted by the Reserve Bank were accepted and used. Mr Kelliher adhered to the Reserve Bank definition of money supply in Part I of his submissions where he demonstrated that certain trading-bank transactions under existing banking techniques led to increases and decreases in the money supply, or, in other words, to the creation and destruction of money. When he demonstrated the working of the Loanable Funds Scheme, however, he departed from the Reserve Bank definition of the money supply and, in effect, changed not only the meaning of the term "money supply", but also the content of the statistical table, the total of which constitutes the money supply at any time.

Apparent Constancy of Money Supply Under Loanable Funds Scheme

30. By so changing the definition or content of the money supply, Mr Kelliher achieved an apparent constancy in the money supply, demonstrated in Part III of his submission, where he purported to show that certain transactions which increase or decrease the money supply under the present banking technique did not do so under the Loanable Funds Scheme.

31. Using the Reserve Bank definition of money supply, a specimen transaction in Part I of Mr Kelliher's submissions, showed that increased advances of £10 million may result in increased demand deposits at the trading banks of the same amount. Since the transaction did not reduce or otherwise affect any other part of the money supply, such as coin, notes in circulation, or demand liabilities of the State at the Reserve Bank, Mr Kelliher concluded correctly that there could be a corresponding increase of £10 million in money supply as defined by the Reserve Bank.

32. In Part III of the submissions, however, where the same transaction was dealt with in accordance with the Loanable Funds procedure, there was the same increase of £10 million in demand deposits held by the public, and again no alteration in the other items included by the Reserve Bank in its computation of the money supply. In this case there was no apparent increase in total money supply because, in order to preserve a constant total, Mr Kelliher introduced into the money supply table the fictitious item which he called "Bank Demand Deposits" and which is not properly part of the money supply because it is not available for spending by bank customers.

Results of Change in Definition of Money Supply

33. The effects of the same specimen transaction on the money supply, with and without this change in definition or in the composition of the money supply, are shown below:

	Reserve Bank Definition Illustrated in Part I			Loanable Funds Definition Illustrated in Part III		
	Money Supply Before Trans-action	Change Resulting From Trans-action	Money Supply After Trans-action	Money Supply Before Trans-action	Change Resulting From Trans-action	Money Supply After Trans-action
	£ million	£ million	£ million	£ million	£ million	£ million
(a) Coin, notes, and demand deposits at Reserve Bank	71·7	..	71·7	71·7	..	71·7
(b) "Public demand" or "free" deposits	208·9	+10	218·9	208·9	+10	218·9
(c) "Bank demand deposits" ..	..	..	..	32·0	−10	22·0
(d) Total "money supply"	280·6	+10	290·6	312·6	Nil	312·6

34. A careful study of the above table reveals the following:

(a) *Coin, notes, and demand deposits at the Reserve Bank of New Zealand.*—There is no change in this item, which remains at £71·7 million in both instances.

(b) *Public Demand or Free Deposits.*—There is an increase of £10 million from £208·9 million to £218·9 million in this item in both cases. Up to this point, therefore, the effect of the transaction is identical in both cases.

(c) *"Bank Demand Deposits".*—It will be noted that, in the Loanable Funds examples, the increase in free deposits of £10 million is offset by a reduction of an equivalent amount in Bank Demand Deposits from £32 million to £22 million. Thus the real increase in the money supply which has occurred in both cases is obscured in the Loanable Funds example by introducing into the Loanable Funds computation of the money supply the fictitious item Bank Demand Deposits.

35. The details of the transactions used by Mr Kelliher in his demonstration to the Commission are shown in the table facing this page. It will be seen that in all these examples it is only by the introduction of the same fictitious item Bank Demand Deposits that he has maintained an apparently constant total of the money supply.

Loanable Funds Accounts at Other Branches of Trading Banks

36. In a special note Mr Otto suggested that Loanable Funds Accounts could be kept for each trading-bank branch at some branch of another trading bank. This variation, to which Mr Otto saw practical objections, would not justify the inclusion of Bank Demand Deposits in the Reserve Bank definition of money supply because paragraph (c) of the Reserve Bank definition, as set out by Mr Otto himself, includes these words *"free deposits held by customers in their bank accounts"*. Even if each trading-bank branch kept a Loanable Funds Account at some branch of another trading bank, the money could not be spent by bank customers and would not be purchasing power available to bank customers. **Thus the attempts to justify the inclusion of Bank Demand Deposits in the Reserve Bank definition of the money supply fail completely, not merely in logic but also in fact because, as mentioned above, Bank Demand Deposits, however they are recorded in the banks' books, are not money belonging to bank customers and therefore cannot be spent by them.**

37. The importance of definition upon the results of matters in argument can be gauged from Will Durant's *The Story of Philosophy,* page 59, where he says, *"How many a debate would have been deflated into a paragraph if the disputants had dared to define their terms! This is the alpha and omega of logic, the heart and soul of it, that every important term in serious discourse shall be subjected to the strictest scrutiny and definition. It is difficult, and ruthlessly tests the mind; but once done it is half of any task."* Again, in his book *Straight and Crooked Thinking,* Robert H. Thouless says, on page 192, *"The most obvious piece of crooked thinking which results from an absence of clear meanings is that in which a word is used in different senses in different parts of the same argument".* This is precisely what Mr Kelliher has done, where repeatedly throughout his submissions he gives to the term "money supply" one meaning where he demonstrates that trading banks create and destroy money under the existing system, and a different and, in our view, a fallacious meaning, when he purports to demonstrate that under the Loanable Funds Scheme the trading banks would not create and destroy money.

TABLE TO APPENDIX F (reference paragraph 35 of Appendix).

Summary of Loanable Funds Transactions 1 to 11 Submitted by Mr Kelliher to Demonstrate the Working of the Loanable Funds Scheme Showing the Entries by Which an Apparent Constancy of Money Supply is Achieved

(£ million)

Pt. I	Pt. III	Details and Amount of Transaction	Total Liabilities	Capital and Reserves	Savings Deposits	Public Demand Deposits	Bank Demand Deposits* Mov.	Bank Demand Deposits* Bal.	Loanable Funds Mov.	Loanable Funds Bal.	Net Overseas Assets	Advances and Discounts	Investments	Land and Buildings	Coin, Notes, and Reserve Bank Balances	Total Assets	Loanable Funds Contra Entries	Incl. Bank Demand Deposits — Effect	Incl. — Total After	Accepted Def. — Effect	Accepted Def. — Total After
			299·3	7·6	50·8	240·9	..	..	..	..	21·3	149·4	26·0	4·4	98·2	299·3	Dr. / Cr.	..	..	..	312·6
13		Repayment of advances .. 5	..	..	..	− 5	+ 5*	5*	+ 5	5	..	− 5	..	..	..	..	Loanable Funds .. Dr. 5 / To Bank Demand Deposits .. 5	− 5 / + 5*	.. / 312·6	− 5	307·6
14 and 29	2	Increase in savings deposits .. 5	..	..	+ 5	− 5	+ 5*	10*	+ 5	10	..	..	..	..	..	..	Loanable Funds .. Dr. 5 / To Bank Demand Deposits .. 5	− 5 / + 5*	.. / 312·6	− 5	302·6
15	3	Sale of exchange to importers .. 15	..	..	..	− 15	+ 15*	25*	+ 15	25	− 15	..	..	..	..	..	Loanable Funds .. Dr. 15 / To Bank Demand Deposits .. 15	− 15 / + 15*	.. / 312·6	− 15	287·6
16	4	Sale of investments by trading banks .. 2	..	..	..	− 2	+ 2*	27*	+ 2	27	..	..	− 2	..	..	..	Loanable Funds .. Dr. 2 / To Bank Demand Deposits .. 2	− 2 / + 2*	.. / 312·6	− 2	285·6
	5	Increase in trading bank capital .. 5	..	+ 5	..	− 5	+ 5*	32*	+ 5	32	..	..	..	..	..	..	Loanable Funds .. Dr. 5 / To Bank Demand Deposits .. 5	− 5 / + 5*	.. / 312·6	− 5	280·6
1	6	Increase in trading bank advances .. 10	..	..	..	+ 10	− 10*	22*	− 10	22	..	+ 10	..	..	..	..	Bank Demand Deposits .. Dr. 10 / To Loanable Funds .. 10	+ 10 / − 10*	.. / 312·6	+ 10	290·6
2	7	Increase in trading bank investments .. 3	..	..	..	+ 3	− 3*	19*	− 3	19	..	..	+ 3	..	..	..	Bank Demand Deposits .. Dr. 3 / To Loanable Funds .. 3	+ 3 / − 3*	.. / 312·6	+ 3	293·6
3	8	Payment to finance exports .. 10	..	..	..	+ 10	− 10*	9*	− 10	9	+ 10	..	..	..	..	..	Bank Demand Deposits .. Dr. 10 / To Loanable Funds .. 10	+ 10 / − 10*	.. / 312·6	+ 10	303·6
5	9	Capital transfer to New Zealand .. 2	..	..	..	+ 2	− 2*	7*	− 2	7	+ 2	..	..	..	..	..	Bank Demand Deposits .. Dr. 2 / To Loanable Funds .. 2	+ 2 / − 2*	.. / 312·6	+ 2	305·6
6	10	Purchase of bank building .. 1	..	..	..	+ 1	− 1*	6*	− 1	6	..	..	..	+ 1	..	..	Bank Demand Deposits .. Dr. 1 / To Loanable Funds .. 1	+ 1 / − 1*	.. / 312·6	+ 1	306·6
8	11	Repayment of savings deposits (wool retention) .. 4	..	..	− 4	+ 4	− 4*	2*	− 4	2	..	..	..	..	..	..	Bank Demand Deposits .. Dr. 4 / To Loanable Funds .. 4	+ 4 / − 4*	.. / 312·6	+ 4	310·6
Final balances	..	..	305·3	12·6	51·8	238·9	..	2·0	..	2·0	18·3	154·4	27·0	5·4	98·2	305·3	..				

*It is the inclusion of these fictitious items "Bank Demand Deposits" and contra entries marked * which enables the appearance of a constant money supply to be maintained throughout this series of Loanable Funds transactions. If the Reserve Bank definition of money supply is adhered to, the money supply would increase and decrease throughout these transactions as shown in the two columns on the extreme right of the table.

38. This point of definition is no mere formality but is of the greatest practical importance, because what is being measured in the Reserve Bank computation of money supply is spending power immediately available to the public or to the Government. It is through changes in money supply available to the public or to the Government that any inflationary or deflationary effects of expansion or contraction of bank credit work. If the public has more money to spend in the form of increased demand deposits at the trading banks, any measure of the money supply which does not reflect the increase is worthless and indeed misleading.

39. From the answers given by Mr Otto to the following questions it is clear that under the Loanable Funds Scheme a constant money supply is not achieved if the Reserve Bank definition of money supply is adhered to:

Question:

Do transactions 1 to 5 reduce public demand deposits from £240·9 million (see page 33 of Part III) to £208·9 million (see page 46 of Part III) . . . Do these transactions reduce the public demand deposits by £32 million?

Answer:

Yes.

Question:

In terms of the Reserve Bank definition does the combined result of entries 1 to 5 represent a reduction in the money supply of £32 million?

Answer:

Within the Reserve Bank definition – yes.

Also Mr Otto admitted that, in terms of the Reserve Bank definition, Loanable Funds transactions 6 to 11 *"represent an increase in the money supply or the creation of money by £30 million".*

40. Transactions 1 to 5 and 6 to 11 referred to above are the complete set of transactions submitted by Mr Kelliher in Part III of his submissions to illustrate the working of his Loanable Funds Scheme.

41. The claim by Mr Kelliher that the Loanable Funds Scheme eliminates the alleged fundamental defect of creating and destroying money through trading-bank lending and investment transactions therefore fails completely.

Further Claims for Loanable Funds Scheme

42. In addition to claiming that the Loanable Funds Scheme would remove what he called the fundamental defect in the existing banking procedure, Mr Kelliher made a number of other claims for the Loanable Funds Scheme which are discussed in the next few paragraphs.

Overseas Transactions Under the Loanable Funds Scheme

43. Mr Kelliher said that overseas transactions would neither increase nor decrease the money supply. However, the overseas transactions demonstrated (i.e., Loanable Funds transactions 3 and 8) caused part of the increases and decreases mentioned in paragraph 39 above. Mr Otto admitted these increases and decreases in the money supply provided that a consistent definition of money supply is adhered to.

Bank Advances in Times of Recession

44. Mr Kelliher claimed that under the Loanable Funds Scheme any calling up of bank loans during a recession would not destroy the nation's money supply. However, under cross-examination, Mr Otto admitted that a reduction of advances under the Loanable Funds Scheme could reduce demand deposits held by the public, and he also admitted that such a reduction would be destruction of money in terms of the Reserve Bank definition. Under the Loanable Funds Scheme the amount of money available for spending by the public would be reduced if there was a restriction of trading-bank advances. Any claim that the calling up of bank loans would produce less serious effects in a recession under the Loanable Funds Scheme than under the present system therefore fails.

"Borrowing to Lend" (refer main report – paras. 531 to 540)

45. Mr Kelliher contended that, under the Loanable Funds Scheme, the trading banks would *"borrow to lend"*, whereas he declared that at the present time they did not do so. Mr Otto admitted that under the Loanable Funds Scheme an advance might create a demand deposit. He also agreed that a demand deposit was a debt by the bank to the customer and was, in that sense, borrowed from the customer. The process of lending and borrowing under the Loanable Funds Scheme may be described as follows:

(a) An advance may create demand deposits.

(b) The trading bank may borrow the money so created – repayable on demand.

(c) By a change in the term of borrowing, i.e., from demand to, say, three months, the bank may acquire authority to lend further money.

(d) Such further lending may create more demand deposits which –

(e) The trading bank may borrow, repayable on demand, and –

(f) To the extent that customers agree that the term of borrowing may be changed to, say, three months, the bank acquires further authority to lend, and so the process could go on.

Indeed, according to Mr Otto, the above process could continue as long as the banks wanted to lend and as long as they could borrow from somebody. Thus it appears that, under the Loanable Funds Scheme, the trading banks would receive on fixed deposit some of the deposits which had originally been created as demand deposits through the process of bank lending.

46. When setting out to prove that the trading banks do not at present *"borrow to lend"*, Mr Kelliher made use of an example in which trading-bank advances were increased by £10 million and at the same time there was an increase of the same amount in demand deposits held by the public. He correctly pointed out that, in such an example, the trading banks have not used *"any part of their customers' demand deposits which were left completely untouched, nor do they use any part of their time deposits, which were also left completely untouched"*. On the strength of this demonstration Mr Kelliher concluded that the trading banks did not borrow to lend but created new money through increasing their

interest earning assets, i.e., their advances. Under cross-examination in respect of the demonstration of a similar transaction under the Loanable Funds technique, Mr Otto gave the following answers:

Question:
Were any public demand deposits used in Loanable Funds Transaction No. 6?
Answer:
No.
Question:
Were any time or savings deposits used in Loanable Funds Transaction No. 6?
Answer:
No.

47. The above answers show that, under the Loanable Funds Scheme also, the trading banks would not use any of the money borrowed from their customers, in increasing advances by £10 million. **Mr Kelliher has therefore completely failed to establish that any new principle of *"borrowing to lend"* is introduced by the Loanable Funds Scheme, but the effects on the money supply of bank lending are complicated and obscured by the special items Mr Kelliher has introduced.** The "Loanable Funds Account" and its counterpart "Bank Demand Deposits" merely record the extent of the banks' authority to lend under the Kelliher scheme at any time.

48. The Loanable Funds Scheme does no more than place a variable upper limit on trading-bank lending and this could be achieved under the existing system. There is no device in the Loanable Funds Scheme to prevent a reduction in bank lending if the banks decide to reduce their lending, or if there is a scarcity of borrowers. Such a development, if on a serious scale, would require action by the Government, possibly through purchases of securities by the Reserve Bank or by Reserve Bank lending to the Government or to the trading banks. Mr Kelliher also contemplated the sale of securities by the Reserve Bank in certain circumstances if trading-bank advances rise too high. Therefore, under the Loanable Funds Scheme, there is no effective automatic limit to trading-bank advances; neither is there any reason why trading-bank advances or the volume of money should be at the level most appropriate in the circumstances prevailing from time to time. As under the present system, some authority would require to exercise judgment as to the timing and nature of the intervention by the Reserve Bank.

49. A vital feature of the Loanable Funds Scheme is the fact that the extent to which the trading banks would be able to expand their lending operations would depend in the main on their ability to attract additional savings or fixed deposits.

50. Difficulty in achieving this could so circumscribe their operations that they would be unable to fulfil the traditional functions of the trading banks. Under examination Mr Otto conceded that the Loanable Funds Account would lack the flexibility of the existing banking system.

51. Despite this admission of lack of flexibility, Mr Kelliher stated in the pamphlet *Why your £ Buys Less and Less:* "*I advocate a more elastic and vastly improved banking technique whereby trading banks would be enabled to lend from the existing stockpile of money to the limit of credit-worthy borrowing . . .*". In our opinion, expansion of bank lending "*to the limit of credit-worthy borrowing*" in recent years would have meant

that trading-bank advances would have been substantially higher than they are under the existing system. We can see nothing in the Loanable Funds Scheme itself which would offset the inflationary effects on the economy of such an expansion of trading-bank lending. Mr Kelliher suggested that increased lending under the Loanable Funds Scheme might be offset by open market operations by the Reserve Bank. We are very doubtful whether this would be effective because large-scale sales would upset the limited market for Government stock in New Zealand. In our view, expansion of trading-bank lending to the limit of credit worthiness of customers desiring to borrow would be highly undesirable under buoyant business conditions such as have existed in recent years.

Effects on Balance of Payments

52. It was submitted that the Loanable Funds Scheme would *"establish a mechanism which in itself would at all times contain forces working towards equilibrium in balance of payments"*. There are, however, certain features of the scheme which might well have the opposite effect. Mr Otto admitted that there was no special control in the Loanable Funds Scheme to prevent a spiral of advances arising from repeated transfers of demand deposits to savings deposits. He suggested open market operations by the Central Bank in the event of *"a dishoarding movement from past savings"*. We are doubtful whether the sale of securities in the open market on a scale sufficient to be a corrective would be possible in New Zealand without seriously upsetting the market. Such a spiral could increase the demand for imports and therefore accentuate any tendency to a balance of payments deficit. It was also admitted that running down their holdings of overseas funds would increase the Loanable Funds of the trading banks and thereby increase their lending ability and consequently their profits if lending was expanded. This part of the scheme, therefore, might accentuate disequilibrium in balance of payments.

53. It is appreciated, of course, that under the Loanable Funds Scheme the trading banks would be required to work within current receipts of overseas funds. Nevertheless it does appear that the two features mentioned in the previous paragraph would tend to make it more difficult for them to do so. The trading banks would either have to pay special regard to their balances of overseas funds and operate virtually on a sterling exchange standard by restricting advances to the extent necessary to curb the demand for overseas exchange, or else lend as freely as loanable funds would permit and take other steps to ration the available overseas exchange.

Loanable Funds Scheme as a Means of Controlling Bank Advances

54. There are important defects in the Loanable Funds Scheme as a means of limiting bank advances. The danger of a substantial expansion of advances, which would be possible if there was a free flow from demand deposits to savings deposits, has already been referred to. Mr Otto admitted that the increase of £39·7 million in bank advances, which took place in the year ended 31 March 1955, could have occurred under the Loanable Funds Scheme if there had been a shift of £40 million from free to fixed deposits. It appears possible, but not likely, that a very substantial increase in bank advances might take place on the institution

of the Loanable Funds Scheme through a transfer from demand to savings deposits especially if, as is proposed by Mr Kelliher, the trading banks were free to increase interest rates on deposits.

55. The evidence given by both Mr Whyte and Mr Fussell showed that there was a substantial amount of dormant or inactive money included in the free deposits at the trading banks. Tests conducted by the trading banks revealed that there was an amount of from £60 million to £85 million which had lain dormant for a period of at least a year. This was interpreted by the banks' witnesses to mean that the holders of these deposits preferred to keep them in a form which made them immediately available if required, rather than invest them. This view is strengthened by the fact that these depositors have available to them the opportunity of placing their moneys on fixed deposit with the banks for various periods of time, or, for that matter, of investment in a variety of securities.

56. It is apparent from the evidence that, in the main, the holders of these deposits will not be induced to move them from free to fixed or savings deposits by current rates of interest. In his evidence, Mr Otto said that the banks might need to offer a rate of interest as high as 4 per cent in order to obtain a substantial movement from free to fixed deposits. Mr Fussell thought the rate would need to be about 7 per cent to effect a shift of the order of £60 million to £85 million.

57. As the Kelliher proposals included the freeing of interest rates from control, it would appear that Mr Kelliher recognises that the rates of interest charged by the trading banks for advances would have to be increased substantially. Under his proposals the profits of the trading banks would arise chiefly from the excess of their lending rates over those paid for savings deposits.

58. Under the existing system the trading banks are able to conduct their lending operations without the need to effect any substantial movements from free to fixed deposits, whilst still deriving the advantages for this purpose which the dormant deposits provide. If, under the Loanable Funds Scheme, the banks were unable to induce a transfer from free to savings deposits of a considerable order, they would be unable to meet the needs of an expanding economy by increasing advances, or to meet emergencies which may arise from time to time, such as financing exporters (when stocks of primary products were accumulating) or merchants (when heavy shipments of imports may arrive in the country following a shipping strike).

59. Mr Otto admitted that, in circumstances similar to those mentioned above, the trading banks might have to seek the assistance of the Reserve Bank. Mr Whyte's evidence revealed a strong antipathy on the part of the trading banks to seeking the support of the Reserve Bank, no doubt arising from a traditional confidence in their ability to manage their own affairs.

60. It is obvious that Mr Kelliher's scheme would provide no assurance that the money supply would automatically be maintained at a level which was adequate, but no more than adequate, to enable the best use to be made of the country's resources. Judgment by the monetary authorities as to whether more or less money was required would be no less necessary under his scheme than under the present system.

61. Under the Loanable Funds Scheme there would be no independent control by the Reserve Bank, apart from any open market operations, and the trading banks would therefore be free to increase the existing level of advances by the equivalent of any increases in savings deposits.

62. Through the possibility of customers drawing suddenly on un-exercised overdraft authorities, the banks would always be exposed to the risk of advances rising beyond the limit fixed under the Loanable Funds Scheme. This risk might compel the banks to adopt an ultra-conservative lending policy, by restricting advances until they had built up adequate working balances of loanable funds.

63. An important aspect of banking practice to which the Loanable Funds Scheme appears to attach little significance is bankers' cash. It is apparent to us that a situation could easily arise in which a trading bank had a balance available for lending in its Loanable Funds Account but insufficient bankers' cash to enable lending to proceed. For instance, a trading bank may have secured transfers from free to savings deposits, of, say, £2 million, thereby increasing its ability to lend, according to the Loanable Funds Scheme, by that amount. These transfers would not of themselves effect any change in bankers' cash, but increased lending would cause a drain on bankers' cash which the bank might not be in a position to meet.

64. If a bank's customers transferred through the operation of the cheque system more funds to customers of other banks than they received from them, that bank would lose bankers' cash to the other banks and its ability to make further loans to its customers would deteriorate. This situation could arise at a time when, according to the criteria of the Loanable Funds Scheme, the bank had increased its lending potential.

Possible Run on Savings Deposits

65. The Loanable Funds Scheme gives no protection to the trading banks in the event of a possible run on savings deposits and such a run could easily take place if previously the banks had been pressing their customers to transfer demand deposits to savings deposits. Under the Loanable Funds Scheme it is contemplated that savings deposits would increase substantially. The risk of a substantial draw-off from savings deposits would, therefore, be correspondingly greater. Under the Loan-able Funds Scheme, also, advances would require to be contracted on a pound for pound basis to offset the effect of a run on savings deposits. It is clear that the scheme provides no safeguard against fluctuations in bank advances.

Summary of Conclusions Regarding the Loanable Funds Scheme

66. The results of the Commission's deliberations on the Loanable Funds Scheme are now summarised. The 100 per cent money scheme from which the Loanable Funds proposals were developed is not recommended for New Zealand, either by Mr Kelliher or by Mr Colin Clark. Its basic assumption that time deposits can be identified with savings is of doubtful validity if applied to this country at the present time. The Loanable Funds Scheme, which is a variant of 100 per cent money, is based on a similar assumption.

TABLE 29

Trading Banks: Liabilities and Assets, March 1935 to March 1955

(£(N.Z.) thousands)

Last Balance Day in March	Liabilities (in New Zealand)				Assets					
		Time		Total Demand and Time Liabilities	Bankers' Cash(1)	Net Overseas Assets	Securities		Advances and Discounts	Unexercised Overdraft Authorities
	Demand	Wool Retention Accounts	Other				Government	Other		
1935 ..	27,674	..	35,455	63,129	9,470	22,794	N.A.	N.A.	44,573	N.A.
1936 ..	31,946	..	36,530	68,476	13,285	19,258	5,082	307	44,919	N.A.
1937 ..	36,898	..	31,975	68,873	12,808	15,286	7,617	296	46,954	25,230
1938 ..	37,006	..	31,225	68,231	10,528	9,635	7,630	278	55,837	24,799
1939 ..	38,447	..	29,878	68,325	13,982	4,646	10,063	266	55,517	23,539
1940 ..	46,640	..	31,246	77,885	18,049	9,988	16,540	254	48,161	28,802
1941 ..	53,682	..	28,630	82,312	17,860	12,239	15,434	540	53,680	29,894
1942 ..	61,525	..	28,420	89,945	20,938	12,533	23,733	914	49,629	32,691
1943 ..	77,139	..	25,559	105,698	24,446	14,852	36,166	1,193	44,931	34,326
1944 ..	85,091	..	29,723	114,814	35,683	11,584	36,142	2,376	46,896	34,815
1945 ..	93,656	..	30,837	124,493	39,172	15,623	29,025	2,502	55,148	37,073
1946 ..	110,918	..	32,594	143,512	59,480	14,602	26,773	2,346	57,953	42,404
1947 ..	126,791	..	35,396	162,186	62,199	15,864	21,058	2,177	73,011	44,039
1948(2) ..	142,348	..	39,098	181,446	56,316	16,749	18,593	1,972	93,788	47,968
1949(2) ..	145,501	..	37,512	183,013	68,155	20,100	14,432	1,850	89,606	52,342
1950 ..	164,591	..	39,043	203,635	79,696	31,504	11,731	1,712	96,071	58,800
1951 ..	193,709	9,644	39,770	243,124	60,784	22,101	11,715	1,574	133,271	70,364
1952 ..	189,901	30,207	47,730	267,838	38,465	25,742	11,714	1,405	187,259	64,192
1953 ..	200,271	24,061	35,951	260,284	81,376	26,110	11,687	1,175	140,449	84,582
1954 ..	231,835	18,341	34,408	284,583	80,369	25,915	12,175	14,160	149,544	103,507
1955 ..	236,095	12,582	49,100	297,776	53,819	25,915	11,846	14,114	189,257	98,641

(1) Bankers' cash includes notes and coin, and balances at Reserve Bank.
(2) On and after 20 August 1948 overseas assets and liabilities converted to New Zealand currency at rate, £(stg.)100 = £(N.Z.)100; previously £(stg.)100 = £(N.Z.)124.
(N.B.—This table does not include all items shown in the monthly returns.)

Source: Reserve Bank of New Zealand

TABLE 30   Volume of Money in Circulation in New Zealand(1) in Form of Coin, Notes, and Bank Demand Deposits, 1935 to 1955(2)

(All Figures refer to last balance day in March)

(£ million)

	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955
Coin (estimated)	0·8	1·0	1·2	1·2	1·4	1·6	1·7	1·9	2·2	2·5	2·6	2·9	3·0	3·2	3·2	3·3	3·5	3·7	3·8	4·0	4·2
Notes held by public	6·2	7·1	9·8	9·5	11·2	14·8	17·2	20·2	26·2	31·2	34·2	36·6	39·6	40·8	42·2	44·3	48·1	49·8	51·5	57·3	60·7
Demand deposits at—																					
(a) Reserve Bank(3)	12·0	8·9	8·0	7·5	4·8	6·9	7·2	13·7	15·9	19·0	17·5	30·0	18·0	23·7	22·7	34·8	45·6	34·2	17·6	37·9	44·6
(b) Trading banks(4)	27·7	31·9	36·9	37·0	38·4	46·6	53·7	61·5	77·1	85·1	93·7	110·9	126·8	142·3	145·5	164·6	193·7	188·9	200·3	231·8	236·1
Total	46·8	49·0	56·0	55·3	55·8	70·0	79·8	97·2	121·5	137·7	148·0	180·4	187·4	210·0	213·5	247·0	291·0	277·6	273·2	331·0	345·7
Change during year	..	+ 2·2	+ 7·1	− 0·8	+ 0·6	+14·1	+ 9·9	+17·5	+24·1	+16·4	+10·2	+32·4	+ 7·0	+22·6	+ 3·5	+33·5	+44·0	−13·4	− 4·4	+57·8	+14·6

Causes of Changes in Volume of Money, 1935–36 to 1954–55

	35–36	36–37	37–38	38–39	39–40	40–41	41–42	42–43	43–44	44–45	45–46	46–47	47–48	48–49	49–50	50–51	51–52	52–53	53–54	54–55
Overseas transactions(5)	− 1·4	−10·1	− 7·5	−16·8	+12·9	+ 8·0	+ 1·1	+ 6·0	+ 3·4	+24·6	+37·0	+ 0·2	−14·6	+ 5·8(5)	− 1·5	+25·6	−21·0	+23·2	+27·1	−34·8
Bank credit—																				
Reserve Bank—																				
Advances and discounts	..	+ 7·1	+ 1·8	+14·2	+ 2·7	+ 3·7	+12·2	+ 1·8	+11·8	−14·6	+ 4·7	− 3·2	+12·2	+ 3·9	+19·6	+ 0·8	− 5·2	+ 1·8	+ 0·7	+17·7
Investments in New Zealand	..	+ 1·0	+ 0·2	+ 0·2	+ 0·3	+ 0·6	+ 0·4	+ 6·5	+ 0·4	− 0·2	− 8·9	− 0·6	+ 4·0	+ 3·0(5)	+11·0	−12·0	−24·0	+ 8·0	+ 0·1	+ 0·2
Trading banks—																				
Advances and discounts	+ 0·3	+ 2·0	+ 8·9	+ 0·3	+ 7·4	+ 5·5	− 4·1	− 4·7	+ 2·0	+ 8·3	+ 2·8	+15·1	+20·8	− 4·1	+ 6·5	+37·2	+54·0	−46·8	+ 9·1	+39·7
Investments in New Zealand	− 0·7	+ 2·5	+ 2·4	+ 2·4	+ 6·5	+ 0·8	+ 8·7	+12·7	+ 1·2	− 7·0	− 2·4	− 5·9	− 2·7	− 4·3	− 2·8	− 0·2	− 0·2	− 0·3	+13·5	− 0·4
Shift from time to demand deposits at trading banks(6)	− 1·1	+ 4·6	+ 0·8	+ 1·3	− 1·4	+ 2·6	− 0·1	− 0·1	− 1·2	− 1·1	− 1·8	− 2·8	− 3·7	+ 1·6	− 1·5	− 0·7	− 8·0	+11·8	+ 1·5	−12·9
Shift in Wool Retention Accounts(7)															+ ·2	−16·4	−13·8	+ 6·1	+ 5·7	+ 5·8
Other items	+ 5·0	− 0·1	− 1·3	− 0·4	+ 0·5	− 1·1	− 1·0	+ 1·9	− 1·2	+ 0·2	+ 1·0	+ 4·2	+ 6·6	− 2·4	+ 2·2	+ 9·7	+ 4·8	− 8·2	+ 1·5	− 0·7
	+ 2·2	+ 7·1	− 0·8	+ 0·6	+14·1	+ 9·9	+17·5	+24·1	+16·4	+10·2	+32·4	+ 7·0	+22·6	+ 3·5	+33·5	+44·0	−13·4	− 4·4	+57·8	+14·6

(1) For explanation of treatment of wool retention balances see page 19 of *Reserve Bank Bulletin*, February 1951.

(2) Excludes deposits held at savings banks.

(3) I.e., Government and other demand deposits at Reserve Bank, excluding trading banks' balances and wool retention balances held at Reserve Bank.

(4) I.e., trading banks' total demand liabilities in New Zealand.

(5) As shown by changes in foreign exchange and overseas investments held by the New Zealand banking system in respect of New Zealand business, less overseas liabilities. Plus sign indicates that overseas exchange receipts exceeded disbursements, and minus sign indicates an excess of disbursements.

(5) Minus sign indicates shift from demand to time liabilities. Excludes movements of wool retention balances.

(6) Minus sign indicates movement into wool retention accounts, plus sign indicates withdrawals.

(7) Apart from the amount of £600,000 paid in cash by the Government to the Reserve Bank, the adjustments consequent on the exchange rate appreciation in August 1948 neither increased nor decreased the amount of money in circulation in New Zealand in the form of coin, notes, and bank demand deposits, and are therefore not included in the above table.

Source: Reserve Bank of New Zealand

TABLE 31

Index of Velocity of Circulation of Bank Deposits: Average of Monthly Figures for March Years, 1936 to 1955

	Non-interest-bearing Deposits	Bank Debits	Index of Velocity of Circulation (Base: 1939=100)
Year ended March—	£ million	£ million	
1936	24·4	60·0	100·8
1937	28·7	73·2	104·3
1938	32·1	80·2	102·7
1939	32·3	78·6	100·0
1940	37·2	80·2	88·6
1941	46·1	86·2	76·9
1942	50·7	85·6	69·5
1943	63·5	90·1	58·3
1944	76·7	101·2	54·4
1945	85·4	108·6	49·8
1946	99·0	120·0	52·6
1947	114·4	146·6	60·9
1948	124·5	165·3	58·7
1949	133·0	190·1	57·7
1950	146·6	206·3	64·8
1951	165·3	259·5	69·7
1952	212·6	325·9	69·3
1953	206·6	302·4	65·8
1954	228·2	331·4	70·7
1955	237·0	380·8	69·7

Source: Reserve Bank of New Zealand

TABLE 32

Overseas Exchange Transactions, March Years, 1934 to 1955

(£(N.Z.) million)

	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955
Receipts																						
Exports	46·0	45·0	49·9	60·5	65·3	58·0	71·0	73·3	72·8	80·9	74·1	85·3	108·5	112·9	134·3	143·9	154·7	207·8	251·6	227·1	239·9	216·2
Other receipts ..	3·2	7·7	3·9	3·6	4·1	4·7	7·5	9·4	8·5	15·1	29·7	45·6	33·3	35·5	38·5	26·0	19·4	20·0	25·9	26·1	31·7	58·2
Total	49·2	52·7	53·8	64·1	69·4	62·7	78·5	82·7	81·3	96·0	103·8	130·9	141·8	148·4	172·8	169·8	174·1	227·8	277·5	253·2	271·5	274·4
Payments																						
Imports	26·1	32·6	37·6	47·8	58·3	54·6	37·9	44·2	41·9	35·1	30·8	33·6	38·0	72·6	124·7	109·0	135·1	169·6	252·6	201·1	200·4	252·9
Debt repayments (Government and local bodies)	2·8	2·9	3·8	5·8	0·7	0·9									14·6	4·7	2·5	0·8	0·1	0·1	0·2	0·4
Debt interest (Government and local bodies)	8·9	8·7	8·4	7·8	7·7	7·6	25·5	29·6	41·7[2]	58·3	65·5	59·7	98·1[1]	57·7	5·0	3·6	3·1	2·7	2·7	2·7	2·9	3·1
Other payments ..	6·2	6·5	5·5	6·5	6·4	6·4									42·7	54·5	34·4	31·4	38·5	38·2	39·3	52·9
Total	44·0	50·7	55·3	67·9	73·1	69·5	63·4	73·8	83·6	93·4	96·3	93·3	136·3	130·1	187·0	171·8	175·1	204·5	293·9	242·1	242·8	309·3
Balance	+5·1	+1·9	-1·5	-3·9	-3·7	-6·8	+15·1	+9·0	-2·3	+2·6	+7·6	+37·6	+5·7	+18·1	-14·2	-1·9	-1·0	+23·3	-16·4	+11·1	+28·8	-34·9
Net overseas assets as at last balance day in March	..	45·8	44·4	34·4	26·9	10·1	23·1	32·3	32·8	40·1	44·2	67·1	104·1	104·3	89·6	75·0	74·2	99·8	78·8	101·9	129·0	94·2

[1] Includes payment of £22·7 million under memorandum of security.
[2] Includes payment of £3·7 million under memorandum of security.

Note.—The figures 1934 to 1939 are estimates published by the Government Statistician.

Source: Reserve Bank of New Zealand

TABLE 33
Movements in Reserve Bank's Discount Rate, 1934 to 1955

	Per Cent			Per Cent
August 1934	4	July 1941		$1\frac{1}{2}$
July 1935	$3\frac{1}{2}$	April 1954		$3\frac{1}{2}$
March 1936	$2\frac{1}{2}$	November 1954		4
June 1936	2	July 1955		5
November 1938	4	September 1955		6
September 1939	3	October 1955		7
May 1940	2			

TABLE 34
Minimum Ratios of Balances to Demand and Time Liabilities Required to be Maintained by Trading Banks at the Reserve Bank, 1934 to 1955

Prior to 1952	7% of demand and	3% of time liabilities	
August 1952	10%	,,	5% ,,
December 1952 (informal agreement)	15%	,,	$7\frac{1}{2}$% ,,
May 1953	20%	,,	10% ,,
May 1954	25%	,,	$12\frac{1}{2}$% ,,
September 1954	20%	,,	10% ,,
December 1954	25%	,,	$12\frac{1}{2}$% ,,
February 1955	15%	,,	$7\frac{1}{2}$% ,,
June 1955	$16\frac{1}{2}$%	,,	$7\frac{1}{2}$% ,,
July 1955	20%	,,	$7\frac{1}{2}$% ,,
August 1955	$21\frac{1}{2}$%	,,	$7\frac{1}{2}$% ,,
October 1955	24%	,,	$7\frac{1}{2}$% ,,

TABLE 35

**Balances Held at the Reserve Bank by Trading Banks in New Zealand,
1949 to 1955**

(£000)

Date Last Balance Day in Month	Actual Balances at Reserve Bank	Statutory Minimum Balances	Borrowing([1])
1949—January	74,118	11,278	..
February	77,212	11,483	..
March	60,363	11,731	..
April	65,077	11,310	..
May	72,981	11,779	..
June	86,257	11,944	..
July	82,019	11,913	..
August	79,898	11,927	..
September ..	80,491	11,455	..
October	79,549	11,517	..
November ..	76,534	11,599	..
December ..	81,243	11,467	..
1950—January	88,965	12,507	..
February	88,869	12,589	..
March	69,277	13,374	..
April	76,991	12,693	..
May	83,973	13,579	..
June	76,879	13,365	..
July	75,101	12,786	..
August	72,249	12,625	..
September ..	70,822	12,231	..
October	72,302	12,277	..
November ..	70,210	12,566	..
December ..	62,579	12,712	..
1951—January	67,367	14,249	3,230
February	67,390	14,846	2,905
March	49,060	14,834	1,270
April	65,834	15,042	1,269
May	75,902	15,810	813
June	73,694	16,456	476
July	75,294	16,555	216
August	81,660	16,208	..
September ..	84,617	15,099	..
October	79,248	15,712	..
November ..	69,737	15,319	..
December ..	65,896	15,216	..
1952—January	62,841	15,485	..
February	54,396	15,795	..
March	24,643	15,909	..
April	33,210	15,631	..
May	41,098	15,505	..
June	44,426	15,586	..
July	44,370	15,470	..
August	50,299	21,461	..
September ..	56,029	21,063	..
October	63,187	21,317	..
November ..	68,452	21,358	..
December ..	71,992	21,584	..
1953—January	88,846	21,820	..
February	95,161	22,650	..
March	69,167	23,851	..
April	89,382	23,028	..
May	95,883	47,941	..
June	102,249	50,060	..
July	99,826	49,656	..
August	99,869	64,939	..

TABLE 35—*continued*

Balances Held at the Reserve Bank by Trading Banks in New Zealand, 1949 to 1955—*continued*

(£000)

Date Last Balance Day in Month	Actual Balances at Reserve Bank	Statutory Minimum Balances	Borrowing([1])
1953—September	97,976	47,690	..
October	95,428	47,443	..
November	96,849	47,244	..
December	88,979	48,623	..
1954—January	97,601	49,690	..
February	105,659	51,312	..
March	68,326	53,937	..
April	81,441	51,642	..
May	89,175	53,508	..
June	86,480	67,839	350
July	77,171	66,583	7,350
August	78,337	63,332	10,000
September ..	67,850	51,488	8,000
October	66,124	50,530	6,500
November	65,559	50,682	7,500
December	71,660	64,186	8,500
1955—January	80,496	67,575	6,000
February	79,187	67,437	3,000
March	44,346	41,541	14,000
April	49,801	40,040	14,000
May	44,398	41,589	5,250
June	45,449	44,158	1,915
July	51,858	51,182	8,130
August	54,361	53,562	12,315
September	56,952	53,012	6,675
October	60,156	57,900	9,250
November	59,019	58,300	10,455
December	58,965	58,303	7,835

([1]) Excluding inter-bank borrowing, but including Treasury deposits and borrowing from the Reserve Bank.

Source: Reserve Bank of New Zealand

TABLE 36

Trading-bank Ratios: Average of Monthly Figures, 1934 to 1955
(Expressed as percentages)

Calendar Year	Demand Deposits to Total Deposits	Cash[1] to Total Deposits	Cash[1] Plus Net Overseas Assets to Total Deposits	Securities to Total Deposits	Advances and Discounts to Total Deposits	Cash[1] to Demand Deposits	Cash[1] Plus Net Overseas Assets to Demand Deposits
1934[2]	39·0	29·8	56·6	N.A.	67·9	76·3	145·0
1935	41·9	15·5	48·7	8·2	73·7	37·0	116·3
1936	46·1	19·0	46·0	8·4	70·0	41·3	100·0
1937	51·8	20·8	39·0	11·7	73·0	40·3	75·3
1938	53·1	17·5	28·2	12·0	85·1	32·9	53·0
1939	55·8	23·1	28·9	16·9	79·5	41·4	51·9
1940	60·8	25·7	40·1	21·4	60·6	42·2	65·9
1941	64·4	21·7	36·0	25·8	60·9	33·7	55·9
1942	69·0	25·8	40·3	30·5	49·0	37·4	58·4
1943	73·0	30·6	41·0	35·0	40·0	41·9	56·2
1944	74·4	33·1	43·1	32·4	39·3	44·4	57·9
1945	75·9	39·9	50·0	24·2	39·3	52·5	66·2
1946	77·3	44·8	53·0	18·8	38·5	57·9	68·6
1947	77·2	39·8	47·8	13·9	45·9	51·5	61·9
1948	77·4	38·5	46·1	10·6	48·4	49·8	59·5
1949	79·4	45·4	53·1	7·7	43·2	57·1	66·8
1950	80·8	41·8	50·2	6·5	45·4	51·7	62·1
1951	76·8	32·5	43·2	5·2	52·0	42·3	56·2
1952	73·4	24·9	31·6	5·1	65·2	34·0	43·1
1953	78·3	39·2	46·8	5·2	50·1	50·1	59·7
1954	80·9	31·8	38·7	8·7	53·6	39·3	47·8
1955	82·0	23·7	30·2	8·7	62·3	28·9	36·8

[1] Banks' cash includes notes and coin and balances at the Reserve Bank of New Zealand.
[2] Last five months.

Source: Reserve Bank of New Zealand

TABLE 37

Classification of Trading-banks' Advances as at End of March 1937 to 1955

(£ million)

	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955
1. Farmers—																			
(a) Mainly dairy	4·7	5·0	5·0	4·9	5·1	5·4	5·1	5·6	5·8	6·4	7·3	7·3	7·2	6·8	7·9	8·9	8·0	11·3	13·6
(b) Mainly wool	5·4	6·1	6·4	5·8	5·5	5·3	5·7	5·8	6·3	6·5	6·9	6·1	5·8	4·9	5·4	6·4	6·5	7·0	8·2
(c) Mainly meat	1·9	2·2	2·5	1·9	1·8	1·9	1·7	1·7	1·8	1·4	1·6	1·4	1·2	1·1	1·1	0·9	1·0	1·0	1·1
(d) Mainly agricultural	0·3	0·4	0·5	0·3	0·4	0·3	0·4	0·3	0·4	0·4	0·6	0·7	0·7	0·7	0·8	0·9	1·0	1·0	1·2
(e) Mixed	4·1	4·5	4·3	4·2	4·1	4·3	4·2	4·0	4·5	4·6	5·2	4·6	4·4	3·8	4·0	4·3	4·2	4·4	5·2
	16·5	18·1	18·5	17·1	17·1	17·2	17·0	17·4	18·7	19·3	21·6	20·0	19·3	17·3	19·2	21·5	20·6	24·6	29·3
2. Industries allied to primary production—																			
(a) Dairy companies, factories, etc.	1·3	1·7	2·6	2·1	2·3	1·7	1·3	1·0	1·2	0·8	1·2	0·8	0·6	0·5	0·7	0·8	0·6	1·3	2·8
(b) Freezing works, meat companies, etc.	0·9	1·7	2·6	3·3	7·4	6·5	5·2	5·7	7·0	7·8	7·7	7·4	8·6	9·4	13·9	18·0	6·8	5·0	13·8
(c) Woollen mills	0·6	0·8	0·6	0·5	0·2	0·4	0·4	0·2	0·6	0·8	0·9	1·5	2·3	1·4	2·1	3·9	2·8	3·2	3·7
(d) Wool buyers	..	..	..	..	..	..	..	..	..	..	..	..	1·5	5·4	11·2	4·1	2·8	4·2	5·5
(e) Other	1·3	1·9	1·4	1·5	1·8	1·3	1·4	1·4	1·3	1·6	3·8	4·5	4·2	4·3	4·3	6·6	7·2	7·1	7·5
	4·1	6·2	7·3	7·3	11·7	9·7	8·4	8·3	10·1	10·9	13·5	14·2	17·2	21·1	32·2	33·5	20·3	20·8	33·2
3. Other manufacturing and productive industries	3·9	4·6	4·3	4·2	4·9	4·9	4·2	4·8	6·7	6·5	8·3	14·2	15·0	14·8	20·5	32·5	26·6	22·9	28·6
4. Merchants, wholesalers—																			
(a) Mainly importers	3·3	4·2	3·5	1·9	2·4	2·2	1·8	1·5	2·0	2·5	4·3	8·0	5·9	7·6	10·7	21·0	12·1	11·0	14·1
(b) Others	1·4	1·1	1·4	1·0	1·3	1·1	1·2	1·4	1·2	0·9	1·4	4·9	2·2	2·8	3·1	6·2	4·7	4·0	5·3
	4·7	5·2	4·9	3·0	3·6	3·3	3·0	2·9	3·1	3·4	5·7	12·9	8·1	10·4	13·8	27·2	16·8	14·8	19·3

TABLE 37—continued

Classification of Trading-banks' Advances as at End of March 1937 to 1955—continued

(£ million)

	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955
5. Retailers	3·3	4·1	3·6	3·0	3·1	2·8	2·0	2·0	2·8	3·1	4·6	9·5	7·7	8·3	11·3	20·7	14·0	14·9	19·2
6. Transport—	0·6	0·7	0·7	0·7	0·6	0·5	0·4	0·4	0·7	0·9	1·3	1·8	1·9	2·1	3·1	3·6	3·7	3·9	4·0
(a) Shipping	··	0·1	0·1	0·1	0·1	0·1	··	··	··	0·1	0·1	0·1	0·2	0·4	0·6	0·3	0·4	0·4	0·4
(b) Other	0·5	0·6	0·6	0·6	0·5	0·5	0·4	0·4	0·6	0·8	1·2	1·6	1·7	1·8	2·4	3·3	3·3	3·5	3·7
7. All others—	13·1	16·1	15·5	12·7	12·4	11·1	9·8	11·0	12·8	13·7	17·6	19·9	19·6	20·7	30·7	41·0	36·4	44·4	50·6
(a) Local bodies, municipal authorities, public utility concerns, etc.	0·5	0·7	0·8	0·7	0·4	0·4	0·5	0·3	0·5	0·7	0·7	0·7	0·9	1·0	1·6	1·5	2·2	2·0	2·3
(b) Stock and station agents	0·6	1·4	1·4	0·7	0·5	0·5	0·5	0·8	1·0	0·7	1·0	0·7	0·6	0·6	1·4	4·5	3·1	1·7	3·2
(c) Hotels (public and private), restaurants, etc.	0·9	1·2	1·2	1·1	1·3	1·2	0·8	1·0	1·2	1·4	2·2	2·4	2·3	2·1	2·6	2·9	2·9	3·2	3·1
(d) Entertainment concerns	0·4	0·4	0·3	0·4	0·3	0·3	0·3	0·3	0·3	0·2	0·4	0·5	0·4	0·3	0·3	0·3	0·3	0·3	0·4
(e) Financial companies, societies, etc.	1·6	2·2	2·3	1·4	0·8	0·7	0·5	0·7	1·1	0·8	1·2	1·5	1·8	1·9	2·5	2·9	1·9	5·9	7·2
(f) Religious and charitable	1·4	1·5	1·6	1·3	0·3	0·3	0·3	0·2	0·2	0·2	0·2	0·3	0·3	0·3	0·4	0·6	0·7	0·8	0·7
(g) Professional	1·4	1·6	1·6	1·3	1·3	1·1	1·0	1·2	1·4	1·4	1·7	2·0	2·0	2·0	2·8	3·1	2·9	3·2	3·3
(h) Private individuals	4·9	5·6	5·2	4·3	4·8	4·7	4·5	4·8	5·6	6·2	7·7	8·5	8·3	9·2	14·6	18·8	16·9	20·9	23·6
(i) Miscellaneous	2·3	2·9	2·3	1·9	2·7	1·8	1·5	1·7	1·7	2·0	2·7	3·5	3·0	3·3	4·6	6·4	5·6	6·3	6·9
Total advances	46·2	55·1	54·7	48·0	53·4	49·5	44·8	46·9	54·9	57·8	72·6	92·5	88·7	94·6	130·7	179·9	138·4	146·4	184·2

(¹) Discounts are excluded.

Source: Reserve Bank of New Zealand

TABLE 38

Classification of Trading-banks' Total Overdraft Limits, March 1954 and 1955

(£(N.Z.)million)

	March 1954: Total Overdraft Limits	March 1955		
		Advances	Unexercised Overdraft Authorities	Total Overdraft Limits
1. Farmers—				
(a) Mainly dairy	16·2	13·6	4·6	18·2
(b) Mainly wool	12·0	8·2	5·0	13·2
(c) Mainly meat	1·5	1·1	0·6	1·7
(d) Mainly agricultural	1·4	1·2	0·4	1·6
(e) Mixed	6·9	5·2	2·5	7·7
	37·9	29·3	13·1	42·4
2. Industries allied to primary production—				
(a) Dairy Companies, factories, etc.	3·8	2·8	4·0	6·8
(b) Freezing works, meat companies, etc.	12·2	13·8	4·8	18·6
(c) Woollen mills	4·2	3·7	0·7	4·4
(d) Other	21·6	13·0	9·2	22·2
	41·8	33·2	18·8	52·0
3. Other manufacturing and productive industries	40·1	28·6	14·4	43·0
4. Merchants, Wholesalers—				
(a) Mainly importers	19·4	14·1	8·1	22·2
(b) Others	6·9	5·3	3·6	8·9
	26·3	19·3	11·7	31·0
5. Retailers	23·5	19·2	7·7	26·9
6. Transport—				
(a) Shipping	0·9	0·4	0·6	1·0
(b) Other	5·4	3·7	2·3	6·0
	6·3	4·0	2·9	6·9
7. All others—				
(a) Local bodies, municipal authorities, public utility concerns, etc.	8·8	2·3	6·9	9·2
(b) Stock and station agents	7·3	3·2	5·1	8·3
(c) Hotel (public and private), restaurants, etc.	4·5	3·1	1·5	4·6
(d) Entertainment concerns	0·7	0·4	0·4	0·8
(e) Financial companies, societies, etc.	9·0	7·2	2·6	9·8
(f) Religious and charitable	1·5	0·7	0·7	1·4
(g) Professional	4·6	3·3	1·5	4·8
(h) Private individuals	28·3	23·6	7·7	31·3
(i) Miscellaneous	9·9	6·9	3·6	10·5
	74·6	50·6	30·0	80·6
Total advances	250·7	184·2	98·6	282·8

Source: Reserve Bank of New Zealand

TABLE 39

Post Office Savings Bank Deposits, Withdrawals, and Amounts to Credit, 1934 to 1955

(£000)

Year Ended March			Deposits	Withdrawals	Amount to Credit at 31 March
1934	..	..	..	19,429	17,818	44,870
1935	..	..	..	24,180	20,947	49,424
1936	..	..	..	25,620	23,534	52,916
1937	..	..	..	30,677	27,042	58,066
1938	..	..	..	33,041	29,629	63,147
1939	..	..	..	30,434	34,598	60,710
1940	..	..	..	25,151	29,463	58,002
1941	..	..	..	28,607	25,319	62,957
1942	..	..	..	32,045	25,377	71,445
1943	..	..	..	38,097	26,889	84,470
1944	..	..	..	47,649	35,580	98,614
1945	..	..	..	54,585	42,159	113,492
1946	..	..	..	67,861	55,626	128,514
1947	..	..	..	72,381	62,747	141,242[1]
1948	..	..	..	72,553	68,660	148,442[1]
1949	..	..	..	70,691	67,723	154,849[1]
1950[2]	..	..	..	{ 11,448 / 77,963	3,793 / 73,306 }	170,982
1951	..	..	..	86,395	85,190	176,103
1952	..	..	..	98,206	93,749	184,639
1953	..	..	..	99,126	96,700	191,274
1954	..	..	..	109,340	99,135	205,922
1955	..	..	..	117,881	112,842	215,671

[1] Excludes balances to credit of war gratuity savings bank accounts in the years quoted of: 1947, £13,616,000; 1948, £12,439,000; 1949, £11,448,000.

[2] War gratuity accounts balances totalling £11,448,000 deemed to be Post Office Savings Bank accounts as from 31 March 1949. Of this amount £7,655,000 was left to credit and £3,793,000 withdrawn. Transactions shown separately for year 1949–50.

Source: Department of Statistics

TABLE 40

Trustee Savings Bank Deposits, Withdrawals, and Amounts to Credit, 1934 to 1955

(£000)

Year Ended March			Deposits	Withdrawals	Amount to Credit at 31 March
1934	..	..	5,818	5,742	10,848
1935	..	..	6,199	6,073	11,286
1936	..	..	6,652	6,487	11,773
1937	..	..	7,609	7,240	12,480
1938	..	..	8,137	7,639	13,339
1939	..	..	8,578	8,430	13,866
1940	..	..	8,184	8,523	13,907
1941	..	..	8,219	7,764	14,759
1942	..	..	8,514	7,570	16,130
1943	..	..	9,127	7,341	18,320
1944	..	..	11,013	8,864	20,914
1945	..	..	11,228	9,865	22,774
1946	..	..	15,954	12,054	27,254
1947	..	..	17,306	14,698	30,540
1948	..	..	16,137	15,622	31,778
1949	..	..	15,994	15,748	32,771
1950	..	..	17,616	16,234	34,943
1951	..	..	20,720	19,610	36,893
1952	..	..	22,937	22,373	38,334
1953	..	..	22,645	23,012	38,854
1954	..	..	24,321	22,958	41,132
1955	..	..	26,924	26,188	42,826

Source: Department of Statistics

TABLE 41

National Savings Deposits, Withdrawals, and Amounts to Credit, 1934 to 1955

(£000)

Year Ended March			Deposits	Withdrawals	Amount to Credit at 31 March
1934	..	..	..	..	..
1935	..	..	..	..	..
1936	..	..	..	..	..
1937	..	..	..	..	..
1938	..	..	..	..	..
1939	..	..	..	..	..
1940	..	..	..	..	..
1941([1])	..	..	718	..	718
1942	..	..	2,476	9	3,194
1943	..	..	2,425	25	5,666
1944	..	..	7,258	64	13,010
1945	..	..	7,267	178	20,457
1946	..	..	7,607	1,707	26,917
1947	..	..	6,175	2,306	31,560
1948	..	..	7,285	3,680	36,070
1949	..	..	7,032	3,943	40,197
1950	..	..	10,577	4,282	47,671
1951	..	..	9,469	5,311	53,214
1952	..	..	10,974	6,511	59,218
1953	..	..	10,419	8,427	62,930
1954	..	..	10,329	9,630	65,469
1955	..	..	11,128	10,282	68,228

([1]) Six months only.

Source: Department of Statistics

TABLE 42

National Savings Bonds Purchased and Redeemed, 1934 to 1955

(£000)

Year Ended March	Purchase Value of Bonds Sold	Redemption Value of Bonds Redeemed	Year Ended March	Purchase Value of Bonds Sold	Redemption Value of Bonds Redeemed
1934 ..	..	..	1945 ..	2,609	..
1935 ..	..	..	1946 ..	1,314	521
1936 ..	..	..	1947 ..	457	2,089
1937 ..	..	..	1948 ..	493	2,936
1938 ..	..	..	1949 ..	435	3,170
1939 ..	..	..	1950 ..	458	2,421
1940 ..	..	..	1951 ..	499	1,644
1941 ..	612	..	1952 ..	537	619
1942 ..	2,786	..	1953 ..	219	712
1943 ..	1,356	..	1954 ..	360	555
1944 ..	3,122	..	1955 ..	339	550

Source: Department of Statistics

TABLE 43

Comparison of New Zealand Trustee Savings Banks' Balance Sheets, 31 March 1955

(Previous year's figures in brackets)

LIABILITIES

	Auckland		Dunedin		Invercargill		New Plymouth		Hokitika		Total	
	Amount £	Percentage	Amount £	Percentage	Amount £	Percentage	Amount £	Percentage	Amount £	Percentage	Amount £	Percentage
Ordinary depositors ..	26,521,103 (25,617,257)	80·5 (80·7)	6,139,589 (6,020,059)	74·9 (73·7)	6,200,415 (5,833,069)	90·7 (90·3)	3,494,266 (3,198,782)	69·7 (68·3)	459,442 (452,649)	88·2 (88·6)	42,814,817 (41,121,816)	80·0 (79·8)
National savings depositors ..	4,339,100 (4,176,055)	13·2 (13·1)	1,619,375 (1,720,036)	19·7 (21·1)	450,562 (463,371)	6·6 (7·2)	1,315,085 (1,296,958)	26·2 (27·7)	.. ..	.. ..	7,724,122 (7,656,420)	14·4 (14·8)
Staff provident fund ..	207,272 (185,417)	0·6 (0·6)	31,097 (28,072)	0·4 (0·3)	.. ..	.. ..	11,325 (9,704)	0·2 (0·2)	.. ..	.. ..	249,694 (223,193)	0·5 (0·4)
Provision for taxation ..	87,577 (61,442)	0·3 (0·2)	15,334 (16,170)	0·2 (0·2)	22,200 (17,702)	0·3 (0·3)	13,198 (13,568)	0·3 (0·3)	2,233 (2,107)	0·4 (0·4)	140,542 (110,989)	0·3 (0·2)
Provision for donations, etc. ..	30,000 (20,000)	0·1 (0·1)	5,000 (5,000)	0·1 (0·1)	4,000 (4,000)	0·1 (0·1)	.. ..	.. ..	.. ..	.. ..	39,000 (29,000)	0·1 (0·1)
Reserves	1,751,562 (1,678,931)	5·3 (5·3)	389,783 (375,933)	4·7 (4·6)	159,430 (138,172)	2·3 (2·1)	179,221 (163,756)	3·6 (3·5)	59,145 (56,126)	11·4 (11·0)	2,539,141 (2,412,918)	4·7 (4·7)
	32,936,616 (31,739,102)	100 (100)	8,200,178(1) (8,165,270)	100 (100)	6,836,607(1) (6,456,314)	100 (100)	5,013,095 (4,682,768)	100 (100)	520,820 (510,882)	100 (100)	53,507,316 (51,554,336)	100 (100)
Reference section 24 (5B), Trustee Savings Banks Act 1948												
Reserves, less premises and property ..	1,601,562 (1,539,931)	.. ..	332,733 (332,733)	.. ..	98,468 (105,253)	.. ..	162,908 (153,131)	.. ..	57,581 (54,566)	.. ..	2,253,252 (2,185,614)	.. ..
5 per cent of depositors ..	1,326,055 (1,280,863)	.. ..	306,979 (301,003)	.. ..	310,021 (291,633)	.. ..	174,713 (159,939)	.. ..	22,972 (22,632)	.. ..	2,140,740 (2,036,090)	.. ..
Excess or deficiency	275,507E (259,068E)	.. ..	25,754E (31,730E)	.. ..	211,553D (186,400D)	.. ..	11,805D (6,808D)	.. ..	34,609E (31,934E)	.. ..	112,512E (129,524E)	.. ..

(1) Not in accordance with balance sheet.

Source: Associated Savings Banks of New Zealand

TABLE 44

Comparison of New Zealand Trustee Savings Banks' Balance Sheets, 31 March 1955
(Previous year's figures in brackets)

ASSETS

	Auckland Amount	Auckland Per-centage	Dunedin Amount	Dunedin Per-centage	Invercargill Amount	Invercargill Per-centage	New Plymouth Amount	New Plymouth Per-centage	Hokitika Amount	Hokitika Per-centage	Total Amount	Total Per-centage
Current assets—												
Cash in hand and at bankers	£1,805,298 (1,817,403)	..	£208,484 (292,590)	..	£120,136 (181,911)	..	£222,560 (143,993)	..	£34,094 (48,613)	..	£2,390,572 (2,484,510)	..
Interest due and accrued, etc.	185,438 (182,860)	..	44,696 (46,504)	..	39,060 (38,363)	..	20,998 (21,960)	..	2,048 (2,003)	..	292,240 (291,690)	..
Investments—												
Fixed deposits	..	..	200,000 (200,000)	..	435,000 (405,000)	..	150,000 (150,000)	..	..	..	785,000 (755,000)	..
National savings deposits	..	..	..	..	..	..	40,000 (34,044)	..	..	..	40,000 (34,044)	..
New Zealand Government inscribed stock, etc.	14,865,712 (15,994,439)	56.4 (63.1)	3,158,416 (3,087,116)	52.1 (52.7)	3,076,505 (2,926,505)	53.9 (55.0)	1,565,485 (1,500,891)	48.3 (49.7)	225,348 (201,770)	46.8 (44.1)	22,891,466 (23,710,721)	54.7 (59.3)
National savings bonds	31,234 (43,789)	0.1 (0.2)	5,000 (5,000)	0.1 (0.1)	..	..	..	..	7,758 (7,554)	1.7 (1.6)	43,992 (56,343)	0.1 (0.1)
Local body debentures	3,360,063 (2,967,478)	12.7 (11.7)	531,336 (558,598)	8.8 (9.5)	1,262,602 (1,157,929)	22.1 (21.7)	152,252 (157,493)	4.7 (5.2)	13,669 (14,374)	2.8 (3.1)	5,319,922 (4,855,872)	12.7 (12.1)
First mortgages	8,118,271 (6,336,863)	30.8 (25.0)	2,363,213 (2,202,023)	39.0 (37.7)	1,373,060 (1,239,928)	24.0 (23.3)	1,520,415 (1,361,474)	47.0 (45.1)	234,818 (233,449)	48.8 (51.1)	13,609,777 (11,373,737)	32.5 (28.5)
Investments (re section 24 (4))	26,375,280 (25,342,569)	100 (100)	6,057,965 (5,852,737)	100 (100)	5,712,167 (5,324,362)	100 (100)	3,238,152 (3,019,858)	100 (100)	481,593 (457,147)	100 (100)	41,865,157 (39,996,673)	100 (100)
National savings securities—												
New Zealand Government inscribed stock	4,326,000 (4,166,000)	..	1,589,324 (1,687,834)	..	455,800 (453,000)	..	1,309,950 (1,279,950)	..	..	..	7,681,074 (7,586,784)	..
Cash in hand, etc.	13,100 (10,055)	..	30,051 (32,202)	..	.. (10,371)	..	5,135 (17,008)	..	..	..	48,286 (69,636)	..
Fixed assets—												
Premises and property	150,000 (139,000)	..	57,050 (43,200)	..	60,962 (32,919)	..	16,313 (10,625)	..	1,564 (1,560)	..	285,889 (227,304)	..
Furniture and fittings	81,500 (81,215)	..	12,608 (10,203)	..	13,482 (10,388)	..	9,987 (5,330)	..	1,521 (1,559)	..	119,098 (108,695)	..
	32,936,616 (31,739,102)	..	8,200,178(1) (8,165,270)	..	6,836,607(1) (6,456,314)	..	5,013,095 (4,682,768)	..	520,820 (510,882)	..	53,507,316 (51,554,336)	..
5 per cent ordinary depositors	1,326,055 (1,280,863)	..	306,979 (301,003)	..	310,021 (291,653)	..	174,713 (159,939)	..	22,972 (22,632)	..	2,140,740 (2,056,090)	..

Note.—In comparing cash holdings with 5 per cent depositors' balances, fixed deposits and national savings deposits are taken into account.

(1) Not in accordance with balance sheet.

Source: Associated Savings Banks of New Zealand

TABLE 45

Building Societies' Deposits Received During March Years, 1934 to 1955

Year ended March—				£(000)	Year ended March—				£(000)
1934	..	..	..	1,414	1945	..	..	..	1,303
1935	..	..	..	1,635	1946	..	..	..	1,330
1936	..	..	..	1,950	1947	..	..	..	1,234
1937	..	..	..	2,203	1948	..	..	..	1,376
1938	..	..	..	1,902	1949	..	..	..	1,439
1939	..	..	..	1,982	1950	..	..	..	1,326
1940	..	..	..	2,063	1951	..	..	..	1,644
1941	..	..	..	1,645	1952	..	..	..	1,930
1942	..	..	..	1,456	1953	..	..	..	1,694
1943	..	..	..	1,274	1954	..	..	..	2,070
1944	..	..	..	1,258	1955	..	..	..	2,736

Source: Department of Statistics

TABLE 46

Deposits with Building and Investment Societies and Trading Companies, 1934 to 1947

As at 31 March	Building and Investment Societies				Trading Companies				Grand Totals
	At Call	3 Months and Under 2 Years	2 Years or Over	Totals, Building and Investment Societies	At Call	3 Months and Under 2 Years	2 Years or Over	Totals, Trading Companies	
	£	£	£	£	£	£	£	£	£
1934	437,257	672,578	2,128,275	3,238,110	3,292,740	1,004,031	1,691,344	5,988,115	9,226,225
1935	621,419	612,842	1,984,495	3,218,756	2,756,187	1,106,836	1,983,391	5,846,414	9,065,170
1936	684,599	712,219	2,218,803	3,615,621	2,583,167	1,077,754	1,887,648	5,548,569	9,164,190
1937	778,907	728,413	2,481,180	3,988,500	2,297,438	1,100,109	1,840,630	5,238,177	9,226,677
1938	804,443	755,811	2,680,419	4,240,673	2,154,307	1,045,739	1,897,136	5,097,182	9,337,855
1939	761,388	842,317	2,956,936	4,560,641	2,151,353	1,005,715	1,927,142	5,084,210	9,644,851
1940	735,746	873,444	3,205,931	4,815,121	2,111,470	1,148,445	1,867,442	5,127,357	9,942,478
1941	748,676	928,109	3,333,786	5,010,571	2,163,558	1,439,932	1,909,233	5,512,723	10,523,294
1942	698,724	761,865	3,588,966	5,049,555	2,072,634	1,101,813	2,520,567	5,695,014	10,744,569
1943	697,615	609,747	3,669,975	4,977,337	2,159,064	1,060,844	2,337,672	5,557,580	10,534,917
1944	700,125	562,605	3,869,484	5,132,214	1,635,665	1,209,096	2,260,818	5,105,579	10,237,793
1945	697,106	552,109	3,938,782	5,187,997	1,706,039	910,238	2,180,514	4,796,791	9,984,788
1946	707,714	537,919	4,102,331	5,347,964	2,342,723	1,037,871	2,095,624	5,476,218	10,824,182
1947	740,201	566,546	4,234,453	5,541,200	2,070,046	784,324	2,136,703	4,991,073	10,532,273

Source : Department of Statistics

TABLE 47

Statistics of Building Societies, 1933–34, 1938–39, 1945–46, 1949–50, and 1954–55

—	1933–34	1938–39	1945–46	1949–50	1954–55
Permanent societies—					
Number of societies	53	57	57	56	55
Investing shares—					
Number of shares	147,893	256,585	320,633	437,204	650,457
Members holding	12,310	17,334	22,030	26,152	27,060
Aggregate value (£ million) ..	1·48	1·81	2·50	4·63	7·13
Capital shares—					
Number of shares	534,155	588,915	622,176	656,075	809,855
Members holding	5,122	5,480	5,685	5,363	5,702
Aggregate value (£ million) ..	1·30	1·45	1·59	1·65	2·00
Terminating societies—					
Number of societies	44	38	34	25	18
Members holding investing shares	31,332	29,892	47,627	99,150	143,698
Number of investing shares ..	105,654	102,595	215,652	462,349	897,639
Value of investing shares (£ million)	2·13	2·09	2·83	4·79	10·77

Source: Department of Statistics

TABLE 48

Life Assurance: New Zealand Business, 1928 to 1954

BALANCE SHEET: ASSETS

All Offices Transacting Business in the Dominion

	1928		1931		1934		1937		1939	
	Amount £	Percentage	Amount £	Percentage	Amount £	Percentage	Amount £	Percentage	Amount £	Percentage
Mortgages of property	6,633,765	27·6	7,575,314	20·6	7,990,928	19·0	10,466,620	21·3	12,079,828	22·9
Loans on policies	3,948,114	16·4	5,943,648	16·2	5,896,059	14·0	5,680,045	11·6	5,613,058	10·6
New Zealand Government securities	5,904,932	24·5	6,338,974	17·3	8,657,147	20·5	8,664,502	17·7	10,265,383	19·4
Securities of other Governments	40,000	0·2	63,255	0·2	91,608	0·2	85,839	0·2	103,191	0·2
Local authorities securities	3,483,417	14·5	13,299,074	36·3	14,736,437	35·0	18,201,378	37·1	18,672,997	35·3
Landed and house property	1,401,067	5·8	1,441,376	3·9	1,519,632	3·6	2,087,582	4·2	2,372,858	4·5
Other investments	5,959		106,091	0·3	182,793	0·4	115,624	0·2	554,794	1·1
Outstanding premiums	332,051	1·4	393,747	1·1	346,258	0·8	389,711	0·8	417,085	0·8
Interest accrued and outstanding	291,515	1·2	539,812	1·5	507,352	1·2	481,352	1·0	530,041	1·0
Cash	182,604	0·8	312,066	0·8	978,920	2·3	642,144	1·3	778,053	1·5
Other assets	1,821,405	7·6	1,241,341	3·4	1,254,880	3·0	2,255,571	4·6	1,430,610	2·7
Total	24,044,829	100·0	36,654,698	100·0	42,162,014	100·0	49,074,368	100·0	52,822,898	100·0

	1946		1950		1952		1953		1954	
	Amount £	Percentage	Amount £	Percentage	Amount £	Percentage	Amount £	Percentage	Amount £	Percentage
Mortgages of property	12,139,196	15·2	23,436,153	21·7	40,685,753	32·1	47,311,935	33·9	56,854,203	36·6
Loans on policies	3,575,154	4·5	3,607,654	3·4	4,026,948	3·2	4,103,459	2·9	4,195,253	2·7
New Zealand Government securities	33,867,654	42·3	43,340,622	40·2	39,155,895	30·8	42,101,216	30·1	46,219,613	29·8
Securities of other Governments	2,872,218	3·6	2,908,011	2·7	1,860,016	1·5	1,797,369	1·3	1,658,959	1·1
Local authorities securities	21,352,130	26·7	26,903,777	24·9	29,661,291	23·4	30,929,187	22·1	30,927,602	19·9
Landed and house property	2,146,891	2·7	2,702,309	2·5	3,178,158	2·5	3,426,941	2·5	3,756,901	2·4
Other investments	469,746	0·6	2,317,026	2·2	3,478,434	2·7	5,469,705	3·9	7,520,132	4·9
Outstanding premiums	695,795	0·9	640,987	0·6	856,621	0·7	943,440	0·7	1,066,510	0·7
Interest accrued and outstanding	842,456	1·1	914,002	0·8	1,035,174	0·8	1,149,414	0·8	1,283,859	0·8
Cash	907,901	1·1	684,840	0·6	1,299,662	1·0	1,082,475	0·8	602,916	0·4
Other assets	1,090,910	1·4	1,088,314	1·0	1,707,000	1·3	1,402,097	1·0	1,061,825	0·7
Total	79,960,051	100·0	107,943,695	100·0	126,944,952	100·0	139,717,238	100·0	155,138,773	100·0

Source: Life Offices' Association

TABLE 49

Life Assurance: New Zealand Business, 1928 to 1954
BALANCE SHEET—ASSETS: SUMMARY IN GROUPS
All Offices Transacting Business in the Dominion

Group of Assets	1928 Amount £ million	1928 Percentage	1931 Amount £ million	1931 Percentage	1934 Amount £ million	1934 Percentage	1937 Amount £ million	1937 Percentage
1. Finance on members' policies (loans on policies, which include premium advances)	3·9	16·4	5·3	14·6	5·9	14·0	5·7	11·6
2. Public lending (Government and local body loans)	9·4	39·2	19·7	53·8	23·5	55·7	26·9	55·0
3. Private lending and investment (mortgages, land and house property, and other investments)	8·1	33·4	9·1	24·8	9·7	23·0	12·7	25·7
4. Miscellaneous	2·6	11·0	2·5	6·8	3·1	7·3	3·8	7·7
Total	24·0	100·0	36·6	100·0	42·2	100·0	49·1	100·0

Group of Assets	1939 Amount £ million	1939 Percentage	1946 Amount £ million	1946 Percentage	1950 Amount £ million	1950 Percentage	1954 Amount £ million	1954 Percentage
1. Finance on members' policies (loans on policies, which include premium advances)	5·6	10·6	3·6	4·5	3·6	3·3	4·2	2·7
2. Public lending (Government and local body loans)	29·0	54·9	58·1	72·6	72·6	67·3	78·8	50·8
3. Private lending and investment (mortgages, land and house property, and other investments)	15·0	28·4	15·1	18·9	28·4	26·3	68·1	44·0
4. Miscellaneous	3·2	6·1	3·2	4·0	3·3	3·1	4·0	2·5
Total	52·8	100·0	80·0	100·0	107·9	100·0	155·1	100·0

Source: Life Offices' Association

TABLE 50

Investments of Various Financial Institutions as at 31 March 1934 to 1955

(£ million)

	1934	1937	1939	1946	1950	1951	1952	1953	1954	1955
Reserve Bank([1])—										
Advances and discounts	.. (²)	7·1	19·4	34·3	66·8	67·6	62·3	64·1	63·4	81·9
Investments in New Zealand	1·5(²)	2·5	2·9	0·6	38·0	26·0	2·0	10·0	10·2	10·3
	1·5	9·6	22·3	34·9	104·8	93·6	64·3	74·1	73·6	92·2
Trading banks([1])—										
Advances and discounts	41(³)	47·0	55·5	58·0	96·1	133·3	187·3	140·4	149·5	189·3
Investments in New Zealand	26(³)	7·9	10·3	29·1	13·4	13·3	13·1	12·9	26·3	26·0
	67(³)	54·9	65·8	87·1	109·5	146·6	200·4	153·3	175·8	215·3
Post Office Savings Bank—										
New Zealand Government securities	41·5	54·0	57·0	145·2	168·9	173·9	183·8	188·7	203·4	214·9
Local authority debentures	0·4	0·6	0·6	0·4	0·3	0·3	0·2	0·2	0·2	0·2
	41·9	54·6	57·6	145·6	169·2	174·2	184·0	188·9	203·6	215·1
National savings—										
New Zealand Government securities	..	..	..	35·0	45·7	50·1	55·2	58·2	61·0	63·5
Trustee savings banks—										
Mortgages	5·9	6·6	7·0	6·8	8·1	8·3	9·3	10·1	11·4	13·6
New Zealand Government securities	2·7	3·6	3·8	20·7	29·9	31·8	33·2	32·1	31·4	30·6
Local authority debentures	1·9	2·4	2·5	2·6	2·5	2·7	3·4	3·4	4·9	5·3
	10·5	12·6	13·3	30·1	40·5	42·8	45·9	45·6	47·7	49·5
Building societies—										
Loans	..	..	..	12·1	16·3	18·2	19·9	21·5	23·8	26·6
Other investments	..	..	..	1·4	1·7	1·8	1·7	1·8	2·1	2·3
	..	..	..	13·5	18·0	20·0	21·6	23·3	25·9	28·9

Insurance: life, fire, accident, and marine—									
Mortgages	8·2	9·8	11·6	12·5	18·7	23·7	33·3	41·2	48·2	58·1
Loans on policies	6·0	5·8	5·5	3·8	3·6	3·6	3·6	4·0	4·1	4·2
Local authority securities	16·3*	19·3	19·9	23·3	25·7	28·1	30·0	30·0	32·4	32·6
New Zealand Government securities	15·0	16·3	15·6	38·8	51·7	55·3	50·6	49·0	51·9	56·6
	45·5	51·2	52·6	78·4	99·7	110·7	117·5	125·1	136·6	151·5
Government Superannuation Funds(4)—									
Mortgages	3·2	2·7	2·6	1·9	0·8	0·6	0·5	0·5	0·4	0·4
Local authority securities	0·8	1·0	1·1	0·9	0·6	0·5	0·5	0·5	0·4	0·4
Government securities	0·7	0·8	1·5	2·2	5·7	7·9	8·9	11·1	13·6	15·8
	4·7	4·5	5·2	5·0	7·1	9·0	9·9	12·1	14·4	16·6
National Provident Fund(5)—									
Mortgages	1·3	1·2	1·1	0·8	0·7	0·6	0·5	0·6	0·6	1·0
Local authority securities	0·2	0·5	0·5	0·4	1·1	1·7	3·7	7·1	8·3	9·1
Government securities	1·9	2·5	3·7	6·9	8·9	9·1	8·1	5·7	5·5	5·4
	3·4	4·2	5·3	8·1	10·7	11·4	12·3	13·4	14·4	15·5
Earthquake and War Damage Fund—									
Government securities	..	..	..	4·7	6·7	7·6	8·6	9·7	10·8	12·1
State Advances Corporation loan operations—									
Mortgages—									
Rural	42·5	50·9	25·5	23·6	36·6	39·0	41·2	46·3	49·7	50·5
Urban			26·1	23·8	38·4	41·0	44·0	53·2	59·7	65·6
Industrial loans	..	..	..	..	..	..	1·4	1·7	1·8	1·5
Government and local authority securities	4·6	3·2	6·2	7·8	4·4	4·4	4·4	5·3	7·1	7·5
	47·1	54·1	57·8	55·2	79·4	84·4	91·0	106·5	118·3	125·1
Public Trust Office—									
Mortgages	13·2	12·0	11·8	9·8	9·8	9·5	11·3	11·9	12·3	13·4
Local authority debentures	7·9	6·4	6·8	5·8	4·8	4·4	4·1	3·8	3·5	3·2
Government securities	2·9	4·5	4·1	7·8	3·7	4·7	4·0	4·0	4·4	4·6
	24·0	22·9	22·7	23·4	18·3	18·6	19·4	19·7	20·2	21·2

(1) Figures for last balance day in March except where otherwise indicated.
(2) September 1934.
(3) Assessed.
(4) Combination of Public Service, Railways, and Teachers' Funds for 1934, 1937, 1939, and 1946.
(5) Figures for previous December.

Sources: Reserve Bank of New Zealand and Department of Statistics

TABLE 51

Overseas Private Direct Investment in New Zealand, 1950–51 to 1954–55

(£ million)

—	1950–51	1951–52	1952–53	1953–54	1954–55
1. Increases in investment ..	6·7	12·4	9·7	1·6	11·4
2. Investment income accruing to overseas firms	7·5	5·8	7·1	10·3	10·2

NOTE.—1. Yearly increases of investment capital in New Zealand branches and subsidiaries of overseas companies are made up of:
Remittances in cash to New Zealand.
Imports into New Zealand in the form of plant and machinery and commercial stocks not paid for by the New Zealand affiliate.
Dividends declared but not remitted to Head Office.
Profits retained in New Zealand.
2. Includes total profits *after* New Zealand direct taxation irrespective whether remitted overseas or not.

New Zealand Direct Investment Overseas, 1950–51 to 1954–55

(£ million)

—	1950–51	1951–52	1952–53	1953–54	1954–55
3. Increases in investment ..	1·5	0·9	1·0	1·9	1·7
4. Investment income accruing to New Zealand firms	1·9	2·0	1·6	1·9	2·1

Source: Department of Statistics

TABLE 52

Domicile of New Zealand's Public Debt, 1910 to 1955

As at 31 March	Amount		Percentage	
	Overseas([1])	New Zealand	Overseas	New Zealand
	£(N.Z.)million	£(N.Z.)million		
1910	62	13	83	17
1920	99	102	49	51
1930	151	117	56	44
1933	174	118	60	40
1940	168	164	51	49
1941	169	190	47	53
1942	163	231	41	59
1943	169	305	36	64
1944	170	367	32	68
1945	170	403	30	70
1946	122	473	21	79
1947	122	483	20	80
1948	107	494	18	82
1949	83	534	13	87
1950	81	565	13	87
1951	80	589	12	88
1952	80	576([2])	12	88
1953	80	590	12	88
1954	90	617	13	87
1955	100	631	14	86

([1]) Figures for 1933 and later years exclude £24,100,200 (£(N.Z.)30,125,250 for years 1933–48) contingent liability in respect of which interest payments have been suspended by agreement with the United Kingdom Government since 1931.

([2]) This reduction is owing mainly to the fact that State Advances stock to the amount of £34 million held by the Treasury was sold to the Post Office Savings Bank and an equivalent amount of Government stock held by the Savings Bank was redeemed. As bonds issued by the Corporation are not part of the public debt, the result of the transaction was a reduction of £34 million in the public debt.

Source: The Treasur

TABLE 53

Interest on New Zealand's Overseas Debt, 1911 to 1955

As at 31 March	Amount	Percentage of Export Value	As at 31 March	Amount	Percentage of Export Value
	£(N.Z.)million			£(N.Z.)million	
1911	2·2	10·0	1947	4·7	4·4
1920	4·2	8·2	1948	4·7	3·4
1930	7·0	14·6	1949	3·3	2·2
1940	5·7	9·5	1950	2·8	1·8
1941	5·4	7·6	1951	2·6	1·3
1942	5·4	7·8	1952	2·6	1·0
1943	5·4	7·1	1953	2·6	1·1
1944	6·6	8·8	1954	2·6	1·1
1945	6·7	8·5	1955	2·8	1·1
1946	7·0	7·9			

Source: The Treasury

TABLE 54

Various Interest Rates in New Zealand Since 1933

(1) LONG-TERM GOVERNMENT BORROWING RATES

			Per Cent				Per Cent
1933	..	..	.. 4	1946	..	..	.. 3
1937	..	..	.. 3½	1947	..	..	.. 3
1939	..	..	.. 4	1948	..	..	.. 3
1941	..	..	.. { 3¼	1949	..	..	.. 3
			{ 3	1950	..	..	.. 3
1942	..	..	.. 3	1951	..	..	.. 3
1943	..	..	.. 3	1953	..	..	.. 3¾([1])
1944	..	..	.. 3	1954	..	..	.. 3¾([2])
1945	..	..	.. 3	1955	..	..	.. 4([3])

([1]) Issued at discount – yield £3 19s.
([2]) Issued at discount – yield £3 19s. 6d.
([3]) Issued at discount – yield £4 2s. 4d.

(2) MAXIMUM LOCAL BODY BORROWING RATES

These at the time of the outbreak of the war were about 4¼ per cent – about ¼ per cent above Government borrowing rates. During the war they were gradually reduced to 3⅛ and in 1947 to 3¼ per cent, still generally about ¼ per cent above Government rates.

August 1952, rate increased from 3¼ to 4 per cent.
October 1955, rate increased from 4 to 4¼ per cent.

(3) RATES OF MORTGAGE INTEREST: YEARS ENDING MARCH

			Per Cent				Per Cent
1934	..	..	.. 5·56	1945	..	..	.. 4·51
1935	..	..	.. 5·06	1946	..	..	.. 4·10
1936	..	..	.. 4·73	1947	..	..	.. 3·85
1937	..	..	.. 4·60	1948	..	..	.. 3·90
1938	..	..	.. 4·65	1949	..	..	.. 3·98
1939	..	..	.. 4·58	1950	..	..	.. 3·99
1940	..	..	.. 4·69	1951	..	..	.. 4·09
1941	..	..	.. 4·69	1952	..	..	.. 4·15
1942	..	..	.. 4·73	1953	..	..	.. 4·29
1943	..	..	.. 4·72	1954	..	..	.. 4·49
1944	..	..	.. 4·63	1955	..	..	.. 4·69

NOTE.—Rates allowed by Capital Issues Committee (set up in April 1952):

			Per Cent
Mortgages—			
April 1952 to August 1952	..	..	.. 4¼
August 1952 to February 1955	..	..	.. 4⅜
Since February 1955	..	..	.. 4¾
From 6 October 1955—			
Mortgages £10,000 to £20,000	..	..	.. 5
Debentures	..	..	.. 5
Preference Shares	..	..	.. 5 (in some cases with participating rights).

(4) TRADING BANKS

	Minimum Per Cent	Maximum Per Cent
(a) *Lending Rates*—		
30/11/34 to 1/8/41	.. .. 4½	6½ (in some instances more was charged).
1/8/41 to date ..	 4	5

	3 to 6 Months Per Cent	6 to 12 Months Per Cent	1 to 2 Years Per Cent	2 to 3 Years Per Cent
(b) *Fixed Deposit Rates*—				
5/7/34 to 2/11/34	.. .. 1½	2	2¼	2¾
2/11/34 to 18/9/40	.. .. 1¼	1¾	2¼	2½
18/9/40 to 17/7/41	.. .. ¾	1¼	2¼	2½
17/7/41 to date..	.. .. ¾	1¼	1¾	2

(5) TRUSTEE SAVINGS BANKS DEPOSITS

	Up to £200 Per Cent	Up to £500 Per Cent	£501 to £750 Per Cent
1/4/33 to 1/6/42	3	..	..
1/6/42 to 1/7/45	2½	..	..
1/7/45 to 1/4/55	2½	2½	..
From 1/4/55	2½	2½	2

(6) POST OFFICE SAVINGS BANK DEPOSITS

	Up to £500 Per Cent	£501 to £2,000 Per Cent	£2,001 to £5,000 Per Cent
1/8/34 to 1/8/41	3	2½	..
1/8/41 to 1/6/42	3	2	..
1/6/42 to 1/9/52	2½	2	..
1/9/52 to date	2½	2	1½

(7) DEPOSITS WITH LOCAL BODIES

	At Call Per Cent	3 to 6 Months Per Cent	Over 6 Months Per Cent
1/8/34 to 17/7/41	2	2¾	3
17/7/41 to date	1	1¼	1½

(8) STOCK, STATION AGENTS, AND TRADING COMPANIES DEPOSITS

—	Call	3 to 6 Months	6 to 12 Months	1 to 2 Years	2 to 3 Years	Over 3 Years	Not Less Than 4 Years
	Per Cent	Per Cent	Per Cent	Per Cent	Per Cent	Per Cent	Per Cent
1/8/34 to 17/7/41 ..	2½	3½	3¾	4	4½	4¼	..
17/7/41 to 1/11/45 ..	1½	1¾	2	2½	3	3½	..
1/11/45 to 18/12/52 ..	1½	1¾	2	2¼	2¾	3	..
18/12/52 to date ..	1½	1¾	2	2½	2¾	3	3½

(9) BUILDING AND INVESTMENT SOCIETIES DEPOSITS

—	Savings Department	Call	3 to 6 Months	6 to 12 Months	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	5 to 7 Years	7 Years and Over
	Per Cent	Per Cent	Per Cent	Per Cent	Per Cent	Per Cent	Per Cent	Per Cent	Per Cent	Per Cent
1/8/34 to 17/7/41 ..	3	2	2½	3	3½	3¾	4	..	..	..
17/7/41 to 1/6/42 ..	3	1	1½	1½	2	2½	3	..	..	..
1/6/42 to 1/11/45 ..	2½	1	1½	1½	2	2½	2½	..	..	..
1/11/45 to 1/7/46 ..	2½	1	1½	1½	2	2¼	2¼	..	..	..
1/7/46 to 20/11/52 ..	2½	1	1½	1½	2¼	2¼	3	3½	..	..
20/11/52 to 29/4/54 ..	2½	1½	1½	2	2¼	2¼	3	3½	3½	4
29/4/54 to date ..	2½	1½	1½	2	2¼	2¼	3	3½	3½	4

TABLE 55

Private Capital Investment in New Zealand, 1932–33 to 1954–55

(£ million)

	1932–33	1938–39	1942–43	1945–46	1948–49	1949–50	1950–51	1951–52	1952–53	1953–54	1954–55
					Year Ended March—						
Private building (residential, commercial, and industrial) and additions and alterations	1	7	2	13	22	28	37	44	42	51	68
Other private capital investment	3	10	5	14	26	29	37	51	60	54	62
Changes in stocks	-3	+5	..	+5	-19	14	49	37	13	-21	29
Private capital investment	1	22	7	32	29	71	123	132	114	84	158

Source: Department of Statistics

TABLE 56

Index of Average Dwelling Costs (Compared With Other Relevant Price Indices), 1946 to 1955

—	Index of Average Dwelling Costs:	Retail Prices Index Numbers (All Groups):	Index of Wholesale Prices of Building and Construction Materials:	Index of Nominal Weekly Wage Rates of Buildings and Construction Workers Occupied in the Building and Construction Industry:
	March Year Following	Calendar Year	Calendar Year Average	Calendar Year Average
1946	1000	1000	1000	1000
1947	1074	1031	955	1047
1948	1142	1113	1031	1100
1949	1202	1132	1044	1169
1950	1344	1196	1131	1241
1951	1484	1328	1283	1417
1952	1595	1431	1471	1464
1953	1665	1496	1461	1578
1954	1734	1566	1445	1689
1955	1814([1])	1604	1485	1740

([1]) Provisional

Sources: Department of Statistics and New Zealand Official Year-Book 1955, p. 885

INDEX

Notes—(1) All references are to paragraph numbers or parts of sections of the report or appendices.

(2) Numbers with no letter prefix refer to paragraphs in the main report.

(3) Paragraph numbers or parts of appendices have the relevant letter – A, B, C, etc. – as a prefix.

A

B

C

D

E

F

T

U

V

W