

1927.
NEW ZEALAND.

RURAL INTERMEDIATE CREDIT BILL COMMITTEE

(REPORT OF THE, TOGETHER WITH MINUTES OF EVIDENCE AND APPENDIX).

MR. D. JONES, CHAIRMAN.

Report brought up on 24th day of October, 1927, and, together with the Minutes of Evidence and Appendix, ordered to be printed.

ORDERS OF REFERENCE.

Extracts from the Journals of the House of Representatives.

TUESDAY, THE 20TH DAY OF SEPTEMBER, 1927.

Ordered, "That a special Committee be appointed, consisting of ten members, to which shall be referred the Rural Intermediate Credit Bill; the Committee to have power to call for persons, papers, and records; three to be a quorum: the Committee to consist of Mr. Elliott, Mr. Forbes, Mr. A. Hamilton, Mr. H. E. Holland, Mr. D. Jones, Mr. Reid, Mr. Savage, Mr. Walter, the Right Hon. Sir Joseph Ward, and the mover."—(Right Hon. Mr. COATES.)

TUESDAY, THE 20TH DAY OF SEPTEMBER, 1927.

Ordered, "That the Rural Intermediate Credit Bill be referred to the Rural Intermediate Credit Bill Committee."
--(Right Hon. Mr. COATES.)

REPORT.

I HAVE the honour to report that the Rural Intermediate Credit Bill Committee, to which was referred the Rural Intermediate Credit Bill, has heard evidence on and carefully considered the provisions of the said Bill. The Committee recommends that the Bill be allowed to proceed with amendments as shown on copy of Bill attached hereto (*vide* Rural Intermediate Credit Bill, 87-2). The minutes of evidence and appendix are attached hereto.

24th day of October, 1927.

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MINUTES OF EVIDENCE.

FRIDAY, 23RD SEPTEMBER, 1927.

Colonel J. J. ESSON (No. 1) and Mr. W. J. POLSON (No. 2) examined.

The Chairman : We are very glad to have you gentlemen here this morning. You have both seen the Bill, and having had the advantage of seeing this system in operation in other parts of the world, you will be able to give us some valuable assistance. We would be glad to have your opinions on the Bill, and any explanations you consider desirable.

Colonel Esson : Sir, may I preface what I have to say by reciting the present position as regards credits available for producers under the State Advances Act of 1913 and its amendments. There is power there to lend up to three-fourths of the value of freehold lands, repayable by half-yearly instalments extending over a maximum period of 36½ years, and the maximum amount of advance is £3,500. In addition, a system of intermediate credit is provided under which the Office can lend on chattel mortgage for a term not exceeding five years, and the maximum loan is £500. Those loans are repayable by annual instalments so regulated that at the end of the fourth year not more than 30 per cent. remains unpaid. Then comes the Rural Advances Act of 1926. A Rural Advances Branch was created within the State Advances Office to advance loans on the security of first mortgage of rural lands up to two-thirds of the value of the security, and the maximum amount of loan is £5,500. A Rural Credit Associations Act was passed in 1922, which provides that associations of not less than ten persons registered under the Incorporated Societies Act, 1908, are authorized to receive deposits for a fixed term or at call, to borrow loan-money, and to lend either in cash or bonds, charged on the assets of the association, up to a maximum of £500. There is a joint-and-several liability for all loans, interest, and liabilities. The joint-and-several liability requirement in that Act makes it very unpopular. This Rural Intermediate Credit Bill gives further practical effect to the recommendation of the Royal Commission on Rural Credits, which, summed up briefly, were that—

- (1) Rural long-term mortgage credit should be administered by a special branch of the State Advances Office, with a loan limit of £7,000 up to two-thirds of the productive value of the land.

Instead of that, the maximum loan has been fixed at £5,500.

- (2) Intermediate credit should be provided to enable the producer to make extended use of existing institutions with the assistance of the Board.

Fair provision exists in the credit system of the Dominion for long- and short-term borrowers, but the producer undoubtedly finds difficulty in bridging the gap between the two. In Europe and America this has been met, where existing financial institutions were supplemented by co-operative rural credit associations financed by share capital and debentures issued against the securities of individual members, endorsed by the association, and such other collateral as may be deemed necessary to cover advances. It would perhaps be well to explain the terms "long," "intermediate," and "short" term credit. Long-term mortgage credit is credit for five years or over for the purchase or improvement of land or its necessary equipment, secured by first mortgage, with provision for amortization. Intermediate credit is production and marketing credit for periods longer than those usually supplied by commercial banks—credit for periods of not less than six months and not exceeding five years. Short-term credit is the ordinary banking credit of six months. Intermediate credit is, therefore, credit given for a longer period than is contemplated in commercial banking transactions, and of shorter duration than the usual mortgage term. The capital requirements of the farmer are, firstly, fixed capital to be sunk in the acquisition of improvement of land; secondly, working capital for short periods in growing, harvesting, and marketing his products. Marketing credit requires more than the ordinary six months' banking credit, if it is to enable the farmer to market his product gradually instead of dumping it. Adjustments take at the least one year. There are many farm operations which need credit running from six months to five years, and intermediate credit is required for such purposes as the purchase of stock, fertilizers, seed, &c., and also to finance the operations of marketing. The absence of an adequate supply of capital for these purposes leads to a premature realization of produce, markets are frequently overloaded, and the farmer fails in this and other ways to secure the best price. Marketing is a seasonal operation. If the farmer is forced on the market through the necessity of meeting his bills, he is likely to get a poor price for his produce. It is not only a question of enabling the farmer to avoid selling in a bad market, but also one of preventing farmers acting in aggregate under financial pressure and from themselves creating a bad market. Produce should not be dumped upon the market as soon as grown, but should be marketed gradually as and when there is a normal demand. The carrying of produce for such periods as are reasonably necessary to accomplish orderly marketing is a legitimate and necessary step incident to normal distribution. Generally the producer is forced to sell his crop hurriedly and at the time of maximum supply. Within three or four months almost the whole production has passed out of his hands, though twelve months are

required for its consumption. For ordinary trading purposes the banks are really the best channel, as their resources and experience are unequalled; but the banks do not like long loans, and often refuse to make them. The banks do not want to make small loans, though the farmer often wants them. Under the present system farmers must accept a short-date credit when what they need is really intermediate credit. Banks, merchants, and agents have therefore to be relied upon, and the banks are frequently attacked for the non-performance of a task that is incompatible with their banking functions; for bank credits must be confined to strictly short-term loans not exceeding six months, and consequently the banks cannot fill the place in the credit system the farmer requires. Indirectly the banks play a considerable part in the credit granted by merchants. They lend to merchants, accepting the farmers' notes endorsed by the merchant. Implement-dealers and others also sell on terms. Credit under such conditions carries high interest rates. The farmer should be enabled to use his bank credit, and deal with merchants on a cash basis. This kind of credit, however, requires close local supervision, even to directing farming operations, which the bank cannot give. Now, at the end of six months the merchant who has provided the farmer with supplies and equipment on credit finds his own bills maturing, and presses for payment. There is a call for cash all along the line—from the headquarters of the bank, from the country branch, from the merchant—and so the crop as soon as harvested is rushed to the market or to the mill. In the hands of the individual farmer his products are little more than an offset against the debts incurred in their production. In the hands of the association they can be assembled in quantity, graded, warehoused, pledged as collateral for loans, and marketed in an orderly way, and their distribution can be adjusted to the consuming demand. Securities based upon non-perishable commodities should be eligible for discount for the length of time necessary to market a season's product before the next harvest. The dividing-line between legitimate carrying and speculative holding may be difficult to define, but the Board and the machinery it may set up should be competent to check anything of the kind, and to determine the *bona fides* and solvency of individual or collective borrowers. The co-operative system should not only provide working capital, but inculcate in borrowers the habit of thrift and a due appreciation of the value of money. It should stimulate production, and tend to regulate the increase in debt so that it does not grow out of proportion to the volume of production. Operating and working funds are necessary, and it follows that a system of long-term credit to be fully effective requires an adequate short-term system to supplement it. The Bill provides the farmer with the means of establishing such, and, in view of the importance of the industry, the free use of £250,000 for ten years, and a £10,000 grant, are not unreasonable. The Bill provides for an extension of the existing credit machinery of the Dominion by the establishment of a system under which *bona fide* farmers, co-operative associations, and societies may obtain production and marketing credit for periods ranging from six months to five years, according to the purposes for which the credit is to be used. The whole management of the system is vested in an independent Board of five members, one of whom must be a practical farmer, all being appointed by the Governor-General in Council. The Public Trustee is to be the principal executive officer of the Board, under the style of Commissioner of Rural Intermediate Credit. The Board has power to appoint Inspectors, Supervisors, and necessary staff; also to arrange with the Public Service Commissioner or other authority for the utilization of the services of any State Department in collecting and disbursing moneys on its behalf. The functions of the Board are to make loans to farmers' co-operative associations, and to discount farmer members securities endorsed by associations for joint-stock banks and other financial institutions. The Board does not make loans to individuals. It can also make loans to co-operative societies of farmers on the security of warehouse receipts, shipping documents, live-stock, and such sound collateral. With regard to the provision for finance, the Minister of Finance may advance (a) a sum not exceeding £250,000 for twenty years, the first ten years free of interest, the next ten years at 5 per cent.; (b) £5,000 free of interest to enable the Board to make loans to individual associations of not more than £25 to meet the first year's expenses; (c) grant £10,000 to the Board to inaugurate the system. The Board is required to keep one-half of the Government loan of £250,000 in liquid securities to provide for the redemption of debentures. Further finance to enable the Board to extend its lending operations is provided by the power to issue debentures of not more than five years' currency at a rate of interest not exceeding 6 per cent. The issue is limited to the total sum loaned upon adequate securities, plus the amount of the Government loan. The extension of the funds available for loans is limited only by the possibilities of selling debentures. Those debentures, being short-dated, should sell freely. Abroad we found that they are invested in by insurance companies and large companies which have cash balances not likely to be required within a short period. It will be the duty of the Public Trustee to see that the limit of issue prescribed by the Bill is not exceeded. The interest charge to borrowers is restricted to 1 per cent. in excess of the rate paid on the last issue of debentures. This 1 per cent. should cover administrative charges of both Board and associations, and provide reserve funds. As regards the associations, twenty or more farmers may, under conditions to be prescribed by the Board, form a rural intermediate credit association. Each subscriber to the memorandum of association must take at least twenty-five £1 shares, 20 per cent. to be paid up, and the balance remaining at call. With the exception of the signatories to the memorandum, no person may be a shareholder who is not a farmer and a borrower from the association. Each borrower must subscribe for ten shares for each £100 borrowed. The maximum amount that may be loaned to individual members is £1,000. Each borrower's liability is limited by the amount of his indebtedness and his share capital. Co-operative societies already registered under the Companies Act of 1908, having for their principal object the production and marketing of agricultural and pastoral products, may obtain advances on the security of produce or live-stock, or the Board may discount approved securities given to banks or other financial institutions, enabling them to obtain the money tied up in the relative advances for the further

extension of credit to consumers. The maximum currency of such loans is fixed at three years. The Board may require the endorsement of the said bank or lending agency. I may say that I have seen correspondence from one of these societies asking for what is provided in this Bill, and suggesting that they should find at least 50 per cent. of the advance.

The Chairman : That is a small society ?

Colonel Esson : Yes. For its current expenses the Board will have, in addition to the grant of £10,000 to cover the first year's expenses, the whole of the income from the Government loan, and, in addition, its moiety of the 1 per cent. difference between the interest paid on debentures and the interest charged to the associations and societies. The debenture-holders will be secured upon the amount received by the Board by way of loan from the Consolidated Fund, mortgages, bills of sale, bills of exchange, and other securities the property of the Board, as well as moneys held in the Redemption Fund. The debentures will be exempt from stamp duty, and are to be available as investments for trustees and public moneys. Borrowers will have the right to repay their loans with debentures, which must be cancelled. If the Board makes default in the payment of interest on principal due on account of debentures, or if its audited accounts disclose a loss of 25 per cent. of the debenture issue, a receiver may be appointed. The usual provisions for replacing lost or destroyed debentures are included. The moneys received by the Board must be kept in an entirely separate account, which will be subject to half-yearly audit by the Controller and Auditor-General. The accounts of associations must be kept and audited as the Board may require by its regulations. The Board is further empowered to make regulations ensuring the integrity of warehouse receipts, and the orderly marketing of produce, in order to check speculative holding. It may be considered by the Committee, in regard to that, that a separate measure may be necessary. That is a question on which there may be some difference of opinion. No provision whatever is made in the Bill for any advances for general trading purposes.

The Chairman : The Bill does not prohibit it ?

Colonel Esson : Well I should say that advances for general trading would not be entertained for one moment.

The Chairman : I quite agree with that, but the question is whether it should not be expressly prohibited ?

Colonel Esson : Probably so. It is not provided for, however, and I think would not be allowed by the Board. Although it does not appear to be a prominent feature of the Bill, one very important provision is the establishment of Local Advisory Committees, which, acting in conjunction with the Board, can investigate farmers' difficulties in their localities, and if it is considered some farmers who are finding finance difficult but are in a sound position it may be possible to consolidate their borrowings, and put them on a footing that will enable them to work out to success. The Bill gives the producer an opportunity to work out his own salvation, and it puts him on something like an equality with ordinary commercial businesses in the matter of credit. Both producer and consumer will benefit if the Bill is made law, and the merchants and others will have the advantage of cash, instead of the present very awkward mortgage and credit system. I think that is a general outline of the intentions of the Bill, sir.

The Chairman : So far as interest is concerned, what figures have you got in mind that you think the farmers will pay ?

Colonel Esson : It all depends on the price of money. The Board should be able to borrow equally as well as other people, and thus give the farmer an opportunity of getting money at its source, instead of through the merchants, bankers, and others. These debentures being short-dated should sell at a reasonable rate—i.e., a rate approximate to the fixed deposit rates at the banks.

The Chairman : Is that $5\frac{1}{2}$ per cent. ?

Colonel Esson : No; they do not give $5\frac{1}{2}$ per cent.

The Chairman : I just wanted to know what you had in your mind. You would expect to get it below $5\frac{1}{2}$ per cent. ?

Colonel Esson : Yes. Something like 5 per cent., or, perhaps, below that. It all depends on the price of money and the currency. The Board should get at least as equally favourable terms as the banks. There will always be a demand for these debentures for debt-repayment purposes, because borrowers from the Board will be endeavouring to pick up debentures on the market at a slight discount with which to discharge their liabilities.

Mr. H. E. Holland : Will there be any competition between those debentures and the State Advances if the State Advances comes on the market for borrowing ?

Colonel Esson : I do not think so, because the State Advances long-term bonds appeal to a different class of investor—many people have small sums on fixed deposit—and there is normally a large floating balance to draw upon.

The Chairman : Perhaps the Committee would now prefer to hear what Mr. Polson has to say.

Mr. Polson : I have no desire to give evidence, Mr. Chairman. My evidence is in the Report of the Royal Commission on Rural Credits.

The Chairman : Have you any comments on the Bill ?

Mr. Polson : Well, one or two only.

The Chairman : I think the Committee would like to hear you, Mr. Polson, as well as Colonel Esson.

Mr. Polson : Colonel Esson has carefully explained the provisions of the Bill, which is largely based on the intermediate rural credit recommendations of the Rural Credits Commission, with one or two alterations, which, I understand, the Prime Minister is going to have attended to.

Right Hon. Mr. Coates : If I can arrange it. I think one or two questions could be put. For instance, probably Colonel Esson or Mr. Polson could explain about the Board, the associations, and the Advisory Committees.

Colonel Esson : The Advisory Committees would be the Board's eyes and ears.

Mr. Polson : The idea of the Local Advisory Committee is something along the lines of the Hospital Board or the Harbour Board. A few representative men from each area could meet with the executive officer—possibly the Public Trustee for the district, for instance—and they would join with him as a sort of council.

Mr. H. E. Holland : But where would you get your Advisory Committee from ? Would you get it from the shareholders ?

Mr. Polson : No ; from the leading men in the district—a similar class of men to what you see on the Hospital Boards. They would have to be selected carefully.

Mr. H. E. Holland : How would they be chosen or appointed ? Who would select them ?

Mr. Polson : I take it the Board would select them. That would be the only way you could do it. If the Board selected carefully they should be able to get four or five capable men in each area who would give a great deal of confidence in dealing with the thing.

Right Hon. Mr. Coates : You can imagine the chairman of a dairy company or the managing director of a dairy factory : or we could take some one with a particular knowledge of farming ; or we could take a man with a particular knowledge of finance in the district.

Mr. H. E. Holland : That would be the bank-manager, would it not ?

Colonel Esson : It could be, but not necessarily. It is rather strange, but we were told country banks' officers in the United States acted as secretaries and treasurers of the associations, although at first the banks generally were not too favourable to the co-operative idea.

Mr. Polson : I think you have in your mind the prohibiting of trading. You will have to be careful not to absolutely prohibit trading. We have been trying to arrange finance for dairy factories, and we have had some difficulty in connection with trading.

The Chairman : Is not that a point in connection with the co-operative societies ?

Mr. Polson : Oh, yes ; but the associations would have nothing to do with trading. Now, some people may be inclined to ask why we should insist on the provision in connection with the share capital of the association.

Right Hon. Mr. Coates : Yes. There is a difference of opinion from the point of view of making it acceptable to a number of settlers who may have a difficulty in raising the money.

Mr. Polson : I know the suggestion is that some settlers would be so hard up that they could not raise the 10 per cent. worth of capital necessary to join the association ; but I do not think any farmer would be prevented from joining on that score. There should be no difficulty about that. I would now point out that there is a difference in the long-term and the short-term associations. The Americans all agreed that, while they had the long-term associations, they were really not much used, because the farmer who got the long-term loan relaxed his efforts and did not help the other fellow. So, while they had long-term loan associations themselves, they advised us to cut them out. But you could not work without the short-term association. You see, the loans are for a very short period, and you are lending on stock, and chattels, and all sorts of things.

Colonel Esson : In a report made by some Canadian bankers, a copy of which I have, some good reasons are given for the share stock of local associations. Dealing with long-term and intermediate credit, in effect it is stated the object is to make the local associations more careful in their valuations and in the persons to be recommended for loans, as all members are responsible for any mistakes to the extent of 10 per cent. of their own borrowing. They would be more anxious to recommend loans with a reasonable valuation, and to insist on payment of interest and instalments by persons who might otherwise be careless ; also to bring into the association only persons of good standing. Special inquiry is made into a man's standing, and the personal element enters into decisions regarding loans.

The Chairman : Have you considered, in connection with the question of co-operative societies, whether you could make some arrangements in regard to loans held by mercantile firms. Suppose, for instance, a stock and station firm has two hundred clients, and that firm desires those clients to get advances under this scheme : could you arrange advances to those individual clients, with the security of the company behind them ?

Colonel Esson : The Board will have power to discount paper for approved financial institutions on their endorsement.

Mr. Elliott : Does not clause 55, subclause (2), state that the Board shall determine whether a society is a co-operative society or not ?

Colonel Esson : Yes.

The Chairman : The point is that we have a large number of farmers obtaining money from mercantile firms at a high rate of interest.

Mr. A. Hamilton : The mercantile firms carry no liability.

Colonel Esson : Their endorsement would be required in such cases. It is not proposed to relieve the mercantile firms of their "lame ducks," who are overloaded with debt, the cost of which cannot be met out of their farm income.

Mr. A. Hamilton : Many of these people coming under this scheme may be financed by mercantile houses already. This scheme is not going to make provision for something not already provided for. It will, however, reduce interest, and that is the main factor. Perhaps it will assist in providing a sum of money ; but these people can get it to-day—that is, they can get it from other sources already.

Mr. Polson : It will not provide much fresh capital, but it will reduce interest.

Mr. H. E. Holland : Do I understand you to say that it will not provide fresh capital ?

Mr. Polson : It will provide some. It will not provide a tremendous amount of fresh capital, because, after all, as we know, in the past we have managed to get along with our farming operations in some way or another. This scheme will reduce interest, and that will make all the difference.

Mr. H. E. Holland : Has that been the experience elsewhere—

Right Hon. Mr. Coates : Additional money will be provided.

Mr. A. Hamilton : But not a great deal.

Colonel Esson : The scheme will open up avenues at present closed to the producer.

Mr. A. Hamilton : It will release money ; but that money is already provided by some one—at a high rate of interest, of course.

Mr. Polson : A great deal of money is offered on mortgage at a high rate of interest ; but this scheme is all to the good, because it will ultimately mean more capital, which will in turn increase development.

Right Hon. Mr. Coates : This scheme will relieve many men who would not be assisted by business concerns. Take the cases of co-operative societies : it seems to me that that is where immediate use will be made of this. It will take some time to get the associations going. For the purpose of equipment and general utilities, I should think that is where money will be made available almost at once. I refer to those persons who are making a start.

A Member : His security is comparatively small.

Colonel Esson : I do not think the service of the Board will be limited solely to the discounts it can make itself. Experience in America showed that the organization of co-operative associations encouraged private financial institutions to extend loans to producers. Recognized associations themselves found commercial banks willing to give credit on reasonable terms.

Mr. Polson : Might I make a suggestion in connection with the framing of the Board, and the running of the whole thing ? It is not a matter that comes under this Bill exactly, but I would like to give expression to an idea which I have in my mind in regard to the matter. My idea is that the Board should be comprised of five or six people. My own personal opinion is that the Government should appoint a Chairman—and we have our ideas as to who the Chairman should be—and that the Deputy Superintendent of the Advances Office should be Credit Commissioner in charge of the long-term section and be put on the Board ; also that the Valuer-General, whose advice and assistance are of enormous value, should be placed on the Board, together with the Under-Secretary for Lands, both of whom are on the Advisory Board at the present time. In addition, there should be a farmer on the Board representing the short-term, and another farmer on the Board representing the long-term section. Then, the Public Trustee would be on the Board, and he would become Commissioner for the short-term section. One Board would run the whole thing and co-ordinate all sections. There is always a certain amount of danger when you have two institutions, one of which might do something without consulting the other, and regretting afterwards that it had not done so. It is very much better to have one Board controlling both the long- and the short-term sections. It can be understood better if one Board is handling the whole thing.

Mr. A. Hamilton : The main idea is to bring all the State Advances under—

Mr. Polson : I am talking of rural intermediate credit.

A Member : The Board should be a department of the State Advances Office.

Mr. Polson : As a matter of fact, I do not mind stating frankly that my proposal is that we should create a new Board, with Colonel Esson as Chairman, because he fully understands this matter ; and including Mr. Pritchard, who has been in the State Advances Office for a long time—we could make him Commissioner. Mr. Brooks should be included because he is required as Valuer-General. As the man responsible for valuation, his advice has been invaluable, and he could not be done without. Then, there is Mr. Thompson. Now, these gentlemen could represent the Government, and there could be one or two farmers to represent the farming side. These gentlemen could run the whole thing. With these two departments, under two Commissioners—one the Public Trustee, and the other the State Advances man I believe that every satisfaction would be given to the producers and to the Government.

The Chairman : And leave the State Advances Office as it stands—

Right Hon. Mr. Coates : I agree with the idea that it should be centralized in some form. The Public Trustee has rather definite ideas on the subject. He is away from Wellington at present. I would like, Mr. Polson, if you would have a talk with him on the matter.

Mr. A. Hamilton : There is a good deal in having the Boards, or lending associations, co-ordinated. In the case of the State Advances Office, you will find, if it is separated, it will be difficult to get the various sections together.

Mr. Polson : It should be explained that the five-years loan is not actually a straight-out loan.

The Chairman : An opinion has been expressed in conversation that the term of the loan is too short. Mr. Walter mentioned the matter—in the case of loans for improvements and loans for stock, that the money had to be returned within too short a period.

Mr. Polson : But the borrower can always come back and get a renewal. If the term is too long it interferes with the sale of the debentures. The American system provides for a term of three years, with a review every year.

Mr. A. Hamilton : This Bill pretty well gives expression to the findings of the Commission ?

Mr. Polson : With the alterations we suggest.

Mr. A. Hamilton : The Bill, then, is in accordance with the Commission's report ?

Mr. Polson : Yes, in the main. Our wishes are expressed in the report. I do not think there have been any alterations in the circumstances since then. There is an alteration in regard to the Warehousing Act, but I will deal with that later.

Mr. Elliott : There is one point I would like to make, Mr. Chairman. Mr. Polson said that the effect of this Bill would be to reduce the rate of interest, but that it would not be the means of increasing much capital. Surely 90 per cent. of the money that is advanced under this scheme will be used to pay off existing debts; and, if that is so, there must be a great release, and therefore a great increase in the amount of money available.

Mr. Polson : That is true. I think we were rather at cross-purposes in discussing that. What I meant to say was that when a man at present, say, has got some credit, and has an overdraft, he would not get a very great deal of increase under this.

Mr. Elliott : That means an increase in capital.

Mr. Savage : Where is the money coming from to release the present loans. It seems to me that we are only providing more machinery to distribute an amount of credit that is already available. As Mr. Hamilton put it, the money is available from some source now. It may be that the scheme is going to reduce the rate of interest a little bit, but what is the use of that when the average individual does not get any of it?

The Chairman : It seems to me that immediately we begin to reduce the rate of interest we cause a flow of money towards the farmer, and that money is going elsewhere to-day. If bonds are sold, we can by this means introduce money from Australia and elsewhere on short terms. There has been a good deal of money which should have gone to the farmer, but which did not go to him in the past because of the high rate of interest.

Mr. Savage : If the farmer pays less, how is he going to get more when the source of the supply is controlled by the private banks? That is provided for in this Bill. The farmers contribute a certain amount themselves—

Mr. Polson : The bank is an intermediary. The bank merely finds the finance in the meantime, and looks to the Board, which issues debentures, sells them, and discounts the bank's paper.

Mr. Savage : That is all right. The machinery is all right. What I want to know is, where is the supply? Where is the money coming from for these securities offered by the Board?

Colonel Esson : From floating cash balances held in banks and elsewhere, and other investors.

Mr. Savage : That is what we tried to get at last year in connection with the Bill already in operation. Sir Joseph Ward suggested £5,000,000, and he was the only one who attempted to guess at it. Supposing he was correct, how far would that take us?

Mr. Polson : You mean, how much of that money is available for debentures in this country? Well, they will be bought readily not only here but abroad.

Mr. Savage : He says another thing. Would these debentures, based as they are on the security of the farmers, compete with State stock? Would they be in the same street so far as the market is concerned?

Mr. Polson : Well, at first it might appear that they would not be as marketable as State stock. Of course, they are on short terms, and short terms will demand a lower rate of interest than long terms. We expect to get them sold at a pretty reasonable rate of interest.

Mr. A. Hamilton : The lender has £250,000 of first-class security behind him.

Mr. Polson : Well, not State bonds or debentures. They would not rank with State paper.

Mr. A. Hamilton : Pretty near it.

Mr. Polson : Not far off it.

Right Hon. Mr. Coates : The position is that bankers have to reduce. I do not say so authoritatively. The bankers have practically rationed out their money to everybody, and the farmer in particular, especially the small man, is unable to get money on his security. He can only get an advance in certain circumstances, and then it is rationed.

Mr. Savage : My point is that the collective nature of this scheme will strengthen it to some extent. To that extent they will get more capital. The small man can do nothing off his own bat.

Right Hon. Mr. Coates : Take an individual case and look at it. Suppose a farmer runs to £400 or £500 a year: most of his business will be done through a dairy company or through stock and station agents. He has not much chance of getting money if he wants 4 or 5 tons of manure or a few hundredweight of wire; but with the association, with £250,000 behind it, it seems to me that everything will work out to the advantage of such a farmer.

The Chairman : Does Mr. Savage think there is not sufficient money in New Zealand to do the business? I think that is his objection.

Mr. Savage : We are not making any more. This scheme does not make any more.

Right Hon. Mr. Coates : I say definitely it does. I think Mr. Polson says so. These are instruments anybody will buy. It is new money coming in altogether.

Mr. Savage : We are taking it out of one form of security and putting it into another.

Right Hon. Mr. Coates : Assuming you are right, which I will not admit, do you not think this scheme is going to attract money into channels which will give the best value to the country?

Mr. Savage : I do not think it is altogether indispensable. We are taking it out of one industry, as it were, and putting it into another. I think we ought to fit our financial institutions to the requirements of the Dominion.

Colonel Esson : Yes; but at present we are trying to fit our primary production to financial conditions which are not suitable. The primary producers are too restricted.

The Chairman : The whole question we have to consider is whether there is any real shortage of money in New Zealand for short-term credit with first-class security. My own opinion is that when we get the views of authorities on finance we will be able to ascertain whether there is a great deal of shortage of short-term credit in New Zealand. I think it is available if we can get the means of using it.

Mr. Savage: If that is so, we are right.

The Chairman: We will get that evidence later on. If that is so, is this Bill the best means of enabling the farmer to get his full share of the capital available in New Zealand?

Mr. Savage: Generally speaking, the machinery is all right. It is not the additional machinery we need so much as a larger source from which the money is to come.

The Chairman (to Colonel Esson): I take it that the Bill embodies your views.

Colonel Esson: My views are expressed in the Commission's report, to which the Bill gives effect.

Right Hon. Mr. Coates: There are one or two points I would like to refer to. Mr. Polson's views do raise some argument. There is no doubt about it. But there is just one question that has been raised many times recently, and that is whether we are asking certain departmental officers to do too much. I am not referring to the Superintendent of the State Advances Office, but it is a question whether we are using these others too much. It is a matter for consideration whether, with all these Boards in existence, these officers are going to have much time for administration. That leads me to one other point, and that is whether we should not have a strong independent Board.

Mr. Polson: Well, the reason I am so keen on having some of the Advances Board there, at all events, is that as a result of the very short experience I have had with the Rural Credits Board I have realized how important it is to have a man like Mr. Brooks on the Board. His knowledge of every part of New Zealand, land-values, and everything that pertains to land finance is very wide, and he is a tower of strength to the Board, and I would be sorry to see any Board such as this—especially as it is a new thing—deprived of his valuable advice and assistance. That is why I suggested his name. To a certain extent the same thing applies to Mr. Thompson.

Right Hon. Mr. Coates: I think, Mr. Polson, you are right, after all. We have to create the confidence of the farmers in the Board. For that reason we want adequate representation of the farmers on the Board. That is important. The co-ordination could probably be worked out in various ways, but, whatever Board we have, it must be a strong Board in which the business interests and the farming interests will have confidence.

Mr. A. Hamilton: The value of the farmer is more on the associations in the different localities. That is where the farmer is going to give valuable assistance.

Right Hon. Mr. Coates: The farmer wants to be perfectly certain that the recommendations are being made by men in whom he can have confidence.

Mr. Walter: If this scheme is supported, will it not tend to confine the operations of the State Advances more to urban properties?

Right Hon. Mr. Coates: No. The provisions are fully set out.

Mr. Forbes: It seems to me that the co-ordination of the Boards is necessary. With various Boards there is bound to be overlapping. Valuable information might be available to one Board and not to another.

Right Hon. Mr. Coates: It has been suggested that Mr. Macdonald should be here. We could find out his views in regard to the co-ordination Mr. Polson suggests.

Mr. Polson: I should like to see the term "State Advances" taken out, and the term "Farm Loan Board" substituted. That would be better. It would give confidence in the whole thing. It would be acceptable to the farming community, and would not in any sense weaken the existing system.

The Chairman: These are matters we can take into consideration when the Committee is deliberating. We want to get at the facts to-day. We will come to that point later.

Right Hon. Mr. Coates: There is one point that has not been cleared up—that is, in connection with warehousing.

Mr. Polson: It is proposed to provide for that by regulations under this Bill. We recommended the passing of a Warehouse Act because we realized when we investigated conditions abroad—particularly in the United States—what an extraordinarily useful thing had been provided by the Americans in their Warehouse Act. You propose to allow regulations to be made by the Board for storage, in approved warehouses, under approved conditions, of produce which shall be used as security for loans, the produce to be released from time to time for purposes of sale. These regulations would be satisfactory, no doubt, in connection with the loans of the Board; but in the United States about 11 per cent. only of the farmers borrow from the Rural Credits Board. The bulk of them continue to borrow as they have always borrowed. They make use of the Warehouse Act, and you would shut out the bulk of the farmers from a very fine thing if you shut out the Warehouse Act.

Mr. A. Hamilton: How does it work?

Mr. Polson: We explained it fully in the report. I would like to read you an outline, as explained on page 65 of the report. The report suggested "the licensing and bonding of public warehouses for storing agricultural products under conditions intended to establish the integrity of their receipts, and make these receipts generally acceptable as security for loans." I do not think warehouses generally would have any objection to this. It is entirely permissive. It enables warehouse receipts to be used as security to be lodged with the banks, against which security the borrower can raise money. It works out entirely satisfactorily. The proposed Act provides for perishable products, and explains how they are to be dealt with. I am satisfied that once the warehouse people understand it they will welcome it.

Mr. Forbes: I suppose it is used for wool—

Right Hon. Mr. Coates: It is used a lot for fruit. I have made some inquiries into this.

Mr. Polson: Yes, fruit of all kinds. Paragraph 4 of the report (page 66) provides that "The Minister of Agriculture is authorized, upon application to him, to issue to any warehouseman a license

for the conduct of a warehouse or warehouses in accordance with this Act and such rules and regulations as may be made hereunder." This means that the warehouseman applies for a license, and, providing everything is all right, he will get a license; but if not—if things are unsatisfactory—the Minister of Agriculture has the right to say, "You have such a wretched warehouse that I cannot give you a license." That might be difficult for the Minister of Agriculture, but it is necessary.

The Chairman: Would it be possible to make the farmer's own granary a warehouse under this provision? Immediately you shift your grain 3d. or 4d. a bushel is gone in costs.

Mr. Polson: It could be provided for, but it is not provided for under the American system.

The Chairman: I discussed that point with Colonel Esson—that is, as to whether it would be possible—

Mr. Polson: As a matter of fact, the Americans have not a very high opinion of the American farmer.

Mr. Elliott: You would not suggest licensing the farmer's granary?

Mr. Forbes: There is the element of rats coming into that.

Colonel Esson: I raised this question of warehouse legislation with the Law Draftsman, and he suggested that it be done by regulation. It was considered that the system would be so beneficial to those dealing with producers under the scheme that others would be forced in, and eventually all warehouses would be registered under this scheme.

Mr. Polson: I do not think that would happen until all the farmers got their finance out of this thing. The scheme has to grow slowly.

The Chairman: When the grain is put into the store it costs a lot in various charges.

Right Hon. Mr. Coates: There have been cases where railway-sheds have been used for storing grain, &c. The farmers co-operate in such cases. After all, the essence of this thing is co-operation. Several railway-sheds were used last year for storing wheat. It is not general, however.

Colonel Esson: I have here a pamphlet issued by the United States Department of Agriculture in 1925, entitled "The Banker and the United States Warehouse Act," by H. S. Yohe, U.S. Department of Agriculture. The pamphlet contains much interesting and useful information. It reads as follows:—

THE BANKER AND THE UNITED STATES WAREHOUSE ACT.

The other day a man who is the head of a bank in the Middle West, and who has very intimate and influential business connections with bankers, railway executives, and leaders in the agricultural field, read to me a copy of a speech dealing with the agricultural situation which he had recently delivered and which he was besieged to repeat at a number of other meetings. When he had read the speech, the banker asked me for my opinion of it. I told him that in the main I agreed with it, but that I could not subscribe to the section on the warehousing of agricultural products.

"But," the banker protested, "our country banks are loaded with paper representing farm products stored in country warehouses and on farms. The metropolitan and rediscounting banks will not accept this paper for rediscount purposes. What I want is a form of warehouse receipt which will be accepted by these rediscounting banks. If the Government will build and operate warehouses for the storage of agricultural products, this can be accomplished."

The method he suggested to accomplish his end showed that he had not heard of the United States Warehouse Act. An inquiry proved this to be true. The banker was at once interested, and asked for full information and details, since the intent of his plan was to get a warehouse receipt which will have back of it qualities that will make it acceptable to bankers everywhere because of disinterested supervision by the Government. After listening to my story, he said, "Well, that is just the thing I want."

Here was a banker with responsible connections, who genuinely and sincerely wished to help the agricultural situation, proposing a measure which meant doing the very thing for which the Government has been criticized severely again and again in the past few years—namely, undertaking by the Government of a business proposition which, according to the traditions of our country, is a field for private enterprise. And, curiously enough, all the time there is a statute in effect which provides for the very thing he desired, without putting the Government into business. This banker is not the only one who has not heard of the United States Warehouse Act, for no banker can be expected to keep abreast of all legislation. The experience of this banker, however, suggests the desirability of presenting to bankers a message on this subject.

A Federal Statute too little understood.

What is the United States Warehouse Act? It is a law which was passed by Congress and became effective on the 11th August, 1916. It was passed primarily to help the producer. But by its very nature, due to the interlocking of business relationships, in helping the farmer it helps the banker.

This law provides for the licensing of such warehousemen as the Secretary of Agriculture may in his discretion consider proper warehousemen within the intent of the law for the storage of agricultural products. It also authorizes the Secretary to license properly qualified persons to sample, inspect, grade, and weigh products stored in such warehouses. Originally, the law applied only to the storage of cotton, grain, wool, and tobacco. The first five years after the passage of the Act there was very little activity under the statute, but, commencing in the fall of 1921 warehousemen began to avail themselves more and more of the law. The year 1922 witnessed a remarkable increase in the number of licenses under this statute. The progress made in the past three and one-half years

is strikingly shown in the following table of licensed warehouse capacity for different products at different periods:—

PROGRESS UNDER UNITED STATES WAREHOUSE ACT—INCREASE IN LICENSED CAPACITY.

Date.	Cotton.	Grain.	Wool.	Tobacco.	Peanuts.
	Bales.	Bushels.	lb.	lb.	Tons.
April 1, 1920	40,050	136,000	None.	None.	None.
April 1, 1921	429,975	2,108,400	24,375,000	None.	None.
May 1, 1922	1,209,695	14,441,080	27,500,000	68,395,000	None.
May 1, 1923	1,903,979	15,699,547	32,351,250	240,255,000	None.
Dec. 31, 1923	2,566,104	33,819,983	25,645,000	348,399,000	2,385

The benefits which the patrons of these licensed warehouses received became quite apparent, with the result that the producers of other commodities which enter into storage demanded that the Warehouse Act be amended so as to apply to products other than those originally specified by the law. On the 23rd February, 1923, in answer to this demand, Congress removed the limitations by making the law applicable to the storage of "agricultural products" without specifying any particular commodities, thereby leaving it with the Secretary of Agriculture to determine what products might be properly stored.

Purposes of United States Warehouse Act.

The Warehouse Act was passed by Congress in the hope that it would accomplish several purposes: First, that it would encourage the farmer to store his products and thus avoid the terrific losses sustained each year through lack of proper storage of harvested crops. Another purpose was to create a uniform system of warehousing throughout the country for agricultural products. But the big consideration was to get a form of warehouse receipt which would possess real loan value. This last purpose, it was thought, could be accomplished by providing a system of licensing warehousemen and by the Government supervising their operations.

The law does not put the Government into business. The Government does not build warehouses under this law. It does not operate them. It merely supervises them. The law, being Federal in nature, has the same application to a warehouseman in the east as to a warehouseman in the south, and in every other part of the country. It aims to break up evil practices in warehousing. The law and the regulations promulgated thereunder by the Secretary clearly specify the duties of the warehouseman, and absolutely prohibit such practices as issuing warehouse receipts before the commodities are received into storage or delivering the commodities before the receipts are surrendered—practices which in the administration of the law the Department has found are quite common in some sections. It aims also to improve practices in warehousing in the light of the Department's experience, and sound business, and to develop uniformity throughout the country.

A Receipt with some Real Information.

It requires that certain information shall be stated in every receipt issued by licensed warehousemen. Among the outstanding features which must be stated on warehouse receipt issued under this law are—

- (1) The license number of the warehouseman.
- (2) The name of the warehouse and location.
- (3) The name of the licensee and post-office address.
- (4) Whether a receipt is negotiable or non-negotiable.
- (5) That the warehouseman is licensed and bonded under the United States Warehouse Act.
- (6) A number which corresponds to the number assigned to the package of the commodity in storage.
- (7) The name and address of the person from whom the commodity was received for storage.
- (8) Whether or not the commodity is insured, and to what extent.
- (9) The period for which the commodity is accepted for storage, and the terms and conditions under which a new receipt may be issued.
- (10) The marks, the weight or quantity, the grade, and the condition of the commodity at the time it enters storage.
- (11) Whether the weight, grade, and condition were determined by weighers, classifiers, and inspectors licensed under the law.
- (12) The standards according to which the grades were determined.
- (13) The amount of liens and charges claimed by the warehouseman.
- (14) The date of issuance of the receipt.
- (15) The signature of the warehouseman or his authorized agent.
- (16) If the warehouseman has an interest in the commodity represented by the receipt, the extent of that interest shown on the face of the receipt.
- (17) A statement on the reverse side showing ownership of and any encumbrances or liens other than the warehouseman's liens which may be on the commodity.

The grade of the commodity must appear on all receipts unless the depositor requests that it be omitted; and, regardless of the wishes of the depositor, when the product is so stored that its identity will be lost upon entering storage, then the grade must be stated by the warehouseman. In all instances the weight or quantity of the product must appear on the warehouse receipt, and also the condition of the product.

Only Warehouseman storing for Public may be licensed.

Among the requirements of the law and the regulations, one of the most important features is that the warehouse must be open to the public generally for storage of commodities for which the warehouseman has been licensed. No warehouseman can be licensed unless he does a public storage business. In other words, warehouses operated for the storage only of the warehouseman's products are not licensable. In the past year much has appeared in the press with reference to the Secretary of Agriculture licensing the farmer to store grain on his farm in his own private granary. Such storage is not licensable under the law, and not a single farmer has been licensed under this law.

Other Pre-requisites to becoming licensed.

Other important provisions of the law are that the warehouseman must file with the Secretary of Agriculture a bond in acceptable amount and terms prior to becoming licensed. He must have a warehouse which is suitable for the storage of the commodity. Some one competent to inspect, grade, and weigh products must be available at the warehouse. The warehouseman must possess a certain amount of net assets and must have a reputation for clean business dealings. The man in charge of the warehouse must be competent to manage the warehouse and know how to care properly for the products. If the warehouseman or the licensed inspector consider a product in such condition as to not be suitable for storage, it must not under any circumstances be accepted for storage. A positive duty rests on the warehouseman to guard and protect the products at all times against deterioration to the same degree as if the products were his own. To meet this requirement the warehouseman must show that he has the necessary reconditioning and other equipment.

Inspection Service before licensing.

In order that none but properly qualified warehousemen may be admitted into the system, no warehouseman is licensed until he has passed such examination and inspection as the Department may prescribe. This means that upon filing an application by a warehouseman an inspector or examiner is sent to make an examination of the warehouse, to investigate thoroughly the past business relations of the applicant, to determine his financial responsibility, his integrity in business relations, and to finally examine into the qualifications and integrity of the men who will be in charge of the warehouse and who will do the weighing, inspecting, and grading. These examinations are comprehensive and thorough. As an illustration of their far-reaching consequences, the Department has in the past insisted that the superintendents of certain plants would have to be removed before a license would be granted, and men placed in charge who would be acceptable to the Department. It has even insisted that certain individuals on the board of directors of corporations would have to be removed before the warehousing corporation would be licensed. It has in the past denied a great many applications, and has frequently refused to relicense warehousemen who had been licensed but who failed to observe the Act and the regulations after licensing. In fact, it has in many instances suspended and cancelled licenses for violations of the law and regulations.

Inspections after licensing.

The purpose of these investigations prior to licensing is to maintain what the Department regards as a proper standard among licensees. But the real backbone of the warehouse law is not in the law itself, but in its administration. A law may be perfectly worded so as to accomplish a desired purpose. Regulations may be issued under the law just as perfect as the law itself. It is common observation, however, that the best law and the best regulations may fall far short of accomplishing their purpose if not soundly administered. Any banker who has handled a fair amount of warehousing paper realizes the importance of proper administration back of a law. In administering the United States Warehouse Act, the Department of Agriculture maintains examiners or inspectors for the purpose of making examinations at irregular intervals of every licensee. An effort is made to make such examinations at least four times each year. The warehouseman is not advised in advance when the inspector will visit him. Neither does the Department necessarily content itself with four examinations annually. If it finds conditions existing which it does not approve of, the warehouseman may be subjected to an examination within a week after previous examination. There have been some warehouses examined every month when the Department suspected certain transactions were taking place, and even more frequently. One thing in which the Department is most exacting in these examinations following licensing is that there must be on store in the warehouse a sufficient amount of the kind and grade of the commodity to cover all outstanding receipts, and, in the case of identity-preserved products, a check is made to determine that the identical product placed in storage, as represented by the outstanding receipt, is actually in the warehouse.

In the course of these inspections consideration is given to see that the products are properly protected, that no increased risks have been placed about the warehouse since it was licensed, that the management has remained unchanged, and that the financial status of the licensee has not decreased or become impaired. In making these inspections the examiners are rotated. It seldom happens that the same inspectors check the same warehouse twice in succession.

Importance of Examinations.

The importance of these subsequent examinations is apparent to any one who has dealt extensively in warehouse collateral. It is common knowledge that in more than one instance a substitution of commodities has been practised, that the commodities have been switched from the warehouse in which the receipt showed they were stored to some other warehouse, that receipts have been issued

when the products were not actually in storage, and that products have been delivered from the warehouse with the receipt still outstanding in the hands of the depositor or perhaps the banker to whom it was passed as security for a loan. Receipts have also been passed to bankers for loans when as a matter of fact the particular commodity had never been placed in a warehouse, but was lying on the ground outside the warehouse and exposed to the elements.

What is back of a Warehouse Receipt?

Without attempting to draw any invidious distinctions or make any unjust comparisons, it behoves every banker to know what is actually back of a warehouse receipt when he accepts it for collateral to a loan. To say what a warehouse receipt is issued under a certain law means nothing. To say that it is issued by a certain warehouseman may mean still less, particularly when the warehouseman is located in a part of the country quite distant from the banker to whom the receipt is offered. It is a known fact that under certain State laws warehousemen have been licensed without any inspection being made prior thereto to determine whether there was even a warehouse in existence, much less to say anything of the qualifications of the warehouseman. It is also common knowledge that under certain laws which provide for a licensing system the inspection service following licensing is a mere paper service. It is also known that under at least one State law warehousemen have been authorized to issue warehouse receipts, representing themselves to be licensed, when as a matter of fact regulations had not even been drafted for the conduct of the warehouses, to say nothing of the lack of an inspection service. It is also common knowledge that under certain laws warehousemen are permitted to deliver the products from storage prior to the return of the receipts. It is not at all uncommon to see letterheads and warehouse receipts which represent the warehouseman as licensed and bonded when all he has done is furnished a personal surety bond under some State law.

Effect of such Practices.

Practices such as these are too well known. They are becoming so generally known that expression with a view to defeating them is taking form in the introduction of Bills in Congress which would place the Government in the warehousing business. These Bills are introduced unquestionably with just as genuine and sincere desire to correct certain conditions as the banker, referred to at the beginning of this article, who proposed such legislation. A general knowledge of the Federal Warehouse Act, what has been accomplished under it, and the way it has met the needs for a sound piece of warehouse collateral, and an insistence on the part of the bankers of having the best that is obtainable will go a long way to head off the Government being placed in this field of business.

Warehousemen who have had experience with the law recognize its virtues. The following extract of a letter from a cotton warehouseman, who has operated under the law the past two years, shows that the law is not burdensome or meddlesome and that it really means business to a warehouseman:—

Several of our friends have asked the question whether or not our business has shown any increase since joining the system. The following data will perhaps answer this question better than the writer can express in so many words:

We applied for admittance into your system in August, 1922, and on the 14th September we were granted a license covering our entire capacity of 25,000 bales. Immediately it became known that our warehouse was under Government supervision, our business grew so rapidly that we were forced to increase our capacity. The following figures will in a small measure indicate the rapid growth of our business since entering the system: 14th September, 1922—License issued for capacity, 25,000 bales; 31st October, 1922—Increased to 32,000 bales; 18th September, 1923—Increased to 36,000 bales; 16th November, 1923—Increased to 55,942 bales.

From the above figures you will note that we have more than doubled our capacity in the last eighteen months. These figures, to say the least of it, prove beyond any shadow of doubt the advisability of a warehouseman issuing a receipt that is more than acceptable to any bank or bankers in the United States. To be perfectly candid, at first we were very dubious as to the advisability of entering your system, due to the prevailing idea that there was too much "red tape" as to the manner in which you compel all cotton to be stacked in order that the tag on each bale may be visible. From actual experience we find absolutely no trace of red tape; on the contrary, we have been extended every consideration, courtesy, and co-operation. From actual experience, our capacity stacking in accordance with your rules and regulations has had a tendency to increase rather than decrease. If a warehouseman wishes to conduct his warehouse in a businesslike manner and be in position to know the location of any bale in any compartment, we strongly advise him joining the system. On the other hand, if it is his desire just to receive cotton regardless, overlooking any responsibility as to delivery, &c., we most assuredly admit the system is no place for him. The method of handling warehouse receipts is simple, but at the same time absolutely accurate, providing the records are kept in accordance with your rules and regulations, which by no means are unreasonable. The mere fact that it is compulsory to state the actual weight, grade, and staple of each individual bale is a feature that commands attention and respect from all bankers and insurance people at large. Each receipt calls for a specific bale or bales, as the case may be, and only on surrender of this particular receipt can that actual cotton be tendered for delivery.

We could write at length showing the advantages of the system. We will conclude by stating that an honest warehouseman has nothing to fear when joining the United States system of warehouses; however, the indifferent, careless warehouseman had better remain independent, otherwise he might be forced to take an extended holiday without pay.

Only warehousemen who do not wish to be supervised, but who want a free hand to operate as they please, and to continue loose and unbusinesslike practices, object. *The Federal law is permissive, not mandatory. It rests, therefore, entirely with the banker to say whether he will have a warehouse receipt which tells a complete story on its face and has back of it a disinterested supervision, or whether he will accept a mere memorandum on a piece of paper issued by a warehouseman who may indulge in the loosest kind of practices and who may or may not be responsible.*

When it is recalled that such an organization as the Mississippi Staple Cotton Co-operative Association has for the past three years financed itself exclusively on the basis of the Federal warehouse receipt, and that eleven of the other fourteen cotton co-operative associations are using the Federal warehouse receipt to do their financing; that the tobacco-growers associations in the Carolinas, Virginia, and Kentucky are using the same form of warehouse receipt; that millions upon millions

of bushels of grain are being stored under these receipts; and that the bankers from one end of the country to the other, and the Government agencies which have been assisting in agricultural financing in the last few years, have found these receipts without exception acceptable, it does not seem to be asking too much of bankers who are sincerely desirous of helping in the financing and orderly marketing of agricultural products that they should thoroughly acquaint themselves with the Federal Warehouse Act and its administration and the form of warehouse receipt provided for by this law.

There is such a thing as a warehouse receipt having back of it real value. There is also such a thing as a warehouse receipt which is a mere piece of paper. As bankers, which do you prefer? Be it said to the credit of warehousemen, they are willing generally to become licensed if the banker will express a preference for a Federally licensed receipt. But they ask, "Why should we submit our business to Government supervision when the bankers will accept our competitors' non-licensed receipt on an equal footing with our licensed receipt?" A little discrimination, often only a word of preference for the Federal warehouse receipt, will accomplish the desired end.

In all seriousness we ask you as a banker, are you or is the warehouseman the more to blame for the poor form of warehouse collateral that is so frequently offered as security for an agricultural loan ?

LICENSE NO. 2-10.000.	FARMERS BONDED WAREHOUSE ATLANTA, GA. FARMERS WAREHOUSE CO., PROPRIETORS <small>INCORPORATED UNDER LAWS OF GEORGIA</small>	RECEIPT AND TAG <div style="font-size: 1.5em; font-weight: bold;">No. 10191</div>	
LICENSED AND BONDED UNDER THE UNITED STATES WAREHOUSE ACT ORIGINAL — NEGOTIABLE		THE UNDERSIGNED WAREHOUSEMAN CLAIMS A LIEN ON SAID COTTON FOR CHARGES AND LIABILITIES AS FOLLOWS: STORAGE INSURANCE WEIGHING GLASSING TURNING OUT MISCELLANEOUS	
<div style="font-size: 1.5em; font-weight: bold;">WAREHOUSE RECEIPT FOR ONE BALE OF COTTON</div>			
<p> RECEIVED FOR _____ OF _____ STORAGE FROM _____ THE ONE BALE OF COTTON DESCRIBED HEREIN, STORED IN THE ABOVE-NAMED WAREHOUSE, FOR WHICH THIS RECEIPT IS ISSUED SUBJECT TO THE UNITED STATES WAREHOUSE ACT, THE REGULATIONS FOR COTTON WAREHOUSES THEREUNDER AND THE TERMS OF THIS CONTRACT, SAID COTTON IS FULLY INSURED BY THE UNDERSIGNED WAREHOUSEMAN AGAINST LOSS OR DAMAGE BY FIRE AND LIGHTNING UNLESS EXPRESSLY STATED OTHERWISE ON THE FACE OF THIS RECEIPT. SAID COTTON IS ACCEPTED FOR STORAGE FOR ONE YEAR ONLY FROM THE DATE OF THIS RECEIPT, BUT UPON SURRENDER BY THE HOLDER THIS RECEIPT MAY BE EXTENDED OR A NEW RECEIPT ISSUED, AS PROVIDED IN SAID REGULATIONS. THE UNDERSIGNED WAREHOUSEMAN IS NOT THE OWNER OF THE COTTON COVERED BY THIS RECEIPT, EITHER SOLELY, JOINTLY, OR IN COMMON WITH OTHERS UNLESS OTHERWISE STATED HERE </p>			MARKS WEIGHT REWEIGHT GRADE STAPLE CONDITION
<p> UPON THE RETURN OF THIS RECEIPT, PROPERLY INDORSED, AND THE PAYMENT OF ALL CHARGES AND LIABILITIES DUE THE UNDERSIGNED WAREHOUSEMAN, AS STATED HEREIN, SAID ONE BALE OF COTTON WILL BE DELIVERED TO THE ABOVE-NAMED DEPOSITOR OR HIS ORDER. </p>			ACCORDING TO THE OFFICIAL COTTON STANDARDS OF THE UNITED STATES.
<p> ISSUED AT ATLANTA, GA., ON _____, 192____ FARMERS WAREHOUSE COMPANY LICENSED WAREHOUSEMAN </p>			
<small>GRADE AND WEIGHT DETERMINED BY A CLASSIFIER AND WEIGHER LICENSED UNDER THE U. S. WAREHOUSE ACT.</small>	BY _____	<small>THIS RECEIPT IS VALID FOR ONE YEAR FROM THE DATE OF ISSUANCE. IT IS NOT VALID FOR THE SECOND YEAR OF THE RECEIPT'S VALIDITY.</small>	

The Chairman : Yes ; now, have you any further information in connection with the constitution of the Board ?

Colonel Esson : No.

Mr. A. Hamilton: You think there should be a special Bill for the warehousing business?

Mr. Polson : I think there should be a separate Bill.

Right Hon. Mr. Coates : So far as this Bill is concerned, it is provided for by regulation ?

Mr. Polson : It is all right. It will provide for a small number of people.

Right Hon. Mr. Coates : Why would it benefit only a small number of people ?

Mr. Polson: You do not suggest that every farmer is going to come into this immediately it is passed?

Right Hon. Mr. Coates : It is suggested that it should be extended.

Mr. Polson : I do not think that would be workable.

The Chairman : Now, one of the points that the Committee will be deliberating upon later will be in regard to the £250,000. I think we should get an expression of opinion from these gentlemen as to whether, in their opinion, they think that amount is adequate.

Mr. Polson : Colonel Esson thinks it will not all be used, but I think it is not enough.

Mr. Forbes: The forming of these associations will necessarily take some time. The farmers will have to be educated up to it.

Colonel Esson: The farmers unions will have to be very active in assisting with the formation of these associations.

Mr. Polson : That is the main object of creating Advisory Committees. Advisory Committees will assist in each main district, and their job will be to work in with the executive officer, whoever he may be, and create interest in the whole thing.

The Chairman : The Government can create the machinery, and the farmers' unions and Advisory Committees will really have to do the main work and the propaganda work.

Mr. Polson : Yes.

Mr. A. Hamilton : How is it that Colonel Esson thinks that the £250,000 would not be used ?

Colonel Esson : They would not require to sell £250,000 of debentures to start with.

Mr. A. Hamilton : You could lend that right away.

The Chairman: Half of it is put into a special redemption fund. You could only lend one-half of it.

Mr. A. Hamilton : There would be a demand for it.

Mr. H. E. Holland : There would be a demand, all right. Is there any idea of the amount of money that is likely to be applied for in a given year?

Mr. Polson : I think that is hard to say. At first it will not be a great deal. The first twelve months will be taken up in getting it on its feet.

Mr. H. E. Holland : Here is a matter that is puzzling me : This is supposed to be a co-operative effort with combined security for the lender. I cannot quite understand where the additional strength from the combined security comes in. For instance, the borrower is to have the right to borrow up to £1,000. He has to give his individual security for that. That is already in existence. Added to that security is the security of the share capital in the group. The share capital in the group, if you assume there are twenty members in the group and each of these members will be a borrower, is £2,000, and the share liability is up to 10 per cent. of the amount to be borrowed. That is the limit of the liability?

Colonel Esson : Twenty per cent. of the share capital is called up.

Mr. H. E. Holland : Is that the liability for the whole amount for the purpose of security?

Colonel Esson : The whole share capital is the liability.

Mr. H. E. Holland.—That means that the whole of the share capital is the security, and that follows that the £2,000 is the security provided by the group of twenty, and this twenty between them have the right to make application for £20,000. There is no collective security beyond that?

Colonel Esson : No; each borrower's liability is limited to the amount of his own loan, plus the 10 per cent. share subscription.

Mr. H. E. Holland : What I want to get at is the amount of collective security that strengthens the position for the farmers. In the case of twenty men they may borrow £20,000 and there is an additional security of £2,000 over the security which each individual can offer.

Mr. Polson : You are thinking of the Continental system where farmers guarantee everybody else.

Mr. H. E. Holland : That is absent here, I know.

Mr. Polson : The reason that it is absent is that we carefully investigated the matter and concluded that something on the lines of the report on the subject was sufficient. America has not had many years' experience of it, but they have had three reasonably hard years and their experience was that that was ample. That was their advice to us. When we went to Denmark I discussed the matter with the head of one of the biggest co-operative institutions there, and he admitted to me frankly that the joint-and-several was unnecessary, and that such security as was suggested here would be sufficient.

Mr. H. E. Holland : I was not suggesting joint-and-several. What I want to ascertain is where the additional security comes in.

Mr. Polson : The natural effect of this scheme is to make the farmer careful in lending to his neighbour, because some of his own money is at stake.

Mr. H. E. Holland : I know that; but, you see, you are going to market these debentures based on an alleged collective security. What I want to get at is whether there is any joint security, other than the £2,000. There is a possibility of a liability of £20,000, with the backing of a portion of the £250,000 from the Government. Of course, that £250,000 may be backing a liability running into millions. What effect is that going to have when you place the debentures on the market.

Mr. Polson : Well, this is the system America had adopted, and there the debentures are selling all right; they are selling at particularly low rates. I saw by a recent publication—a banking publication—from New York that there they had some 4½ per cent. recalled at 4¼ at a premium of 103, so that they are getting their money under this system. The investors are evidently satisfied that it is safe.

Colonel Esson : The price of money is largely governed by the sense of security.

Mr. H. E. Holland : There is really no collective security. There is only a combination of individuals, and I suppose there is a general understanding that, if the scheme collapses, the State will have to foot the Bill.

Colonel Esson : For £250,000?

Mr. H. E. Holland : No, for whatever the liability is, even if it is £5,000,000. Since the State provides the scheme, it will have to foot the Bill.

Mr. Forbes : It would be a moral obligation.

Mr. H. E. Holland : With the exception of the £2,000 worth of shares in the group, there is no more security than there would be if this scheme were not in operation, except that in the latter case the individual would have to go on the market for the money, instead of the group looking to the Board for it?

Colonel Esson : There is the absence of proper organization there.

Mr. Polson : There is also the advantage with a Board of control that the personnel, being wisely selected and including men of affairs, gives a great sense of security.

Mr. Forbes : There is a feeling in New Zealand that ventures undertaken by Government Departments are not too successful. Stock agents frequently say that the Government could not handle chattel security. They say so now. This scheme here is likely to become a little too rigid.

Colonel Esson : These matters will be largely managed by the associations—that is, by the farmers themselves.

Mr. Polson : That is one of the reasons, largely, for cutting the Government out.

Mr. Elliott : I would like to ask Colonel Esson whether he suggests that there should be a debenture issue as soon as the £250,000 is ready. There is no reason why there should not be.

Colonel Esson : They can go on the market at once under this Bill. They do not need to wait,

Mr. Elliott : In all probability this money will be raised in England or outside of New Zealand. I do not know whether it would be wise to make provision for a Government guarantee to carry the Board over should they find they are short of funds for the issue of the debentures.

Colonel Esson : Well, the securities of the Board will always be available.

The Chairman : Under the long-term scheme the money may not be wanted for twelve months but under this scheme the men will want their money almost as soon as their applications are in and the bonds sold.

Right Hon. Mr. Coates : Well, is it all clear now in connection with the share capital ?

The Chairman : That has been pretty fully explained.

Mr. A. Hamilton : There was one matter which was referred to previously, and was in connection with the share capital. Many of these men will be hard up, and may not be able to find the share capital.

Right Hon. Mr. Coates : Suppose a man wants £500 and applies for £550 because he has not the money for the deposit ?

Colonel Esson : If he has credit behind him he will be all right.

Mr. A. Hamilton : Most of these men will have the money from the stock and station agents now, and they will have to hand over the security ?

The Chairman : They have to find a small percentage of the share capital, and it is a very small percentage.

Mr. Polson : He does not buy the share capital until he gets the loan, and the loan provides the cash and the share capital.

Mr. H. E. Holland : All he provides is a deposit which is easily arranged. Does he not pay his deposit before he gets the loan ?

Mr. A. Hamilton : No. He has to reinvest the share capital at a cheaper rate of interest than he is paying for it. It is a wise-enough scheme, but it sounds foolish in some ways. He borrows at 6 per cent. but reinvests his own money at 5 per cent.

A Member.—Yes, it would work out that way.

Mr. A. Hamilton : That means that a man borrowing £1,000 has to find £100 himself.

Mr. Polson : Yes.

Mr. A. Hamilton : It is quite good from a security point of view, but it is creating a lot of work, this reinvesting of money.

Mr. Polson : What do you suggest ?

Mr. A. Hamilton : It is wise from a security point of view, but it is creating a lot of work. Supposing he cannot find the money ?

Colonel Esson : He has to be solvent when he joins the association.

Mr. Walter : If a small farmer applies for £1,000, can the Board let him have £900, and supply the £100 required in cash ?

Colonel Esson : Yes. He would get £980.

Mr. Walter : It might be difficult for him to find the £100.

Colonel Esson : Yes.

The Chairman : The point is whether the whole of that 10 per cent. is going to be called up. Could 20 per cent. of the share capital be called up, leaving the other liability as ordinary business ?

Mr. Walter : His liability would be the £1,000 in any case.

The Chairman : Oh, yes ; but his liability to the association is that 10 per cent.

Mr. Walter : If the association went wrong they could call in all the capital ?

Mr. Polson : Oh, yes.

The Chairman : In Part II it states that twenty persons can form an association. What do you think about the twenty persons, Mr. Polson ? Do you agree with that ?

Mr. Polson : Yes, I agree with that.

Right Hon. Mr. Coates : I know of quite a number of localities where you could get ten, but perhaps you could not get twenty.

Mr. Polson : We were afraid of making it too small. You might get ten people to put their heads together in a thing of this kind. We thought that twenty was safer than ten.

Right Hon. Mr. Coates : It is definitely in my mind that twenty in many localities would not be workable.

Mr. H. E. Holland : Is it not a fact that in almost any locality to-day you can easily get fifty settlers up against it in the matter of finance ?

Mr. Forbes : I think quite sufficient will be found to go into it.

The Chairman : We will now take the objects of the association, as set out in clause 43. Clause 43 reads,—

“The principal object of an association incorporated under this Act shall be to procure loans for its shareholders from the Board, or from any bank or other approved financial institution, on the security of mortgages or other charges on land or chattels, or on approved personal security, for any of the following purposes, namely :—

“(a) The clearing, fencing, draining, and general improvement of land in the occupation of the applicant :

“(b) The erection of buildings on any such land.”

Now, is not the erection of buildings really a security of the mortgagee ? That does not belong to this part at all, unless we confine it to realizable stock, and it is not a liquid security in a sense. It is pretty difficult.

Mr. Polson : As a matter of fact, it is.

The Chairman : How can you realize a security that is part of a man's property ?

Colonel Esson : Those are the purposes for which loans may be made on the securities quoted—namely, mortgages on land and chattels, &c.

Mr. A. Hamilton : He can do what he likes with them.

Colonel Esson : The purposes for which the Board may lend money are specified.

Mr. A. Hamilton : What about stock as security ?

Right Hon. Mr. Coates : Supposing he gets £10 on his cow Daisy ?

Mr. A. Hamilton : That is all right ; he can sell Daisy.

Mr. Polson : The associations will watch that.

Mr. Forbes : The object of the associations is the lending of money on land or chattels, or on approved personal security.

Colonel Esson : The Rural Advances Board lends on first mortgage. A borrower who is establishing an equity by his half-yearly instalments would probably be able to get money, some on a second mortgage.

The Chairman : The clause is fairly wide.

Colonel Esson : It is necessary that the Board should be given wide powers.

Mr. A. Hamilton : What is to stop one, under that provision, from building a little store and stocking it ?

Right Hon. Mr. Coates : I think we can leave that to the Board.

Mr. Forbes : The clause says, " any other purpose in relation to farming operations that may be approved by the Board " : is that sufficient security ?

Mr. Polson : The Law Draftsman is responsible for the framing of the objects of the association in this Bill. The objects set out in the report (page 56) covers the position in a more satisfactory way.

The Chairman : I think we will have to make it quite clear that no trading is to be allowed.

Colonel Esson : The purposes of this Bill are practically the same as those set out in the Rural Credits Bill of 1922.

Mr. Polson : One of the effects of the Continental system is that they can jointly purchase coal, timber, &c., at reasonable rates. They are the originators of the co-operative idea.

Mr. H. E. Holland : This was provided for the small man ?

Mr. Polson : Yes.

Mr. A. Hamilton : Supposing they started marketing under this scheme ?

Mr. Polson : I think you will have to give the Board pretty wide powers. Certain things should be done, and certain things should not be done. I quite agree that they should not go in for indiscriminate marketing, but there might be cases where it would be advantageous to do so.

Mr. H. E. Holland : Do not farmers' co-operatives meet that at the present time ?

Right Hon. Mr. Coates : I think that is quite right, Mr. Holland. I think most of the farmers' co-operatives do that. Nearly all of them have taken it on as a side line.

Mr. A. Hamilton : It is a different class of business.

Mr. Polson : It is not proposed to go in for trading. This clause is, unfortunately, not well worded. We had no intention of allowing trading at all. We thought it desirable that they should have the right of purchase jointly, because it was necessary for their business.

Mr. A. Hamilton : If they commenced competing with traders they would get a number of privileges under this Bill. Ordinary traders would not get these advantages, such as exemption from stamp duties, &c., and they would have a grievance.

Mr. Polson : The object was to allow them to buy, but not to sell anything except their own products. Trading is not provided for in our Report. It was not intended that they should trade co-operatively like that.

Mr. A. Hamilton : There is nothing to prevent them buying twenty bales of corn-sacks.

Mr. Polson : The Board would step in there. The Board would have discretionary power.

Mr. A. Hamilton : There will be a secretary to the association, and he will probably say, " I will get you these things," and then they will start into a trading organization before you know where you are.

Mr. Polson : We suggested that there should not be any trading. It was specified that nothing shall be sold except the products produced by the subscribers. I like that definition better than that of the Bill.

The Chairman : Well, we will keep that in view when deliberating. Now, clause 44 provides that " Except as otherwise hereinafter specially provided, no loan shall be granted under this Part of this Act for a period less than six months or more than five years." The Commissioners are quite clear on that point in the report and in the Bill. I do not suppose we need any further information in that connection. We have discussed share capital.

Colonel Esson : Will you make it clear, sir, that the whole of the share capital is not called up—only 20 per cent. ?

The Chairman : Yes.

Mr. Forbes : Clause 45 provides that no person shall be entitled to a loan exceeding £1,000, or ten times the amount of the nominal value of his shares in the association, whichever is the less.

Colonel Esson : Each applicant must take at least twenty-five shares. If he wants more than £250 he must subscribe a further amount.

Mr. Forbes : But there can be no " whichever is the less."

Mr. Polson : You will have to inquire of the Law Draftsman about that.

Mr. Forbes : What about this 10 per cent. ?

Mr. Polson : He may take more, but not less than that.

Mr. Forbes : Subclause (2) of clause 46 provides that an applicant must pay not less than 20 per cent. of the nominal value of the shares.

Mr. Polson : That is, 20 per cent. of the share capital.

Mr. Forbes : Then, it has been said that the amount could be taken out of the loan.

Mr. Polson : Twenty per cent. is only one-fifth of the loan. For £100 he has only to pay £20 down, and the other £80 is a further liability. It is easy enough to find the money once the application is approved.

The Chairman : Quite so. I do not see any difficulty on that score. Now, the next clause is No. 48, in regard to the repayment of loans. I take this to mean that the money shall be repaid as set out, but that if at the end of the period a person is unable to pay provision may be made for a new loan.

Mr. Polson : The Board will review the position and grant a renewal for the whole or part of it.

The Chairman : The Board will also review the security, which is a very valuable thing.

Mr. Polson : Yes.

Mr. A. Hamilton : When the man pays off his loan, could he get the share capital back again ?

Colonel Esson : Yes.

Mr. A. Hamilton : Supposing a man wants £1,000 ; you lend him 90 per cent. of his security, and that leaves him with 10 per cent. of his security. What I was wondering is whether you could not, instead of lending him the full amount and then taking the 10 per cent., lend him 80 per cent. of his security.

The Chairman : How does it work out ? I take it it works out in this way : A man applies for £1,000, and you lend him £980—that is what it means—and he has a liability for an additional 10 per cent.

Mr. A. Hamilton : He will be lent £980 out of his £1,000 ?

The Chairman : Yes.

Mr. Forbes : But you must have the security.

Colonel Esson : The Board will have precisely the same security that the banks and other institutions are getting now, plus the share capital.

Mr. A. Hamilton : The banks will never lend the full amount.

Mr. Polson : The Board can only lend up to 80 per cent.

Right Hon. Mr. Coates : Is that the maximum ?

Mr. Polson : Yes. It does not follow that they will lend up to the 80 per cent. That is the maximum.

Mr. Forbes : Does this co-operative system work well in other countries ?

Colonel Esson : Yes, it does in the older-settled countries. Belgium and Holland are perhaps the most notable examples. The farmers there to-day are lenders, and not borrowers. Their borrowing institutions have become lending institutions. That is what co-operation has done for the farmers in Belgium and Holland.

Mr. A. Hamilton : With regard to loans to co-operative societies, what form of co-operative society in New Zealand does that chiefly refer to ?

Colonel Esson : Dairy factories principally.

Mr. Polson : And farmers who are farming co-operatively. Anything of that kind.

Mr. Forbes : Would it refer to the Wairarapa Farmers, for instance ?

Mr. A. Hamilton : Would there be anything to stop them lending money to the New Zealand Farmers' Co-operative Association ?

Colonel Esson : They might, if they were satisfied with the position of the company, discount first-class securities.

Mr. A. Hamilton : What about a group of farmers working co-operatively ?

Mr. Polson : Farmers work co-operatively in the case of dairy-factories. They might do so in the freezing industry, or in half a dozen other things. They might set up a plant to take the burr out of wool. They might set up a wool-scouring plant. I can see quite a number of things they might work co-operatively.

Right Hon. Mr. Coates : How are we going to help fat-lamb growers ?

Mr. Polson : They will not come into Part III at all, except where they might decide to build co-operative freezing-works, or anything of that kind ; and I am not suggesting that they should.

Right Hon. Mr. Coates : I was wondering how we could extend it to those in difficulties.

Mr. Polson : They are dealt with under Part II.

Right Hon. Mr. Coates : This Bill is, practically speaking, drafted on experience.

Mr. Forbes : Not New Zealand experience.

Colonel Esson : It is the result of Continental experience, the source of the American inspiration. The Bill is a modification of Continental experience, and adapted to suit a different environment.

The Chairman : Are there any other points on which we desire information ?

Right Hon. Mr. Coates : I would like Mr. Polson to think over the point as to whether we could assist the mixed farmer.

Mr. Polson : Well, I—

Mr. H. E. Holland : Is this the last occasion on which these witnesses, Colonel Esson and Mr. Polson, will appear before the Committee ?

The Chairman : If the Committee desires their attendance at a further stage I think they will be only too pleased to arrange it. (To witnesses :) Do you desire to say anything further in connection with this Bill ?

Mr. Polson : No. I think I have said all I want to say, thank you. The thing that appeals to me most is the necessity for having a centralized Board. Also, the fund should be increased to half a million. I think Colonel Esson admits that that is desirable.

Mr. A. Hamilton : The Bill meets your wishes, apart from the proposals in connection with the Warehouse Act ?

Mr. Polson : Yes, that is another point. If these things are done the Bill will be brought into line with the Credits Commission's report. The long term is not in line with the Commission's report ; but that is a matter for consideration elsewhere.

The Chairman (to witnesses) : Well, thank you very much, gentlemen, for your evidence.

FRIDAY, 30TH SEPTEMBER, 1927.

Mr. A. A. PRICHARD, Deputy Superintendent, State Advances Department, examined. (No. 3.)

The Chairman.] We are discussing the Rural Intermediate Credit Bill, Mr. Prichard. I presume you have read it?—Yes.

The Committee considers that your experience in connection with the securities in your Office will be valuable to us. Perhaps it would be better for you to make a statement in connection with the work there?—Yes. Since the inception of the Act, in 1922, the Department has advanced £79,265 as at the 31st March, 1927. Of that amount £39,596 has been repaid, leaving a balance of £39,669.

Mr. A. Hamilton.] Practically half has been repaid?—Yes, practically half has been repaid, and during that time we have had to realize on seven securities.

The Chairman.: How many securities had you?—The total was 413. We have realized on seven securities at a total loss of £493.

Mr. A. Hamilton.] At what rate do you lend out?—At 7 per cent., reducible to $6\frac{1}{2}$ per cent.

What has been the amount of profit: you will have a fair idea?—We do not keep the Chattels Security Account separate from the Advances to Settlers Account, but it could be easily worked out.

Is it 1 per cent.?— $1\frac{1}{4}$ really, making a profit approximately of £400 a year. The accounts are not kept separately, but there has been a profit of about £400 a year for the four years it has been in operation. The instalments have been paid regularly, on the whole. We have had no cause for renewal of the bill of sale, seeing that the full period of five years has not expired since the first loan was made.

Mr. Walter.] Does that mean that some of them will probably have to be renewed?—Some of them. The bills of sale are made for five years, and our first loan was not made until 1st April, 1923, so that none of them will expire until April, 1928. It may be that owing to the bad time the farmers have been having during the last twelve months we may have to renew the last payment of some of them, because the last payment is a large amount of principal—in fact, I have noticed on several occasions recently where they are asking for a further advance to repay their arrears, and also to pay a portion of the arrears under the Advances to Settlers loan. Many of these people are mortgaged to us under the Advances to Settlers. But generally I may say that we have not had much trouble at all with them.

Do you see that the value of the securities are kept up?—Yes, we watch that. It must be remembered that in all cases of lending on stock and chattels we have taken a collateral security over the land for what it is worth.

Mr. Forbes.] Have you found that it is becoming popular: have the applications been falling off lately, or have they increased?—I do not think it is any more popular at the present time. I think a good deal of that is probably due to not much money being available for the purpose.

There is not much money available?—No.

In what way—by the Office?—Yes, by the Office.

Supposing a man wanted to get a loan from you on chattel security, would he have to wait long?—At the present time the Department is putting those through straight away.

You are putting them through straight away?—Yes. I may say that during the last five months we have received and authorized twenty-six applications, amounting to £6,750, of which £3,150 has been paid over to eleven mortgagors.

Do you think you are doing more now than at the start: do you think it is becoming recognized?—I think it is, slowly.

Where do the applications come from?—From all parts of New Zealand. You will see by the amount that we have out that it has not been taken very great advantage of.

Mr. Walter.] I think you told us that it was not popular because there is only a small amount available for the advances: is that so?—Yes. The various stock agents may provide more finance for them to use. I think that is the trouble—that they cannot deal with the stock and station agents freely after their chattels are mortgaged to us.

Are the regulations too cast iron?—No. No we do not arbitrarily withhold our consent for them to deal with their lines. We assist them as much as possible.

The Chairman.] You are limited to £500?—Yes.

Mr. Savage.] You have seen the Bill, Mr. Prichard?—Yes.

Do you think the machinery provided for in the Bill will be responsible for getting any more money? You say that the money available is insufficient to meet the requirements at the present time: do you think the machinery in this Bill is going to add to the supply of money?—Yes, I think it will, but I think it is going to be a pretty hard job to raise money on the security of stock and chattels.

You think it will be a pretty hard job?—I certainly think it will.

Mr. A. Hamilton.] You are referring to the raising of money by the Board?—Yes. One has not a very good idea as to how the bonds will sell. If we had tried out our rural credits bonds we would have had a much better idea. I may say that the greatest difficulty in the Bill, from my point of view, is, can you get those twenty farmers to form an association? That seems to me to be the difficulty.

Mr. A. Hamilton.] Is your chattels-money not kept separate?—No.

It is the ordinary Advances to Settlers money?—Yes.

What does it cost you?—About $5\frac{1}{4}$.

You loan it out at $6\frac{1}{2}$ per cent.?—7 per cent., reducible to $6\frac{1}{2}$.

That is $1\frac{1}{4}$ per cent. profit?—Yes.

What is the working-cost there ?—For the Settlers Branch it is 2s. 11d. per £100.

What do you think is the cause of it not having been used ?—I can only think, Mr. Hamilton, that the stock and station agents are more convenient for them.

What are your terms as regards repayment ?—To us.

Yes ?—The same as in the Bill.

The same as in this Bill ?—Yes.

That is, it is all repaid in five years ?—Yes, all repaid in five years.

How do you supervise the security ?—We obtain a valuation from the Valuer-General, and after a loan has been granted we advise him, and he advises his local valuer to keep a special eye on stock and chattel mortgages, reporting on any circumstances at all as to how that man is dealing with his stock and chattels. We also every twelve months ask him to forward a return—we write and ask him to fill in a return which we send out in blank—giving us an account as to his stock and chattels annually.

Do you send that to the farmer or the valuer ?—The farmer.

You do not think the security has been vanishing much ?—No ; we have not found that to be so.

On what margin do you lend ?—The Act does not state any special limit, but that is taken into consideration with his equity in the land. We can lend up to the full value of a man's stock if he has an equity in his land. If he has not an equity in his land, probably a very much lesser margin would be allowed.

There is no limit ?—No, there is no limit imposed by the Act.

It is at the discretion of the Board ?—Yes, at the discretion of the Board.

Can the farmer trade with his security ? Can the farmer buy and sell as he likes ?—Yes ; but he first of all requires our consent. That would depend upon the state of his mortgage. If he is in arrears, of course we would require his arrears to be paid from the proceeds of the sale.

Then your experience of this chattel-security business is that there is a $1\frac{1}{4}$ per cent. margin ?—Of profit ?

Yes. You can run it on that quite easily ?—Yes, and quite safely.

And what do you estimate would be the expenses— $\frac{1}{2}$ per cent. ?—1 per cent. That would provide or losses.

The Chairman.] That would provide for losses ?—Yes.

Mr. Elliot.] With regard to clause 48 of the Bill, have you anything to say with regard to the procedure under that clause, Mr. Pritchard—

The Chairman : It is exactly the same procedure as under their own system now.

Mr. Elliot.] Is there any undue hardship on the borrower ?—It could be extended by special legislation, say, to ten years.

Mr. A. Hamilton.] Have you the right to sell out at any time ?—Yes.

It is on demand, then ?—Yes. If there is any breach of the bill of sale we can sell out.

You have practically a free hand to yourself ?—Yes.

Mr. Elliot.] But not if the man carried out his contract, of course ?—Oh, no.

Mr. A. Hamilton.] If anything goes wrong ?—Yes ; neglecting his stock, for instance.

Mr. Macdonald (Public Trustee) : Any mortgagee can do that. If the conditions are not carried out according to the terms of the contract he has the right to call up.

The Chairman.] Can you tell us how long it usually takes to fix up the loans ?—Various periods. Since the commencement of this Act we have always been behind. We have always been behind since 1923 with the applications for loans in connection with settlers, workers, and chattel securities.

Mr. H. E. Holland.] Are you very far behind so far as chattels are concerned ?—No. We are proceeding now immediately with our chattels loan ; but we have been behind with the chattels loans.

Right Hon. Mr. Coates.] How long does it take to provide the money ?—Approximately two or three months. In special cases, where we can get particulars from the Valuer-General, it can be done in less.

The Chairman.] Can you tell us how many applications you have had already, and how many have been granted ?—To the end of March 413 applications had been authorized.

Can you tell us how many applications have been received ?—898, amounting to £348,150.

Right Hon. Mr. Coates.] What is the money chiefly used for ? Are there any outstanding requirements ?—It is used for authorized purposes : to increase their stock ; paying off arrears on land mortgages ; repaying their present stock mortgages ; improvements ; buying milking-machines.

Right Hon. Sir Joseph Ward.] What margin do you allow for in connection with the interest ?—The interest is 7 per cent., reducible to $6\frac{1}{2}$ per cent. on chattel security.

I am speaking of ordinary advances ?—Are you speaking of farms or houses ?

Both. Is 5 per cent. sufficient ?—No ; 5 per cent. is not sufficient at the present time. We are lending for the purpose of building houses at $6\frac{1}{4}$ per cent., reducible to $5\frac{3}{4}$ per cent. ; and $6\frac{1}{2}$ per cent., reducible to 6 per cent., for other purposes.

Have there been any of those thrown on your hands ?—Not many.

Supposing a man wants to get an advance under the credit system, do you advance up to two-thirds ?—Under the chattel-security mortgages we can lend up to the full value of the security, taking a collateral over the land.

And you can inquire into his position ?—Yes, through the valuer.

Mr. J. H. O'DONNELL examined. (No. 4.)

The Chairman.] What is your full name, Mr. O'Donnell?—John Henry O'Donnell.

And your official position?—Controller of Accounts, Discharged Soldiers Settlement Branch, Department of Lands and Survey.

You are in charge of the soldiers settlement accounts, and in that branch of the business you have had considerable experience with respect to intermediate credits?—Yes.

Will you make a statement to the Committee?—Well, sir, I am rather at a disadvantage in coming down here to speak on this subject to-day. I would be in a position to make a pretty full statement next week. I have written to two or three Commissioners of Crown Lands for information on certain matters, which I hope to receive to-morrow morning.

Mr. H. E. Holland : Would it not be better to postpone Mr. O'Donnell's evidence, in order that he may make that complete statement? It would be very valuable to the Committee.

Mr. O'Donnell : Our detailed administration is carried out in our district offices, and I have asked our branches to supply certain matters which are likely to be of interest to this Committee. I think it would be better if I had an opportunity to prepare a complete statement.

The Chairman.] Have you any comments to make on the Bill?—I have just read it through roughly. I have not had an opportunity of studying it. There is only one copy of it in the office, and that has been used by another officer who is well up in farming conditions.

Who is he?—The Land Purchase Inspector, a member of the Revaluation Board.

What is his name?—Mr. R. A. Rogers.

(Hearing of further evidence of Mr. O'Donnell postponed.)

STATEMENT BY THE CHAIRMAN.

The Chairman : I would like to bring before the Committee some suggestions which it is proposed to make on Tuesday next. The position appears to be that the associations alone are probably going to be a difficulty in connection with this Bill. There would probably be a difficulty in getting twenty farmers to form such an association in a great many of the districts. That was mentioned by the Prime Minister at our last meeting. And Mr. A. Hamilton and I have been considering a scheme whereby the money could be lent direct to the individual. We have proposals to submit to the Committee, and the method of procedure we are suggesting is that there should be a central Board in Wellington, whose business should be the issuing of bonds and dealing with general policy matters only, and that a Board be set up in each of the land districts of New Zealand, and that those Boards should have the right of dealing direct with the farmers. It seems to me quite clear—Mr. O'Donnell's statement this morning emphasizes that—that they deal through their branches in the various land districts. The Board in the district would be given wide authority to deal direct with the individual farmer, and the Public Trust Office—the Public Trustee is set out in the Bill as the Chief Executive Officer—would also have at all their branches throughout New Zealand capable officers to deal with these matters; and then there is also the Land Commissioner. Now, we are suggesting that the loans should be made direct to the individual, but that the applicant shall deposit his securities with, let us say for the moment, the Public Trust Office. He will deposit his securities with the Public Trust officer; and he must in addition find a guarantor for 20 per cent. of the loan. There are plenty of mercantile firms who would be glad to give that security over the 20 per cent., because they would then get an opportunity of getting his business done through them. So that, in addition to the security offered by the individual, we would have behind it the security of the 20-per-cent. guarantee. This would give to the scheme a financial backing that we think is better than the provisions contained in the Bill in many respects. I think that the individual in New Zealand would very much prefer dealing direct with the Board rather than through the association. And if the method suggested is adopted it should mean that the cost of administration must be low. If you are dealing with a stock firm, for instance, they will, firstly, guarantee you the 20 per cent. of the security, and, secondly, they would do a great deal of the administration. We assert that if the mercantile firms want to take advantage of his system of credits they should pay a proportion of the cost, and they will do so under such a proposal as we outline. If the debentures are quoted at $5\frac{1}{2}$ per cent. the money could be supplied to the farmers at $6\frac{1}{2}$ per cent. That would allow $\frac{1}{2}$ per cent. for administration expenses—and it would not cost that—while the other $\frac{1}{2}$ per cent. of all those moneys could be made use of for a reserve fund against losses. So that, as far as the Board is concerned, they will have that reserve fund, and they will have the guarantors of the individual, or association, or dairy factory, as well as the security. They would have all that behind the application for the loan, and we feel that a system like that, of dealing direct with the individual at a low rate of interest—and it should be made a low rate—would be a very valuable thing. We are not suggesting that the Committee should alter the associations in the Bill, or alter the organization in the Bill whatever. We are simply suggesting that another part should be added to the Bill, whereby the individual can deal direct with the Board.

Mr. H. E. Holland : Independent of the association?

The Chairman : Yes, quite independent of the association.

Mr. H. E. Holland : Supposing there are losses in connection with any of the associations, who makes up the loss?

The Chairman : That comes ultimately on the Board.

Mr. H. E. Holland : Supposing the whole scheme shows a heavy loss—I do not say it will—but supposing it does, will not the Public Trustee be responsible, although it is not stated in the Bill?

The Chairman : No. Of course, there is a provision in the Bill that if the losses exceed 25 per cent. of the capital, then the bondholders will have the right to ask for the appointment of a receiver, and responsibility will then fall upon the association.

Mr. H. E. Holland : And if the association cannot get the money from the mortgagor, will the State allow the bonds to be dishonoured to that extent?

The Chairman : That is a matter for the Government to say.

Mr. H. E. Holland : I think it is important.

The Chairman : Yes.

Mr. H. E. Holland : How will this scheme bring more money to the farmer?

Mr. A. Hamilton : It will bring security. It will make a source available.

Mr. H. E. Holland : Does that mean that it will reduce the price of existing credits, but that it will not provide any additional credits?

Mr. A. Hamilton : Certainly it will. The mercantile firms will not, in many cases, put up the money to-day. Under the scheme proposed, a farmer can get what he wants, and, in addition, any one can get a start farming, so long as he brings some one along to guarantee him.

Right Hon. Mr. Coates : Then, there would be two supervisors—the Board's supervisor, and the stock and station agent?

Mr. A. Hamilton : The person who is carrying the risk will see that no loss is going to happen.

Mr. H. E. Holland : What puzzles me is how, except on the grounds of friendship, you are going to find the men to furnish the guarantee?

Mr. A. Hamilton : The firms want the business and will be prepared to give guarantees. They will be prepared, in return for the man's business, to guarantee him as proposed. The firm would take the risk of the loss, because it would be guaranteeing the first 20 per cent. of the loss. The firm would, therefore, supervise things to see that there was no loss.

Mr. Savage : My difficulty is to see how there will be an increase in capital.

Right Hon. Mr. Coates : I do not see how there can be any doubt about that. There is an issue of bonds, and that is all new money.

Mr. Savage : Where is it coming from?

Right Hon. Mr. Coates : From the public.

Mr. Savage : That is already invested now.

Right Hon. Mr. Coates : This puts more public money into new avenues, and makes it available to the farmer.

Mr. Savage : If this security is more attractive than the others, then that contention is true; but if it is not, then it is not true.

Right Hon. Mr. Coates : The scheme will be sound.

The Chairman : Mr. Savage's point is in regard to the amount of money available. My conviction is that we have sufficient money in New Zealand to do our trading. We offer, as farmers, the least attractive security in New Zealand. The banks prefer to go into the mercantile world for their business. We have to offer a more attractive field in order to make a great deal more money available to the farmers. If you take up a newspaper you will see that 5½-per-cent. bonds are shown "Buyers, no sellers." I think Mr. Macdonald will support me when I say that there is plenty of money available. The difficulty is to divert that money into channels where it will give help to the primary producers.

Mr. Macdonald : My experience is that all over the Dominion legal offices are stocked with money, which they will not put into country securities.

The Chairman : The most important point to decide is whether there is sufficient money available, and I maintain, judging from views of financial people with whom I have discussed this point, that there is sufficient money in New Zealand, and all that is wanted is to provide a sense of security in the minds of those who have the money to invest. We want that money to flow to the farmer.

Mr. Savage : If that is all that is necessary, it should be easy, by taxation, to direct it where it ought to go.

Mr. A. Hamilton : There is a good deal in that. Taxation could do it in other ways.

The Chairman : It comes back to the question as to whether the money is there. Mr. Macdonald, who is in a position to know, supports the view that the money is there. We want to direct the flow.

Mr. H. E. Holland : Where does it go now? Mr. Macdonald says that investors will not put their money into this form of security at present. It is contended that the money is put into bank shares. Well, if the money does go into bank shares it has to return interest, and therefore it must be employed by the banks in some form or another.

A Member : To finance the importation of motor-cars.

Mr. A. Hamilton : I am sure there is plenty of money available.

The Chairman : The general opinion is that the money is available.

Mr. Macdonald : I do not say that they will put it up until they are educated up to it. We must educate them—

Right Hon. Mr. Coates : We have received letters from lawyers all over the country who state that, if these bonds are satisfactory, then, so far as they are concerned, they will invest in these bonds.

The Chairman : If we issue the bonds at 5½ per cent. we can make money available to the farmers at 6½ per cent. and make a profit? Farmers to-day are paying anything from 8 per cent. up to 11 per cent.

Right Hon. Sir Joseph Ward : The proposal outlined by you, Mr. Chairman, appears to be a good one.

The Chairman : Mr. A. Hamilton and I have prepared a statement outlining our proposals. It reads as follows :—

I. *The Need.*

1. Difficulty of farmers obtaining necessary intermediate credit.
2. If obtained under present conditions, money is too dear.
3. Money obtained to-day under security of stock and plant hampers farmers dealing where they wish.
4. Fear of being sold up at any time.
5. The difficulty of the young man who wants to start farming obtaining the necessary money on reasonable terms.

NOTE.—The object of the scheme is to meet the above need by providing sufficient money on chattels security at the lowest possible rate of interest, by the least expensive method, on the safest possible basis, and on the most serviceable terms. Investigations go to prove that there is ample money available for attractive investment in New Zealand. What is required is a system of finance that would cause the money to flow readily to rural interests.

II. *Constitution.*

1. The central authority shall be called "The Rural Intermediate Credit Council."
2. The Council shall be the supreme authority, and shall issue all bonds or debentures, provide all money, and decide all matters of policy.
3. The central authority shall, when necessary, set up in each land district a Board to be known as "The Rural Intermediate Credit Board."
4. The duties of the Board will be to administer the funds of the Council in their district, and supervise and control all loans.
5. The Board may consist of District Public Trustee; Commissioner of Crown Lands; District Valuer; local business man; district farmer. These men must be paid for attending meetings.

III. *Suggested Alternative Scheme.*

The alternative scheme, whereby the individual farmer who prefers to deal direct with the Board may obtain finance by providing additional security by way of a guarantee.

1. Any person engaged in farming operations may apply direct to the Board for a loan under the terms and conditions of this Act.
2. The Board shall consider such application, and if in order shall have same inspected and reported upon by the District Intermediate Credit Supervisor.
3. If such application is found satisfactory, the Board shall request the applicant to submit the name of a guarantor who will guarantee 20 per cent. of the final portion of the loan.
4. If the Board approve of the application and the guarantor, it shall have authority to grant the loan to the applicant.
5. The loan shall be granted for no definite period, but on demand, and the Board shall have the right to realize on their security at any time.
6. The Board shall declare before the 31st day of March in each year the percentage of each loan to be repayable at the close of Board's financial year, being the 30th June.
7. Each Local Advisory Board should be allotted its proportion of free money, and allowed to run its own finance and reap profits and bear losses.

Under this suggested scheme, the Board would come in direct touch with the individual borrower. The guarantor, whether an individual or a company, would have a direct interest in supervising his guaranteed loan, and would relieve the Board of an immense amount of supervision and expense, while the risk of the Board would be materially reduced. There would be no difficulty if a borrower left the district, because he would not be tied to any association.

This scheme has an advantage over the association, in that the individual borrower has no share capital to find, and is not asked to carry any risk except his own. His financial position is only disclosed to the Board and the guarantor. The system of administration would be far more economical than other schemes suggested in the Bill, and with the suggested 1-per-cent. margin there would be sufficient to cover the cost of administration and be able to pay a substantial reserve fund against possible losses.

The association of twenty persons requires a great deal of organization as a Dominion scheme, and would be of slow growth. The share capital is 10 per cent. of the loan, but the amount subscribed is 20 per cent. of this, or £20 per £1,000 loan—equal to £400 in an association of twenty men borrowing the maximum amount of £20,000. The borrower or shareholder will be disinclined to put the money into shares that he urgently requires for stock and plant, and especially as this share-money will be invested at a lower rate of interest than he is paying the association. This reinvestment entails expense. He has a further liability on his shares to his association up to 10 per cent. of his loan. If he sells or retires, the farmer cannot get out of his association, even when he pays off his loan, if by so doing he reduces the number in the Association below those prescribed in the Act.

The associations have advantages and have been successful in other countries, and it is not suggested that this proposed system should be altered, but that provision should be made for the group as well as the individual. Under this alternative scheme, and, we think, under all the proposals, there must be a policy of decentralization. Under the alternative scheme, more particularly, we are convinced that the growth of the business would be very rapid. Money at, say, 6½ per cent. to those who are now paying 8 to 9 per cent. would almost immediately attract a large amount of business. This would have to be dealt with promptly by some authority with power to act. Centralizing in Wellington would, in our opinion, cramp and delay (as in the Chattels Branch under the Advances to Settlers), and would destroy the effectiveness of the Act. The Board in each land district must have power to act direct with the applicant, and grant loans without referring them to the central authority. The present chattels scheme under the Advance to Settlers should cease, and the present accounts should be transferred to the Board, the Government guaranteeing 20 per cent. to put it on the same basis as the other securities. The experience gained by the District Land Commissioners in connection with loans on current account to soldiers would be of great assistance to the Board.

TUESDAY, 4TH OCTOBER, 1927.

Mr. W. MACHIN examined. (No. 5.)

The Chairman.] Your full name, Mr. Machin?—William Machin.

You are the manager of the Farmers' Co-operative Association at Christchurch?—Yes.

Have you seen a copy of the Bill?—Yes, I have read it over several times.

We will be very glad to have your comments on the Bill?—Well, sir, I think I will only really trouble you with comments in regard to Part III. As far as Parts I and II go, I am not sure that I can see how they are going to work out; but Part III, naturally, from my own occupation, interests me very much; and when I saw the Bill I naturally thought how it could be taken advantage of, by our needy clients, and how the people who it was intended to benefit might get the best benefit from it. We have the feeling that if we understand Part III aright—and here I am speaking not only for myself, but also for my directors, with whom I have discussed the matter, and who know pretty well the problems of the small farmers—we thought that considerable advantage might be taken of this Part III through organizations like our own. I want, however, to make it clear at the outset that we do not want anything directly for ourselves. I have not come before the Committee to suggest that what would be of benefit to our clients would be a direct benefit to us, though naturally any benefit that our clients derived would have a reflex effect on us. We suggest, in short, that it is possible under this scheme to give so-much cheap money to a bunch of secured clients who would not otherwise take advantage of Part I or Part II of the scheme because their securities are already tied up to concerns like our own, but who have at present to pay pretty heavily for their money; and if any scheme could be devised to enable us to give these people cheaper money than they have at the present time—if that is the intention of Part III—we would welcome it. For the sake of argument, supposing these people, under this scheme, could get an advance against, say, £100,000 worth of chattel securities, belonging, say, to one hundred farmers, and averaging £1,000 each. I am much more interested in the man with round about £1,000 than the larger man, because he is the man who is feeling the pinch more than anybody else to-day. Now, if it would be possible to bunch the whole of those securities together, and get an advance against them, say, at 5 per cent., it would be a very great help indeed. At the present time the money in use is costing 7 per cent. from the banks, and when concerns like ours have to add a further 1 per cent., it means that the charge to the settlers is 8 per cent. This having to pay 8 per cent. is constantly being talked about. Moreover, it is a pretty big burden. Now, if, for the sake of argument, instead of us getting that money from the banks at 7 per cent., it could be got at 5 per cent., my organization would be quite willing to add merely the present 1 per cent., so that the settlers could get the full advantage of the reduction, which would be 2 per cent. We would past that reduction straight on to the settlers. And that would have the effect which we imagine is the general object of this Bill—that the people should be able to get their money at as low a rate as possible. Referring to Parts I and II, there would probably be difficulties in doing this in the same way that Part III presents, for the simple reason that clients would not have sufficiently good securities to offer. Probably their securities would be placed already. Their financial position in many cases is not good; and, moreover, there is a strong objection—a very strong objection—on the part of those individuals letting their neighbours know their financial position. But under Part III it would not involve their neighbours knowing about it; and I assume from reading the Bill that it might be possible to lump all their securities together, and then if you got behind those securities a guarantee from concerns like our own it would strengthen the values and help to equalize things out, and give every participant a proportion of his debt at a lower rate of interest than at present.

The Chairman.] That was not the intention of the Bill?—Apparently there is no definite expression of opinion on the point as far as Part III is concerned. It apparently deals with straight-out loans to associations; but what I felt was that a marriage of the ideas of Part I and Part III might probably be a better method of framing Part III of the Bill. I assume the main object of the Bill is to enable the settler to get his money a little cheaper than he otherwise would be able to get it. And the proposal I make would have the additional advantage that the machinery would cost nothing. None of us wants to duplicate the machinery. It would not mean putting a shilling on to present overhead charges in connection with advances.

Right Hon. Sir Joseph Ward.] What do you mean when you refer to the cost of machinery?—I mean the working-expenses of the organization. The organization is there, in concerns like our own. It would cost no more to use that organization, and there would be no working-expenses. Those concerns are running those settlers at the present time, and, as I have said, you would not increase the overhead expenses, and you would be giving them some material benefit. You would be giving them a definite material benefit in interest and a psychological benefit at the same time. We have assumed, after carefully reading through the Bill, that that is the intention of the Bill, and that sums up the best thing we can get out of the Bill. That is really, in short, what we wish to convey to this Committee.

Right Hon. Mr. Coates.] You suggest that the money could be got at 5 per cent.: I would like to know whether you could indicate any way in which we could get all this money at 5 per cent.?—That is a matter for the Government. That is what the Government seems to wish to do. It is not for us to suggest how you should get the money. The whole machinery of the Bill, we think, is of no use if you cannot provide money cheaper than the banks do to-day.

I do not suppose the bonds would realize 5 per cent. now, if we were selling bonds to-day?—Is it not the Government's intention, in the first instance, to provide a quarter of a million of money?

Yes; but that, of course, is only to stand behind the assets?—Precisely.

Do you suggest that the farmers should get the money through the stock and station firms?—Yes.

You have mentioned £100,000, and that you would charge 1 per cent. ?—We charge 1 per cent. above 7 per cent. to-day. I do not think any stock and station firm would add more than 1 per cent. in these cases. One per cent. on the bank rate to-day means 8 per cent.

Does it not work out at much more than 8 per cent. in connection with bills ?—No, not with us. The interest rate is not a question of bills at all. Some people think it is a question of bills, but it is not. It is just a straight-out advance, with the interest charged on the man's daily balance. It works out at a straight-out 8 per cent.

Some of the small farmers in the North have to pay very much more than that ?—They may require more financing in the North than in the South.

The Chairman.] You are referring to the advances' balances ?—Yes.

Right Hon. Mr. Coates.] They have had to pay as much as 10, 12, and 13 per cent. on bills ?—I think in our concern of recent years the whole of the cost of that paper has been borne by the concern, and the man himself has merely paid his straight 8 per cent.

You do not suggest that this money should be provided for that purpose ?—No, high interest is what we want to avoid. We would get nothing out of it except the reflex of the prosperity of our clients. Our whole object would be to get the client the money to carry on at something under the 8 per cent.

That is the object of the Bill ?—I say that if you could get the money at 5 per cent., as against the present bank rate of 7 per cent.—if that could be done you could give the settler a straight-out 2 per cent. I may say that we have tested this question on a number of accounts to see how it would work out, and it means that the man with a £1,000 advance would save £20 a year ; and I may say that that £20 a year would be of material advantage to him in any cases.

Do you think that the Government could realize a gross 5 per cent. on the bonds it proposes to issue under the provisions of this Bill ?—That question is very closely allied to all local-body borrowings to-day in New Zealand. It is very difficult to get cheap money. That is a question upon which I do not want to express a dogmatic opinion. I am assuming that the Government, after having gone to all this trouble in trying to remedy what is an obvious evil, had considered that it would be able to get cheaper money. I also thought that the Government had in mind not the man who can take his securities to the bank and get what he wants, but the man who to-day is wanting just a little more than the ordinary sane concern would give him on his securities. That is the man who is the weakest link in the country's welfare to-day.

Right Hon. Sir Joseph Ward.] Your firm would agree to what you have suggested ?—Yes. I was doubtful whether my directors would do it, and I got them together and asked them if they would be willing to get no benefit from it, and if they would be willing to offer these clients securities against these loans from the Government ; and I am pleased to say they were willing to do that. Take a case in point : A man may have £1,200 to-day of a concern's money. His chattels and stock may be worth £1,000, and we have been forced by circumstances during the past year or two to give him £200 more. That man has, therefore, £200 more than you could get for his stock and chattels on the market to-day. We have been hoping all the time that he would recover himself, and we have cut down his expenses to the lowest limit, and the Government will find £800, and the concern will find £400, and the firm would pledge the whole of his securities for the purpose of getting him whatever percentage there might be between the Government rate and the bank rate—say, $1\frac{1}{2}$ or 2 per cent.

Do you suggest that the security should be gazetted in protection of the assets ?—No. That security would be already gazetted. I think we could get over that question easily by the firms concerned hypothecating the securities to the Government. The firm's own registration would be effective for them, and they would hypothecate to the Government.

Right Hon. Mr. Coates.] It is not possible to raise money at 5 per cent. Even at $5\frac{1}{4}$ money has been coming in very slowly ?—Well, sir, that is a matter that wants serious consideration. Possibly, no doubt, the Government had some idea of raising money in England. It should be possible in a case like this to raise £1,000,000 in England. Possibly the Government would be able to raise quite easily £1,000,000 in England at 5 per cent.

Do you suggest that that is the method that should be adopted ?—Well, it is no use talking about the Bill unless you make it effective.

If the money has to be borrowed in the way you suggest, would it not mean increasing the national debt ?—Well, the national debt has been increased, possibly, for less worthy purposes. I think it is almost a hopeless thing to expect to get the money at 5 per cent. in New Zealand, with the competition of the local bodies to-day. If you cannot give the farmer at least an advantage of $1\frac{1}{2}$ per cent. I do not think it is worth going on with ; and if you want to raise the money to give them that, it seems to me that it would not be in New Zealand that you would get it, and that you would be forced to go and get it on the London market. And, moreover, I cannot help feeling that if the Government did make up its mind to raise a £1,000,000 on the London market for the purposes stated in this Bill it would not be the most unpopular thing that has been done.

It is not a question of popularity ?—I say that thinking of the temper of the country. Everybody seems to know that one of the farmer's difficulties to-day is the very high overhead that he has to carry, which includes the very high price of the money he uses.

What do you think the value of the bonds is likely to be ?—Well, the value of the bonds, so far as New Zealand is concerned, has got to be something similar to what the local bodies are borrowing on. I may say that privately I was considering the question of raising £500,000 not long ago on very good security on the London market. They would not look at less than £500,000, but they said if I would put up the necessary security they would find me £500,000 at 5 per cent. Well, could not the New Zealand Government get £1,000,000 under similar conditions on the London market ?

Mr. A. Hamilton.] Can you tell me of any country that has raised money at 5 per cent. ?—I say that I have been offered £500,000 at 5 per cent.

Right Hon. Mr. Coates.] In order to get as reduced a rate of interest as possible for the farmer, it will be necessary to keep down the cost of administration as low as possible. You will have noted the proposals in the Bill. There will be a central organization, and the cost cannot be pushed up?—Yes; but in that respect I would like the Government to follow the excellent example of my own directors, and put it on to an existing Department. A Department could very easily do it. I do not think the machinery in that case would be anything like so complex as it may be if it is done in the way proposed in the Bill. I do not think that large and expensive machinery should be set up in a thing like this, and if it can be done through organizations existing at the present time, who will do the work for the purpose of giving the benefit to the farmer and only getting a reflex benefit themselves. I think that would be the best kind of administration to adopt. It could be done through a Government Department fitted for the purpose. It certainly would require a Board, but the Board should not be expensive.

The principle of the Bill, I may say, is co-operation?—But I cannot see that it is going to be effective, sir, to have co-operation just for that one thing. I do not think you will succeed in getting your organizations together for just that one thing. First of all, you have to consider the class of man to be helped. The man who requires helping is the man who cannot help himself. He is not going to allow his affairs to be known to a little group of twenty people in his district. I think, sir, you will find that unworkable—you will not be able to get your little organization such as is proposed in the first part of the Bill. I think you will have to work through existing organizations very largely. You have the dairy companies, the co-operative companies, and other companies on a similar basis. It seems to me that it will be to the highest advantage to work through the existing machinery in order to look most effect vely after the interest of the individual concerned.

Right Hon. Mr. Coates.] Have you any knowledge of the system as it is worked in other countries?—I have read the report of the Commission, but I have no practical experience of it.

Right Hon. Sir Joseph Ward.] If the ruling bank rate for deposits over two years is 5 per cent. and the local public bodies are paying $5\frac{1}{4}$ per cent., do you think it would be possible for an organization to get money at the rate you mention?—I do not think you would get New Zealand money at the present time.

I agree with the view you have expressed regarding the question of raising money—that is the great difficulty. One thing I am uncertain about and would be glad to have your opinion: can we get money in New Zealand to lend out to these people?—I think it would be difficult. You might possibly get it at $5\frac{1}{2}$ per cent., but you would not get a large amount of money in New Zealand at 5 per cent.

The Chairman. Mr. Machin suggests that the Board should take the whole of the securities of the farmer as a guarantee for the purpose of securities.

Mr. Machin. Yes; take a hundred farmers whose liquid securities are worth £100,000, get the Government to advance 90 per cent. of that and have that guaranteed by the concern itself to the Government.

Mr. A. Hamilton.] The Board would then be dealing with the mercantile firms only?—Yes.

How would you define the company through which the borrower would operate?—Co-operative companies are mentioned here, but I have no special brief for them; any mercantile company would do. The object is to get the benefit to the farmer. I would not limit it to a purely co-operative company. Any of these companies should be prepared to put up, say, £100,000 security, in order to obtain advances, conditionally on their charging no extra expenses of working and let the whole of the benefits go to the clients.

Who would hold the securities?—They would be held by the mercantile firms; they would have a registered charge over these securities.

But the Board would have the first call on them?—Yes.

Would the working of the account not become complicated?—No, not at all.

Suppose a man sold his stock?—I can see no difficulty in giving him the credit. So far as practicability goes, I think every concern which knows more intimately than any one else the troubles of its own clients would be willing to give them this benefit.

Are there not other difficulties that the farmers are up against as well as cheap money? What about his freedom? Is it advisable to get him into such a position?—Do you think there is any man who needs this benefit who is to-day a free agent?

He might like to become a free agent?—Then he can buy himself out.

How could he buy himself out?—He simply redeems his security by paying in the money.

He could not get a loan direct from the Government then. There is a suggestion in the Bill that men who are free to-day could come along and get money from the Government. Supposing a man had £1,200 worth of stock and plant and he owed your firm £1,000; supposing he could find £200 himself; then the Government would find £800: would it not be advisable to allow such a thing to happen—to give him his freedom?—If he could do that, there is no reason why he should not.

Right Hon. Sir Joseph Ward.] In other words, once he has attained a position of freedom he could do what he likes within the limit of the Bill?—Yes, sir, once he has obtained his freedom he probably would not require any of the machinery of the Bill.

Mr. A. Hamilton.] But the Bill does not provide anything for the individual to get his freedom. In your scheme there would be no difficulty for him in getting his freedom supposing he is in a position to pay his debt. He might be in a position to pay off 30 or 40 per cent. of his securities?—Well, he would then do what he does to-day.

He would have to go to the banks?—Well, that is no concern of ours. I think the Bill is produced because of the necessities of these fellows. I know my directors are only too anxious to help the fellows who are badly off.

Mr. Walter : I should like to ask Mr. Machin whether clause 48 would work in all right with the scheme he has mentioned.

The Chairman : That is the repayment system.

Mr. Machin : I read that clause last night, and I think that something of that sort should be done. But whether 55 per cent. could be paid at the end of the third year—it seems too good to be true.

The Chairman : You are not alone in that view.

Right Hon. Mr. Coates : It looks all right on paper.

Right Hon. Sir Joseph Ward : It sounds well.

Mr. Walter.] Regarding the outside business of your clients, you would have the full control of it. If they had skins or wool you would naturally expect the whole of their business?—We expect it, but we do not always get it.

That is one of the things you would guarantee for—to get their whole business?—Yes.

Do you think that would be sufficient to tempt them—they would take the guarantee on for that business?—I think so; a good many concerns have done it in years past for a lot less—taken much bigger risks in the years gone by.

Right Hon. Mr. Coates.] It could be easily started, this scheme, if something like that could be made workable?—It would not entail a large amount of work. The Prime Minister has mentioned the question of getting money at a sufficiently low rate of interest. The thought of paying a high rate of interest along with their other troubles has a depressing effect on men. To many 8 per cent. is an insuperable obstacle.

Mr. Walter.] Many of the farmers are working on three-months bills?—I know that, but it is not very helpful for them.

Right Hon. Sir Joseph Ward.] They cannot afford to do it; no one can. We are all in the same boat.

Mr. Walter.] I think you are rather optimistic regarding your guarantee?—I suggested that we should hypothecate this £100,000 of securities, borrow £80,000 or £90,000 on it, and guarantee the payment of it. We would have to guarantee the whole of it. On our organization would rest the responsibility of seeing that the client stands up to his obligations.

Mr. Forbes.] On the question of the lower rate of interest: the shortage of money—is that not one of the difficulties? The difficulty of the farmer to get money: is that not one of the difficulties?—I do not think so. Most farmers can get advances readily enough to-day against good security.

You do not think that a great deal of the value of this Bill would be in providing additional money for the farmers?—The value of the Bill is in providing cheap money.

You think there are firms doing business to-day who are able to provide all the money required by the farmers?—“Required” is a difficult word. Farmers can get all the money that is legitimately needed, and that will show a reasonable return.

You do not think then that the Bill is necessary for the purpose of providing additional funds for the farmers?—No; I think it would be highly dangerous if this Bill provided additional money which could be got more easily. Money has been obtained too easily!

For instance, a young man making a start, and a firm cannot see its way to finance him?—If the proposition is a reasonably sound one there are always firms prepared to entertain it.

Mr. A. Hamilton.] Is that general?—Yes, I think so. I do not think I am breaking any confidence when I say that my own firm has taken on a number of individual cases, which I have had to assure my directors were sound accounts, during the last six months.

Mr. Forbes.] This scheme of yours would not be of much value unless the money were available at a lower rate than it is to-day?—I regard the whole value of the scheme in proportion to its ability to give the farmer the funds he requires at a lower rate than he can get it to-day. That is the only value I attach to it.

What is the risk in regard to chattels security—the money advanced on chattels security: do you look upon it as sound?—A few years ago I think people preferred to advance against land. To-day advances are more readily obtained against more liquid security.

Do you think that a man wishing to raise money against stock would be able to do so as easily as against land?—I have no doubt about that.

You take the man who gets an advance against a flock of sheep; that is a security that deteriorates fairly fast?—If he is short-sighted enough not to maintain his flock. It is very short-sighted policy to allow such a security to waste. Part of the supervision would have to be the maintenance of the man's flock and the improvement of it.

If he had these terms of payment, do you think it would be possible for him to make it?—Yes, as long as the flock is kept up to its value.

You do not ask for any of these fixed sums to be produced?—No; but I maintain that a man in business or farming does not stand still; he either goes forward or backward. There is something wrong if a man is not improving his position. I have in practice a system of testing whether a man is improving his position. Is he improving his flock or improving the state of his account? At present I am applying that test, now when times are not propitious.

You have the right of realizing on the security at any time?—Yes.

This Bill provides for five years—money lent for five years?—I have a doubt as to the practicability of the steepness of the repayment system. Knowing what I do, it would be impossible for me to impose conditions like that on a client of this kind: the recovery suggested is too steep. If you carry that to its logical conclusion they would all be making fortunes in a few years.

In dealing with chattels securities do you think it necessary to be able to realize at any time?—No one does that sort of thing capriciously, but it is necessary to have the power.

The Bill proposes that money should be raised against the securities that are held, plus the advance from the Government, but not with the Government security behind it: how would that affect the sale of debentures?—It certainly would affect the sale of them. I think the Government guarantee is essential if the cost is to be low. The Government has already two safeguards, in the security and the guarantee of the concern that is behind the security, so that its risk is not very much; but the thing is impossible without the Government guarantee behind it. The fact of the Government guarantee is a thing which would make all the difference in getting your money at cheap rates.

Practically, you look to the Bill for cheaper money for the farmers?—It is presumably to help the “lame dogs” over the stiles.

Mr. Elliott.] You consider that Government guarantee is necessary?—In order to obtain the money somewhere about 5 per cent., yes.

Mr. A. Hamilton.] You said that a concern had been offered £500,000 at 5 per cent.?—Yes.

Well, surely this scheme should be as good security as your institutions can offer?—Oh, yes; but the fact that the Government would not guarantee would immediately raise a doubt.

Why should it raise any more doubt than a doubt as to your being able to raise the money?—Because it would rest upon ephemeral organizations which would only be brought into being for this purpose, and which would not have the general commercial knowledge to carry on successfully.

The Board is holding certain securities which are lodged as security against the debentures, and these securities are backed by this £250,000: I cannot see why that security should not be able to obtain money at as low a rate of interest as an institution such as yours?—Oh, yes, if you confine the operation of the Bill to Part III.

You are of opinion that these debentures should carry a Government guarantee?—Yes.

The central idea of your proposal in regard to this £100,000 is in reality to increase the number of people in a group from twenty to one hundred?—There would be all the difference in the world between having a group of twenty or one hundred for a special object like this and taking advantage of an existing stable institution.

If your company took advantage of your suggested scheme to lump certain of your securities and get an advance of £100,000, the effect of that would be that your clients would be receiving money at a lower rate of interest than at present?—I can get that money from the bank to-day, and can lend it out and take my additional 1 per cent. without any trouble. The whole effect of Part III would be to give the chap who is using the money the benefit. It would help him to get into a more comfortable position sooner. There is nothing in it which is going to assist the finances of my concern.

Suppose you had this £100,000 for which you propose to charge your clients 1 per cent.: do you think your working-expenses—the running of your institution—would be increased?—Very little; they might be increased to the extent of probably one good accountant. I take it the whole object of this proposal is to interfere as little as possible with normal business, and it would work in with our normal business.

In order to assist the farmers, do you think that your company would be agreeable to forgo that 1 per cent.?—Oh, no; we could not do that. We should need it to keep our inspection staff going. There comes a point when you would otherwise commit suicide. We are prepared to do all the work, as at present, but we are not prepared to make it a free contribution. When the banks raised their rate of interest, I put it to my directors, “Do you want the rate of interest raised?” and they agreed to stand out of the extra $\frac{1}{2}$ per cent. I have not raised a single rate of interest through the raising of the bank rate.

The Chairman.] I gather that the 1 per cent. that you get from the bank leaves you no profit so far as the business is concerned—the actual lending: you get your profit from the trading part?—It leaves us no profit; it involves a little loss, which has to come from the trading department. We had one case—a poor chap who was nearly down and out. Our stock agents travelled 563 miles in all directions to sell his turnips for him. All that kind of service has to be done—often at a loss.

So that your opinion is that you want actually more than the 1 per cent. for the loan part of the business?—I should like it, yes. I was talking to a leading bank-manager the other day, and he reckoned that no concern could do it under 2 per cent.

Your own proportion is $1\frac{1}{2}$ per cent.?—It was $1\frac{1}{2}$ per cent. before the recent rise in the bank rate.

What proportion of your clients would be under this £1,000 that is suggested in the Bill: have you any idea?—I could not give an accurate figure. A great number would be round about it. I should say the majority would be just over it.

More than half of your clients would be over £1,000?—Yes, considerably more.

You want the £100,000 irrespective of the amount of money you lend to your clients?—No; I would simply take a bundle of chattel securities worth this amount. I could very well pick out one hundred clients who would benefit by having £1,000 each.

Your suggestion to the Committee was to take all classes of men?—Yes. What I meant was that I could benefit one hundred accounts of this particular type and ignore the larger ones.

You state that there will be some difficulty in getting people to disclose their business to one another?—I am sure of that. They do not like their neighbours to know their affairs.

Suppose the Government under this scheme lends a man up to £1,000, to an individual—one of your clients, for instance—and he is able to deposit £1,000 to £1,200 worth of security with the Board: do you think a firm would guarantee 20 per cent. of that amount in order to retain his business?—I do not think so. The argument would be like this: The Government has my chattels security; I am free to sell my wool, stock, or grain where I like.

I am suggesting that you are giving the 20 per cent. security, then his business will go through your hands—you would get his business?—It is conceivable that that would be so, but it would rather weaken the link with the client. I hate the idea of forcing a man to give you his business. We have been reasonable where there have been good reasons for a man selling elsewhere. Business relationships should be based on goodwill, and you have a man's confidence where you are acting as his banker as well as his merchant.

Take the client's position: You borrow at 5½ per cent. and you can afford to lend at 6 per cent. The security for £1,000 is handed over by the stock firm to the Government, and that man gets his money at 6 per cent. You are making nothing out of the 1 per cent.; therefore you are offering your money for trading purposes. If your client is getting his money at 6 per cent. and you as a firm guarantee 20 per cent. to the Board of that security, and for that 20 per cent. you keep him as a client, would that induce firms to take it up?—I could not say; possibly they would.

There are quite a number of accounts in many concerns to-day where the advances are in excess of the chattels securities.

Right Hon. Mr. Coates.] I suppose you have studied the system under which we propose to raise the money—the bond issue?—Yes, I have done that.

But you state it would not mean extra money for the farmer?—No, I do not think it would provide extra money; it would provide easier money. I believe all the money that is wanted for legitimate requirements to-day on sound propositions can be obtained. I think every legitimate trader and every farmer can get all the money he needs against his sound securities.

What is your source of supply to your clients at present: from what source do you get your money for lending out to the farmers?—Our balance-sheets show that we get a fair lot from the banks. We have a very large amount at present—nearly, a quarter of a million—lying to the credit of clients' current accounts.

It is either bank money or clients' money?—Yes, that is the source.

Would the bond issue absorb that same money?—It is very difficult to say; I do not know whether it would.

I think you have admitted that the source of money which you rely on for the carrying-on of your business and for advancing to farmers is restricted practically to banks—that is, other than your own trading accounts, which may be with your different clients?—Yes.

Now, if the bonds prove an attractive investment, will not that have the effect of bringing new capital for disposal to farmers and every one else—capital which at the moment is not available to the farmers?—I think, sir, I said there is sufficient capital available to the farmer. His trouble is that he has to pay too high for it.

Exactly. You have stated that local-body debentures are more attractive. In order to compete with local-body debentures it is decided to create another medium by which money can be attracted for the purpose of assisting the primary producers. What will be the effect if you bring a new source of supply of money to the assistance of the primary producers?—I think there is sufficient for his enterprise now.

If there is sufficient, is it in the right channels to suit your clients?—You mean, if he could get the money from elsewhere by short-circuiting the concerns that are now finding money, then it would be an advantage to him. He might get his money cheaper.

We are creating another avenue of investment, and I am asking you whether that would not have the effect of placing money at the disposal of the primary producers?—If you place more money under those conditions, you would probably place it under unsound conditions. It would be easy money, and would probably create a bigger evil than the one you are trying to cope with. You mean you would provide a new avenue of cheap money?

Right Hon. Mr. Coates: Yes.

Mr. Machin: That is rather an interesting economic question—the diversion from the local-body loans to the farming community. But we know there is an enormous amount of money awaiting investment to-day: money which formerly went into landed securities but which is to-day floating about in temporary investments and looking for a permanent investment—trustee funds, and so on.

Now, the point is this: if you offer a security which will attract those funds, will that not have the effect of rendering available more money for the interests we have been speaking of?—I do not think it will have the effect of providing more money; it might have the effect of increasing competition for money. I think the question is closely related to the balance of our Dominion's trading and the recent action of the banks. I am not sure that it would have that effect. If it had the effect of making it more difficult for local bodies to acquire money and thus reduce the local rates which are part of the present overhead charges, as the interest on that money is falling on the shoulders of the ratepayer, I think that would have a good effect. I believe the local-body rates per head in New Zealand in 1913 were about £1 5s., while to-day they are about three times that amount. The action of the banks has been mentioned, and the question, "Should they restrict credit to certain concerns, or should they charge everybody more for their money?" is an important one; and personally I believe that nothing impressed the people of this Dominion with the necessity for economy so much as the recent increase of the bank rate did.

Examination of Mr. J. H. O'DONNELL (No. 4) continued.

The Chairman.] Will you now continue your evidence, Mr. O'Donnell. Have you a statement?—Yes, sir, I have prepared a statement with regard to current account advances under the Discharged Soldiers Settlement Act. Under section 6 of the Discharged Soldiers Settlement Act, 1915, and section 2 of the Amendment Act, 1917, the Minister of Lands is authorized, on the recommendation of the Land Board, to grant advances for the improvement, development, and stocking of farms. From 1915 to the passage of the Amendment Act of 1917 these loans were restricted to soldiers who were

settled on Crown lands under lease. Only in a small percentage of cases soldiers possessed cash or stock worth mentioning, and, in the majority of cases the Department was obliged to find 100 per cent. of the advances. With the passing of the 1917 Amendment Act the Department was able to finance soldiers towards the purchase of land. Advances up to a limit of £2,500 were common; and, in addition, there was power to advance for improvements and stock. In a number of cases the purchasers had, on the then valuations, some margin as part security for further advances for improvements and stock. Depreciation in land-valuation completely wiped out most of the then margins, which were partially restored on revision of land-values and reductions in mortgages. As the advances in the majority of cases covered advances for improvements and stock, the securities taken in each case was a mortgage securing the first advance and further advances maturing in seven years' time from the date of the first advance. A bill of sale was executed to cover advances over stock. The securities are held by the Commissioner of each land district. A small percentage of the loans granted relate exclusively to stock, the security being a bill of sale, with collateral mortgage. Now, with regard to procedure, the Head Office generally controls matters, but the detailed administration and management of accounts is with the District Offices. The Head Office arranges finance and directs on matters of policy. It is in a position to obtain information from the whole of the District Offices on problems confronting each Commissioner, and by this means is able to draw the attention of Commissioners to irregular transactions or other matters requiring specific attention in any one district. By these means each Commissioner is familiarized with the problems confronting Commissioners in all districts. As a preliminary to a loan being granted, application is made by the soldier to the local Commissioner of Crown Lands, specifying the purpose of the loan. His application is reported on by the Field Inspector, who is required to report as follows:—

- (1) The condition of the land; area in grass, and condition of pasture; the area in bush, swamp, &c.
- (2) The possibility of development of the unprofitable area, and cost of development, and the period over which development should take place.
- (3) Stock and class of stock that the land will carry in its present condition; the stock that the land will carry when fully improved.
- (4) The total credit that should be allowed for (a) further development, (b) stock, and (c) the amount that is necessary for immediate requirements.
- (5) The experience of the applicant. If the required accommodation is in respect of land already held, report as to the manner in which the property is being farmed and the ability of the applicant to successfully carry on with increased liabilities.

In cases where a man has already had a reasonable amount of finance from the Department but who applies for more money, the Field Inspector is required to report on whether the further development and stocking cannot be done out of the farm revenues. On the receipt of the Field Inspector's report the application is considered by the Land Board, and the Commissioner of Crown Lands then submits the Board's recommendation to the Head Office. A statement of assets and liabilities, together with an estimated statement of the revenue and expenditure for the season under consideration, is forwarded to Head Office. The recommendations are carefully examined by the Head Office Advisory Board before being recommended to the Minister for approval. In some cases it is necessary for recommendations to be referred back for further information justifying the granting of loans. With regard to financial arrangements, the Discharged Soldiers Settlement Account has been financed as follows: Savings Bank Funds, £1,500,000; Consolidated Fund surplus, £13,500,000; other loans, £5,000,000: total, £20,000,000. Interest on £15,000,000 is at 4 per cent., and interest on £5,000,000 varies from $5\frac{1}{4}$ per cent. to 6 per cent., the average rate of interest being approximately $4\frac{1}{2}$ per cent. The Commissioners, on requisition, are impressed monthly with sufficient to carry out their requirements. Receipts are paid into the Public Account for credit to the Discharged Soldiers Settlement Account. There is no separate bank account under the control of the Commissioner beyond the Imprest Account. Advances are made by the Commissioners on the report of the Field Inspector, who must be satisfied as to the utility value of work done on a farm, and of the value and utility of the stock on the farm. The foregoing covers generally the machinery relating to advances. Now, with regard to stock transactions, before advancing on the security of stock it is essential that the land is in a condition to carry the stock for which the loan is applied. Overstocking of land is disastrous. Where advances have been made exclusively on stock it is a condition of an advance being granted that the property is not overburdened with mortgages, and that on a clear-cut statement there would seem to be reasonable chance of the applicant being successful. A property overencumbered with mortgages detrimentally affects the stock security, inasmuch as the settler is frequently embarrassed in providing out of his revenue sufficient to build up good herds or maintain his flocks to an efficient standard. Finding his financial prospects not too good, he may be attracted by high prices ruling for lambs, instead of selling his cull ewes and maintaining a portion of his ewe lambs to replace the culled ewes. To give that attention to the stock that is desirable there must be a margin of revenue to provide green feed, top-dressing, &c.; and, where there is not such stock suffers. This applies more particularly to dairying herds and sheep in parts of the country subject to periodical drought. Long winters followed by a short spring and high dry winds has been responsible for seasonal diminished returns. Loans on the security of stock have not for the past few years been granted unless the settler has a margin of security in the land and is in a position to finance portion of the stock required, or, should he have previous advances for stock, the security for the previous advances should show a margin. In some cases, however, it has been necessary to stock up without a margin, to enable a man to recover a position created through adverse conditions rather than through the fault of the settler. A good man can be allowed credit within reason. Sales of stock legally require the consent of the Commissioner; but in practice men fully capable of handling their farms and with a full knowledge of their requirements may sell and purchase, provided the proceeds and outgoing go through the books of the

Department. In other cases the Field Inspector is held responsible for the passing of accounts relating to purchases, and to see that the securities are maintained. As stated elsewhere, it would be possible to sell all the ewe lambs instead of culled ewes, purchase full-mouth ewes, and the balance of the account erroneously regarded by the office as revenue available for distribution as such. With sheep-farming, it is a condition precedent to meeting the year's requirements to appraise stock ex shears according to age as cover for capital. In the case of dairy stock, a milk order is taken for various percentages on the cream cheques. Where advances are against cows, only a percentage is arranged sufficient to pay interest and gradually reduce the debt. This varies from an eighth to a quarter of the milk cheques. Where the Department is interested as mortgagee on land as well as stock, the rate may be $33\frac{1}{2}$ per cent. to 40 per cent. This provides practically no margin towards reduction of the stock debt; but as the mortgage covers land, and as the payments of sinking fund create an equity in the land, this becomes available as a set-off to deficiency in stock-values. In practice it has been found that a settler cannot very well afford more than one-third to be taken from his cream cheques; anything in excess tends to hamper him in the maintenance of his farm and stock. It has been necessary in the case of a few settlers to take increased orders on returns, and in numbers of cases orders reach the whole of the factory returns. Monthly payments are made to settlers, and other amounts are set aside to meet top-dressing, renewal of herds, &c. This arrangement has been the means of saving the farms to men who, however good workers they may be, cannot control finance as well as might be desired. That has been rather unfortunate in some cases. We have had instances in dairying and other classes of farming where men have not been able to control their own finances, and so we have had to step in and take the whole lot and regulate their outgoings. In the past some settlers have defeated the object of the order on milk cheques by selling to another factory than that mentioned in the order. This is now almost a thing of the past. A legal assignment, on any factory whatsoever, may be preferable to an order which may be revoked, or its effect defeated by supplying another factory than that mentioned in the order. At the inception of the business the Department was confronted with high prices for farm products ruling at the time. These factors, combined with the big demand that set in for stock for soldier farms, caused an inflation in prices beyond the value that would have been appropriate to reasonable prices for farm products. The decline in the beef market, with the drop in wool and butter, following the immediate post-war period considerably depreciated stock securities. Collateral securities over the land likewise depreciated. On the winding-up of accounts losses averaged approximately 60 per cent. of capital invested in stock. In a few cases these assets depreciated by as much as 80 per cent. Depreciation was considerable in store cattle, particularly in Taranaki, north Wellington, and south Auckland. Cows realized low prices on forced sales, owing primarily to reduction in butterfat prices, depreciation of herds through inattention, and the surplus created by transfer from dairy-farming to sheep-farming on a revival in the prices of wool and meat. The change-over to sheep-farming caused a glut in the cow-market, which the Department felt when forced to close accounts at the time. Shortage in stock is frequently explained as being attributable to deaths or wandering into the bush; but in a number of cases investigations disclosed that stock had found their way on to the holdings of settlers in the vicinity, while scrub cows were left on the farms. In such cases steps were taken to recover the stock. With dairy-farming under the earlier conditions, when butterfat fetched high prices, a number of settlers who had had little or no previous experience in farming and the handling of so much money as represented by the monthly cheques did not lay out their revenues to the best advantage. The pastures were neglected, the culling of unprofitable cows was not attended to, the result being that on a drop in prices of butterfat the revenues from the depreciated herds and lands were insufficient to provide a margin to top-dress the land and renew the herds. In consequence of this, some land securities declined below the values that would have been fair realizable value had the properties been maintained when returns were high. In some cases neglect to provide winter feed and green crops depreciated the value of the stock. With sheep-farms the lambing suffered, as well as the weight of the clips. With dairy cows the condition at calving was such that the returns were poor, the cows not receiving proper attention during the winter. Unfortunately, the Department has been handicapped with an alleged mixed ownership of stock. Upon mustering for checking securities or realization, ownership to some of the stock may be claimed by the father or wife of the settler, accounts produced indicating he or she had paid for them. If it could be possible to have all stock on a property, whosoever the owner, as being subject to the bill of sale, there would be less risk of questionable practices. Previous to the Chattels Transfer Act, 1924-25, it was commonly held that all stock, of whatever description, that was acquired by the grantor became subject to the bill of sale. Now, however, a bill of sale secures only the class of stock described therein, natural increase, and after-acquired stock of the same class. It would therefore be competent for a settler to dispose of the whole or portion of a dairy herd, invest the proceeds in sheep, and pledge the sheep as security for further advances obtained elsewhere. The grantee of the bill of sale would no doubt have a remedy against the grantor as one of fraud. Non-revenue advances (covering horses and dead stock) require careful consideration, and unless finances are arranged to control the whole of the crops for which horses and implements are required the lender may find himself left with a depreciated security and be out of his interest. Forced sales by mortgagees and abandonment of farms may result in losses, particularly in dairy stock, when it is impossible for the Office to give an assurance to intending purchasers as to whether the cows are likely to come into profit. In such cases the loss may reach 40 to 50 per cent. As loans on current account were made principally for improvements and stock under conditions laid down in the Discharged Soldiers Settlement Act, one account was kept for each mortgagor, and it is difficult to size up accurately losses exclusively for stock. As realization becomes necessary, all assets are marshalled, the liquid assets disposed of, and the balance transferred to a Realization Account. Upon the disposal of the real-estate assets, the deficiency, if any, is written off, with the consent of the Auditor-General. With the elimination of those who have been or are unsuited to farming, and the settlement of the lands with more suitable

men with some finance of their own, there should be a more assured outlook for the administration of the Discharged Soldiers Settlement Account. The reductions made by the Dominion Revaluation Board, and the elimination of the whole or part of the past arrears, places a large number of men on a 90 per cent. to 100 per cent. liability. With the exception of a small percentage who have been granted a further try-out, the soldier settlers should, with low interest charges—viz., 5 per cent.—meet their obligations, provided primary products bring reasonable prices. Two or three seasons with good prices should place them in a satisfactory position. Unfortunately, there are some on poor-quality lands, carrying a very limited number of stock, who will not be in a position to pay much more than interest on stock advances and support themselves. With regard to dairy-farming, it is considered that to ensure success a settler must be able to milk at least thirty to thirty-five cows. Allowing 3 acres to a cow, butterfat at 1s. 3d. per pound, average butterfat yield 200 lb. per cow, and that the farm carries thirty cows, the following briefly summarizes the annual income and expenditure:—

<i>Income.</i>						£
6,000 lb. butterfat at 1s. 3d.	..	..	..	..	..	375
Sale of cull cows—five at £4	..	..	..	..	..	20
Pigs, say .. .. .	..	..	..	..	..	50
						£445
<i>Expenditure.</i>						
Living .. .. .	..	..	..	..	..	150
Rates, insurance, &c. ..	..	..	..	..	..	30
Top-dressing .. .. .	..	..	..	..	..	50
Interest on purchase-money—£2,100 at 6 per cent.					..	126
Interest on stock—£300 at 5 per cent.	..	..	..	..	..	15
Purchase of five fresh cows at £9 each	..	..	..	..	..	45
Cultivation .. .. .	..	..	..	..	..	15
						£431

Mr. Elliot.] That is his total expenses?—Yes. He would only have a surplus of about £14.

On how many cows?—On thirty cows averaging 200 lb. of butterfat.

Is there any allowance for wages?—No, there is no allowance for wages. An increase of 1d. per pound would improve the revenue by £15 per annum, when it would be possible to gradually reduce the stock-mortgage. A settler has, however, the advantage of raising his own poultry, vegetables, &c. With continued top-dressing it may be possible to bring the acreage per cow down to 2–2½ acres. Stock advances outstanding total approximately £1,500,000, interest being at 5 per cent. Probably one-half of the settlers show little or no margin of security. Owing to the inclusion of advances for improvements with stock in the one account, it is possible only to furnish an estimate of the total losses in stock. I will now give the losses on the Discharged Soldiers Settlement Account, as follows: Balance-sheet at 31st March, 1927, £1,190,000.

The Chairman.] Is that the total loss?—Yes, exclusive of the Dominion Board's writing-down. Most of our losses are really for stock, but it is difficult to class stock separately. Principal items making up loss: Loss on realization of all assets (property and stock), £677,000; remissions, £16,000; rebates, £275,000; expenses of raising loans, £89,000: total, £1,057,000. These figures exclude reductions and remissions granted by the Dominion Revaluation Board, totalling £1,335,000. Real estate on land transferred to Crown but not disposed of, £814,000; Properties in course of realization (including stock, £21,000), £465,000: total, £1,279,000. These figures represent the debits to the various accounts closed down at the 31st March, 1927. As a number of these properties are in the deteriorated area, the loss may reach 60 per cent. of liabilities thereon. Decrease on previous year's figures of £215,000: Current account advances on stock (approximate), £2,000,000; adjustments by Dominion Revaluation Board, and re-establishing settlers by Department, estimated at £500,000: leaving an estimate of £1,500,000, being a loss all round of 25 per cent. As stated elsewhere, losses on closed accounts are estimated at 60 per cent. of the capital advanced in respect of those accounts, but with land charges and stock reduced to fair values future losses on stock should be considerably reduced. If the Department had a margin of 20 per cent. in each stock security, with 1 per cent. Reserve Fund, it would be in a very safe position. Forced sales by mortgagees frequently necessitate realization of stock at unfavourable periods of the year, and in regard to dairy stock little assurance as to probability of cows coming into profit can be given in many cases. Costs: Administrative costs approximately £40,700; percentage on mortgage and other securities—book values, £17,500,000, ¼ per cent.; percentage of gross income of £811,000, 5 per cent.; salaries and other expenses of Field Inspectors, £14,100. Proportion estimated against stock, say, £8,000; accounts staff—estimated charge to Stock Account, £4,000; general administration, say, £3,000: total, £15,000. Average on £1,500,000—say, £1 per cent. of capital. Income per cent., 5s., less expenses, 1s., leaving 4s. Average rate of interest, 4 10s.; estimated administrative loss, 10s., leaving 4s. To place accounts on a paying position interest on stock loans should not be less than 6½ per cent. interest on capital being at 4½ per cent. Administration, say, 1s.; Reserve Fund, 1s.; interest, 4 10s.: total, 6 10s. By distributing administrative costs over the whole of the assets the position so far as concerns stock would appear as follows: Administration, 5s.; Reserve Fund, 1s.; interest, 4 10s.: total, 5 15s. The necessity for the administration of stock securities is more costly than other matters, and until accounts are established on a firm footing by the elimination of the unfit and by the gradual building-up of equities in land it must continue to be expensive. The greatest risk seems to be in dairy stock, which so frequently contracts mammitis or abortion. The Agriculture Department have now a remedy for the former, but the latter trouble seems to be in the soil, and it is probably due to overstocking with cows, and not spelling paddocks.

Lands causing abortion have considerably depreciated in value, practically to a sheep valuation, with a view to enabling it to be spelled by stocking with sheep. Unfortunately, some of the areas are too small as sheep-farms, and in order to help a man through for three or four seasons it has been necessary to grant remissions in full or in part. Now in regard to the staff: The experience of the Department is that there must be a staff equipped with legal and financial knowledge to undertake a work of this nature from its inception. At the commencement of the discharged-soldiers settlement work, the staff of the Department was inexperienced in this class of work. The staff to cope with the then normal activities of the Department was depleted through a large number being on war service, and by transfers to other Departments offering better inducements. It was not until 1920 that the administrative and accounting staffs were organized sufficiently to cope with the work; some broke down through overstrain. General: The position now is that approximately 80 per cent. of the settlers may be considered as being in a position to carry on successfully with favourable prices for farm products. Possibly 10 per cent. require nursing for a time and every consideration extended to them to make good. The remaining 10 per cent. are doubtful. Many realize their unfitness for farm life and voluntarily abandon their farms. By firm and sympathetic control it is possible to save some of these from leaving their farms. Where it is evident that a settler outside of the first class realizes his position and the necessity for continued effort towards improving his position, the Department is out to help him by partial remissions and postponement of arrears over a long period—say five years or ten years—the first half of the postponed period being free of additional charge to current charges, the arrears to be repaid in equal annual instalments during the remainder of the postponed period. These concessions are conditional on the properties being improved and stock given the required attention and brought to a higher standard. It might be observed that, while the Department can sustain losses, it has no opportunity of making a gain on any transaction. It is difficult to compare the position of a State Department lending money on stock with a company transacting a similar class of business. In the case of the latter, commissions are gained on the frequent turnover of stock and the sale of wool, while it is understood that a firm financing farmers, but not operating as stock auctioneers or brokers, shares the commission. The Lands Department, which has provided capital for stock, does not benefit by commissions. Further, profits are obtained by companies in the sale of farm requisites. The following are special points to be observed:—

- (1) Adequate staff with a knowledge of the business.
- (2) Margin of security in land, as well as stock, as mortgagee may force a sale resulting in loss to stock account.
- (3) Control of accounts and general sizing-up of position half-yearly.
- (4) Stock to be maintained to value of liabilities; care to be taken that culled ewes are replaced with ewe lambs, or a dairy herd with best heifers.
- (5) Watch closely returns from milk orders.
- (6) To see that the revenue over charges permits of land being maintained, and enables borrower to grow necessary green feed, &c.
- (7) Mixed ownership of stock unsatisfactory.
- (8) Advances for horses and implements not favoured unless crop returns are controlled.
- (9) Dairy farms not satisfactory under thirty cows, with at least 3 acres to the cow.
- (10) Change from one class of stock to another without proper security.
- (11) A 20-per-cent. margin in security, with 1 per cent. Reserve Fund.

I think that concludes my statement, sir.

Mr. Forbes.] What do you do about repaying: have there been any reductions?—So far as current accounts are concerned, there has been very little opportunity of getting a reduction up to the present.

What do you do when you make an advance: do you buy the stock for the man?—No; we do not buy the stock, except in a limited number of cases. The man buys his own stock, and the Field Inspector is required to report on the stock—as to whether it is suitable stock to be advanced against.

And then do you advance for the full amount?—Yes, we advance for the full amount in a large number of cases.

What do you do about keeping up the value of the security?—Well, I am afraid the supervision in that direction had not been quite up to what might be desired, but our instructions were in the direction of maintaining flocks or herds up to efficiency.

Can you keep the settlers up to the mark?—Well, it is a very difficult thing. We have endeavoured to do so, but we find at times that it is very difficult. We have instructions that particularly in sheep a man must submit a return of all his stock annually—say, about the end of April. We simply have to depend on his word that the return is right. It would be a pretty hard thing to go round every farm and muster the sheep, and so on. It would be a pretty costly job. But we have now got down to this position: that the majority of our settlers are a pretty capable lot; and I think we can rely upon the word of a large number of them as to the position of their stock.

Mr. Forbes.] You really want a bigger staff?—Yes.

How many Inspectors have you?—I could not say offhand. Some districts require more Field Inspectors than others, according to the amount of work required and the difficulties of transport.

Where is your biggest number of Field Inspectors?—North Auckland has the biggest number; Wellington comes next; then South Auckland; then, I think, Canterbury.

Are the majority of advances made on cows?—£20,000,000 have been advanced to help men purchase land, discharge mortgages, effect improvements, and to buy stock.

Is the stock mostly dairy stock?—No; we have a fair amount out on sheep—perhaps half a million.

Have you any information to offer in regard to this Bill: have you read it?—Yes, I have read it. Before making any comment I might say a few words regarding our early efforts at soldier settlement.

We endeavoured at one time to get soldiers to combine in the purchase of plant or expensive implements—tractors, and so on—so as to save costs; also to get seeds, manures, and other material at wholesale rates. But we failed in this. It worked successfully in Auckland for a time, but we had strong representations from the settlers that they wished to deal with their own firms, and this attempt at co-operation failed. I believe it turned out successfully in Europe, although it was adversely reported on by an American Commission sent there in 1913.

The associations were adversely commented on?—Yes; probably the report is in the library here. That Commission reported that while it was adaptable to Europe, where farming was more or less steady right throughout a generation, with ownership for a generation, there was nothing lost in joining such an association; but in America it was held that the frequent changes in ownership of land, such as is the case in New Zealand, would militate against anything in the form of associations.

Mr. Elliot.] That was the main objection?—Yes.

Mr. Forbes.] Your experience was that it was the outside firms?—Yes, I think they got trading with the outside firms; but the pressure did not come from the outside firms, but from the settlers themselves.

You are satisfied that the great majority of the men left on the land are triers?—Yes; you can class 80 per cent. of those now on the land as first class. There are 10 per cent. perhaps who require some nursing. Another 10 per cent. are perhaps new men.

What do the writings-off by the Revaluation Board amount to?—About £3,000,000.

Do you intend writing off much more?—Not much more. We are faced with a difficult position, and are up against all sorts of problems.

The Chairman.] With reference to the stock firms, after you have lent to the individual, what are your relations then to the stock firm. Have you had any difficulties in regard to administration between the two?—We had difficulties in the past, but we get on fairly well with them now.

You hold practically all the client's securities?—Yes, we hold all the securities. At one time it was a common thing for a stock firm to sell up the stock and fail to hand the proceeds to the Department. Some of the firms would pay this money back to the settler, and we were minus the stock and minus the cash. We had to take steps to call up the money, and some of these firms had to pay up.

So that you could distrain on the firms?—Yes.

And do you find that where you have made advances and you hold the security of the individual that the firms are still keen to get the business of the man and give him a little further credit in addition?—Yes, we have found that in some cases. I discussed that question with Mr. Machin some time since. We endeavour to work in with the firms, and where there is a sale of stock, or wool, and so on, during a time of depression we make a *pro rata* distribution of profits.

Between the Department, the client, and the firm?—Yes; in the hope that when things improve accounts will be put right.

When you state that the cost of your administration, with the necessity for a reserve, that there should be 2 per cent. to cover losses and administration, were you referring to the experiences of your Department to date, or were you looking to the future?—I had in view the experiences of the past. It may be possible to run on a little less, but I have allowed that so as to be on the safe side.

What would be your estimate now, starting out with clients with stock at a reasonable price and taking not the soldier as you had to take him, but taking a man whose security you could examine—what is your estimate as to a reserve for administration? Could it be done on 1 per cent.?—I do not think so.

Would you want additional securities beyond that?—I think so.

What authority do you give to your Commissioners: does everything have to come to Wellington for final approval?—All loans have to come here for approval.

Loans for the purchase of stock?—No; the Commissioner of Crown Lands submits a recommendation for the purchase of stock, and we leave the purchase entirely in his hands. He controls that through his field officers.

He submits to you certain securities, and he is then able to deal direct with the client?—Yes, that is so.

Have you had any difficulty in dealing quickly enough with your client in order to enable him to purchase stock?—Yes, we have had difficulty that way; but a few years ago the Hon. Mr. Guthrie gave us authority to advance up to £100 to enable a man to start right away, and that was confirmed later on in Wellington.

With the experience you have had, what authority would you suggest would be the best to give to your district Board? Suppose you had a district Board—your Commissioner, and your District Public Trustee and the valuer in the district, and, say, two farmers—what authority do you think it would be wise to give them from the Head Office so far as power to advance against chattels security?—I am of the opinion that more expeditious handling of business is desirable. If we had a Board set up, an expert local Board realizing its responsibilities to the State or to the institution lending the money, I think the Board might be entrusted with the advancing of money—say, up to 75 per cent. of stock value. But I think that, following that, there should be a report submitted to headquarters once a month as to any business transacted, with a statement of securities, values, and so on.

Where the loan was over 75 per cent., that should be submitted direct to the Head Office?—Yes.

The $\frac{1}{4}$ per cent. which you refer to as administration: were you allowing the costs of your Commissioner in connection with that?—We only charge for a very small portion of the Commissioner's time. So far we have not charged probably more than about £100 a year out of the Commissioner's salary.

That would be a fair thing for the amount of work he did?—Yes.

FRIDAY, 7TH OCTOBER, 1927.

Mr. R. S. ABRAHAM examined. (No. 6.)

The Chairman.] What is your full name, Mr. Abraham?—R. S. Abraham.

And your address?—Palmerston North.

And you are representing?—The New Zealand Stock and Station Agents' Association.

You have read the Bill, Mr. Abraham?—Yes, sir.

Will you make a statement to the Committee?—Yes, sir. I may say, before I start, that we were instructed at a general meeting of our association to attend here. A committee was appointed to attend here, but only two of us are able to be here, and I have to apologize for Sir Alexander Roberts, Mr. Stewart (of Dalgety and Co.), and Mr. Bushell (of the Farmers' Co-operative Association), who are unfortunately not able to be present. Well, sir, whilst I have to thank you on behalf of the New Zealand Stock and Station Agents' Association for being allowed to give evidence to-day, may I refer to the fact that some months ago we—that is, Sir Alexander Roberts, of Murray Roberts and Co., Ltd.; Mr. W. D. Stewart, of Dalgety and Co., Ltd.; and Mr. E. Hassall, of the New Zealand Farmers' Co-operative Distributing Co.; together with myself—waited on the Right Hon. Mr. Coates in reference to this matter, and we received from him a definite promise that we should be sent a copy of the Commission's report as soon as it was published, and, further, that we would be consulted before any Bill was brought down. That promise has not been carried out, and it appears to me that this sort of what may be looked upon as purely *ex parte* statements cannot be as effectual in arriving at a decision which is fair and reasonable to all parties concerned as a round-table conference would be.

Mr. Elliott.] How long ago was that?—About five or six months ago. May I be allowed to point out that it seems somewhat unfair that in Part III of the Bill co-operative companies only should be selected to share in any advantages which the Bill may offer in the way of cheap money, as against those concerns who years ago, before co-operative concerns were ever thought of, were the mainstay of the farmers of this country, when neither banks nor Governments assisted them, and by whose help they were gradually built up until they were able to take full advantage of the benefits derived from the freezing industry when it was instituted. During the war a careful estimate of the total advances by stock and station agents was taken out, which then amounted to £25,000,000. At the present time these advances will probably stand at £20,000,000. Is it worth while, for the sake of finding £250,000 of cheap money, to run the risk of estranging those on whom the farmers are so absolutely dependent for such an enormous sum? May I point out that though you cannot point to a single New Zealand stock and station agents' balance-sheet since 1921 that will show a reasonable return to shareholders for the money invested, yet there has been no increase made in our rates of business, nor in our rates of interest to the farmer, notwithstanding the enormous increase in costs of all sorts in running the business. Is it wise that our organization, which has endured and, I think, has been efficient over so many years, should be scrapped? As with the State advances, which, being free from income-tax, &c., were able to gradually drive the ordinary investor from the field until they are faced with demands for more than they can cope with, so will the same result happen with the intermediate credits, which will quickly produce a demand far beyond the ability of the Board to deal with. It therefore seems to us unfair, and possibly unwise, that the Government should establish a fresh trading Department which is to get money free of interest for ten years, and is further subsidized by a gift of £10,000. We are of opinion that the financing of co-operative dairy concerns all through the country is scarcely judicious, inasmuch as it will induce many of them to enter into competition with existing concerns, of whom, for competition purposes, there are already far too many, and may result in heavy losses both to themselves and the State. It is questionable whether many dairy-farmers are qualified to handle such tricky matters as chattels securities. We consider the exemptions made in clause 22 and subclause (4) of clause 37—exemption of duty and payment of fees—to be improper. Clauses 51–54: We consider that the surrender of capital to be made is injudicious, and that encouragement should be given to increase rather than reduce capital. I conclude by expressing the hope that Parliament will pause before they commit themselves to passing a measure which, whilst it cannot materially benefit the farmer, may result in adding to the burdens of those who carry the country on their backs, through taxation. I may say, sir, that any amount of facilities for legitimate trading purposes are available in the case of the present concerns which are trading throughout the country, and are made use of by any farmers showing a reasonable surplus of assets over liabilities. There is no question of a shortage of money in that way. Those concerns are quite prepared to make reasonable advances. That is mainly what I wanted to say, sir. Mr. Hassall, of the New Zealand Farmers' Distributing Co., would also like to give evidence.

The Chairman.] I would like to clear up one point. Of course, we were not aware of your interview with the Prime Minister?—No, of course not.

Now, with regard to the question of co-operative companies here in the Bill, I gather from your remarks that you are regarding them as farmers' companies trading as stock and station firms?—It reads like that.

Yes?—And as other co-operative companies, such as dairy concerns, for instance.

Well, it is not intended to apply to the ordinary farmers' co-operative trading business at all?—

Oh, I see.

That is not the intention of the Bill?—I see.

It is somewhat ambiguous?—Yes. It is stated in the interpretation that a "co-operative society means a co-operative company"; and farther on in the Bill I think it refers particularly to companies that are co-operative societies.

I think, probably, if we had Colonel Esson's views on this point it would be of advantage to the Committee. Colonel Esson was Chairman of the Commission, and I asked him to be here this morning while the Committee is sitting.

Colonel Esson : A co-operative society should be a voluntary society of farmers who are actually engaged in producing and marketing their produce. I do not think the definition is wide enough to include trading companies, which are wrongly called co-operative, because they are not wholly composed of farmers. Their shares are held by private investors, and sometimes by speculators. In this case the members of a co-operative society must be persons who are actually engaged in the industry.

Mr. H. E. Holland : Does that apply to all the farmers' co-operative associations ?

Colonel Esson : Well, certain of them would not come within that definition.

Right Hon. Sir Joseph Ward : There are a number of people who are shareholders in farmers' co-operative associations who are not on the land at all.

Colonel Esson : Yes ; that is what I am trying to make clear.

Mr. A. Hamilton : Well, how would that affect dairy companies ? There are a number of dairy companies where the shares are held by non-suppliers to the factory ?

Colonel Esson : The Board would have to discriminate between purely co-operative and proprietary concerns.

The Chairman (to witness).] The feeling right round the table is that trading should be excluded ?—That is mainly our feeling on the matter. You must admit that farmers are not the best men of business in the world, and we feel that it would be a very dangerous thing.

It is not the intention of the Bill to grant money for trading ?—Oh, well, that is quite satisfactory.

Then there is another point you mentioned, Mr. Abraham. You are satisfied that there is sufficient money in New Zealand for all legitimate trading purposes ?—Yes, all legitimate trading purposes. Of course, all concerns necessarily have been compelled to assume a stricter system of making advances than was in practice at the time of the boom. That resulted in very heavy losses for every one of us. Only this morning I received some returns which rather made my hair stand on end at the amount of the losses made ; and I think I may say that every concern, either co-operative or mercantile, is in the same position, and has made very heavy losses. But still, notwithstanding that, the money for legitimate trading is there.

What is your experience as to the rates the farmer is paying for his money in the North Island ?—Well, take my own firm's rates : If he is an ordinary dairy-farmer we charge him 8 per cent. He is looked upon as rather a heavier risk than a sheep-farmer. A sheep-farmer is charged from 7 to 8 per cent., according to the state of the bank rate. We generally charge 1 per cent. over the bank rate. If a man has undoubted security he can come in and make special arrangements.

By this Bill we are trying to help the man who is borrowing, say, £1,000 : would there be any of those paying under 8 per cent. to-day ?—Oh, well, there may be, where a man has undoubted security. You see, the bank rate is 7 per cent. to firms like ourselves, and we like to get 1 per cent. over the bank rate. That is practically all we have had to live on lately. There has been no money in trading at all.

What does the 1 per cent. actually cover : does it cover taxation and bad debts ?—No, nor anything near it. It will not cover taxation at the present rate of taxation—4s. 6d. in the pound.

Do you consider that 1 per cent. pays ?—We do not look at it in that light. One per cent. can be taken as the general average. That 1 per cent. is set aside to cover certain expenses.

I just wanted to get your opinion as to what that 1 per cent. would cover ?—It does not cover anything in particular ; it simply goes towards a portion of our general working-expenses.

You do not keep that separate ?—No. We get out profits from commissions and from trading profits ; but the result of the trading has not been very satisfactory for a few years past.

You say in your statement, " Is it worth while, for the sake of finding £250,000 of cheap money, to run the risk of estranging those on whom the farmers are so absolutely dependent ? " and so on. I may say that the £250,000 is there in the Bill as a Government loan, but far beyond that there will be bonds issued ?—Of course. That remark was made under the impression that the Board would create a large number of new institutions for trading, which would come into competition with firms such as ours.

Oh, I see. I do not think that is the intention of the Bill ?—No. I am very much reassured.

Has your organization considered the question of the groups of farmers as set out in the Bill ?—No, we did not go into that very much, because we doubt very much whether you are going to get groups of farmers who will be prepared to pledge all their securities for the benefit of several of them or any one of them. That would be very difficult, I think. Take any district you like in New Zealand ; you will get a proportion, say, of about five farmers out of twenty who are fairly financial ; but the rest are not financial, and are not in a position to do anything. But they are carrying on. We, for instance, have been carrying on many farmers who we know should walk off their farms. Those men are not going to carry through unless produce takes a big jump, and we do not anticipate that. We look rather for a drop, if anything. So that I think you will find that part of the Bill very difficult indeed to work.

There is nothing that the stock and station agents could take exception to in that part of the Bill ? No, as long as they are not given any facilities for trading. That, we think, would be very dangerous, in their own interests and the interests of the State, quite apart from our own interests.

In connection with your opening remarks, you will see that, so far as the Prime Minister is concerned, you were not consulted because there is no intention of including trading in the Bill at all ?—Yes, I quite see that now ; and no doubt he is a very busy man. I mentioned it because I think it is a very important point that Ministers should consider and take into their confidence people who are interested in the particular matter which is being dealt with, especially under the present condition of affairs. I am sure it would be found helpful rather than the reverse.

We recognize that. We have called witnesses from the South Island, and we also have your evidence ?—But I may say that coming before a Committee like this and giving evidence may be looked upon as somewhat *ex parte*, whereas at a round-table conference beforehand we can argue matters out.

Mr. H. E. Holland.] You say, Mr Abraham, that there is sufficient money in the country at present for this purpose?—For immediate purposes, yes.

If there is sufficient credit in the country, what was at the back of the increase in the rate of interest by the banks?—The banks were in the position, I think, of having their deposits going away, and to stop that they were compelled either to reduce their deposits or to increase the rates.

But that means that there is sufficient credit in the country?—I do not think so. It means that more is being spent; it is not being saved. I have not come across a case where, if the securities were available, a man would be turned down either by the banks or the existing financial concerns.

As a rule, prices do not go up if there is an abundance of a particular commodity?—No; I agree with that. Still, the position of concerns right throughout the country is better than it has been for some time. In the case of my own concern, we have been surprised at the amount of money which has come in and which is now available to go out on satisfactory security. You can understand that a concern like ours, that is dependent on money in the country, has to pay a higher rate than concerns which can borrow at Home in a larger way. But we have to cut our coat according to our means.

Then, if credit is plentiful, there is not much reason why the rate of interest should be so high?—It is because the securities are not sufficient. The money is there, but the security is not. The average farmer right throughout the North Island, at all events, we must admit, has given a great deal more for his land than it is worth. That is where the trouble is.

In the central principle of this Bill the idea is to form groups consisting of not less than twenty-five, with a minimum share liability of £25 and a 10-per-cent. share liability of the amount which it is desired to borrow. The security will be the chattels of the individual borrower, plus the share capital. Do you think that that security will make money more easily available?—I take it that the idea of this rural assistance is that the stronger man should help the weaker.

No; there is no joint-and-several?—Well, all I say is that the individual farmer after forming these associations will be in no better position than he is now, except that he may get the advantage of a cheaper rate. He can get what money he wants now. Take a man who has given too much for his land: he has a certain amount of chattels; if he has very heavy mortgages on his land it is reasonable to suppose that he could not get 80 per cent. on his chattels. Another man, who has given a reasonable price for his land, can get the 80 per cent. on his chattels, because he is in a better position. In the old days we never thought of securities, because the land was rising in value, and we always felt the security was there, provided the farmer was a decent man. It is only of late years that the price of land has grown so, and we are compelled to take securities, and we have to look on them with caution where the mortgages on the land are heavy, and so must the Board. The Board will be in no better position than we are; they must use discretion in making advances unless they are prepared to lose money. We are really in a better position than the Board would be, because we have men who have been with us for years who know the value of land and stock, and when we make advances they look at the place and at the stock and say, "The land is worth so-much and the stock so-much, and he has a margin of so-much over his liabilities."

Will this legislation, do you think, give the borrower any greater freedom in the way of handling his own affairs than he has now? For instance, we all know that a stockowner over whose stock there is a bill of sale has no freedom as to where he will sell; he is told he has to sell to a certain firm. Sometimes the mercantile house will demand a commission from the firm to which the stuff is being sold. Would not this legislation place the stockowner in a better position than he is under the existing system?—I do not think so. He can go to any firm. After all, any man in a good position can go to another firm.

Under existing conditions?—Yes, under present conditions.

Suppose a mercantile house held a bill of sale over the stock of a farmer, and that mercantile house directed the farmer that he must not sell his stock to certain freezing-works because that freezing-works would not give the mercantile house a commission on the sale of the stock—he has not much freedom under those conditions?—No.

Will he have a greater degree of freedom under this scheme?—I do not think so, because the competition is so keen that it keeps all unfair methods down. It is always the object of a firm like my own to treat the farmer fairly and squarely. I do not think the farmer will be any better off, except that he will be in a position to get money cheaper.

You will agree that a saving of $\frac{1}{2}$ per cent. or 1 per cent. would mean an enormous thing to the farmer if it became a general thing?—Supposing you are a farmer and you want to exceed the margin which a certain firm has given you by several hundred pounds: is the Board going to give the farmer the same facilities that we do? We recognize that at certain times he must have more money, and we often make heavy advances until his produce—his wool, and so on—starts to come in; and in many cases they go over the amount they should get, because we depend on them reducing those amounts when the produce is sold. Is there going to be that same free spirit of dealing between the Board and the farmer as there is at present between the sound client and the reasonable merchant?—I question very much whether the saving in interest is going to pay in the long-run. The farmer will find himself tied up and not so free as he is to-day, although at present he may be bound to sell his stock through one particular firm.

You say that 1 per cent. does not meet taxation and expenses?—No.

How do firms carry on in that case?—On the profits they make on trading. The trouble at present is that the stock business is not returning any profit. I used to declare a dividend of 8 per cent. to my shareholders; we are reduced to 5 per cent. now, because we get no profits from the stock business. The introduction of freezing has made all the difference. All the lambs go to the freezing-works now, and, with the increasing costs, naturally we cannot look for the profits we used to make.

When you stated that you doubted very much whether groups of farmers would pledge all their assets, you thought it was a joint-and-several concern?—Yes.

Mr. A. Hamilton.] You started off by appearing to have a bit of a grievance. I presume you knew there was a Rural Credits Commission Report published about a year ago?—It did not come before me.

It was published about June, 1926?—As far as I can recollect, the date of our meeting with Mr. Coates was just before that report came out.

I thought you stated that you met Mr. Coates about three or four months ago?—No; seven or eight months ago.

You thought it would be better to have a round-the-table conference: that is what we are having now?—Yes. Of course, I suppose this Bill will go through mainly on the lines on which it is drawn up.

Not necessarily. That 1 per cent. you were speaking of—you do not look to make any profit out of that; that is all gone in expenses?—Yes. I think a little too much is being made of this 1 per cent.

What I want to get at is this: you do not lend money for the sake of getting that 1 per cent.; you would prefer not to lend the money—it is the business you want?—Yes.

And you really lend the money to help the client that you want to trade with?—Yes.

Supposing this Board takes the place that you have, you would have no objection?—None at all. The objection lay in the fact that we thought you were going to create a lot of semi-financial concerns who would be able to trade cheaper than we can.

Would it not assist the mercantile people if this Bill provides money for the farmer at a cheaper rate than you can now find it—would it not assist you as well as the farmers?—I do not think it would do us any harm, providing you were not getting a number of other concerns to come into competition with us.

If that is not contemplated, you would withdraw any objection to the Bill?—I would not say that I think the Bill as drawn up is sound; but that has nothing to do with us.

If we are going to carry on on the lines that you are now running, it will help you?—Yes. We are quite willing to have someone else find the money, and we think the State has a duty to the farmer.

You say there is plenty of money available for farmers to-day. Suppose a farmer came to you and said he had bought a farm and he had £200 or £300 left—he wants to buy £1,000 worth of stock; how would you treat him?—We would take him on if we were satisfied with his standing; that he was hardworking and industrious, and that he had given a reasonable price for his land, and had not too heavy a mortgage to carry. I do not think there would be any difficulty.

Do not you think he could buy land to-day worth its value?—Yes; there is a certain amount of land worth its value still to be had, but it is not very easy to get. Very few transactions are going through. There is a certain amount available which is worth the money, but the trouble now is stock.

What is wrong with it?—It is too dear.

What stock?—I do not care what you take. Look at the price of sheep. We do not know what lambs are going to realize on the London market. Take hoggets: you pay £1 12s. or £1 14s. for them; it is too high.

Do you prefer stock securities to land?—Yes; we know the land securities are uncertain. We prefer stock because we can deal with it readily.

Do you think it is safe to lend money on stock security?—Presuming it is done with care. To lend 80 per cent. on stock is risky.

You have lent that?—Yes, and lost our money.

From your point of view, lending on stock is much safer than lending on land?—Yes; also it keeps us in touch with the particular stock. We have the first go at them, and we get commission on the sale. Our business is not lending money on land which is locked up; our aim is to find intermediate credits. Under the Manchester Corporation, which was established forty-five years ago, people took up land at £3 per acre. They did not pay anything down, but they had to make certain improvements. They made these improvements, and in many cases they exhausted the whole of their capital and had nothing left for stock. That really created the stock agent.

Do not you think that this Bill is going to provide that very thing?—Yes, it may if it is worked and the money is available.

You would have no objection to it finding the money?—Not the slightest. If it is going to take the question of finding the money out of our hands we will be in a better position to deal with the farmer than we are now. It is the risk that has caused the high rates.

Would you be prepared to assist in a certain degree if we find cheap money for the farmer without doing any harm to your trading?—Yes; but you must remember that you are going to put the price of everything up if you find cheap money for the farmer.

Is it right that a man should have his land forced down in value because of dear money?—Well, if money is dear you have to buy your land accordingly. If money is dear, it follows that land must come down.

Do not you think it would be a wise policy to make cheaper money available to them?—Yes, I suppose it would. As long as the thing is run on business lines, by all means give them cheap money if you can.

Mr. Elliott.] You say money is limited owing to the position of the mortgages: most of your clients have what is known as a short-dated mortgage?—Yes, most of them.

If the farmer's mortgage is held under a long term, would you grant more liberal terms?—All the difference in the world. That is the one point I agree with.

When you speak of the prices of stock being too high, you refer to store stock?—Yes.

And the amount of advance you make to the farmers—the personal element comes into it?—Yes, of course.

This Bill provides for a limit of £1,000 : if that limit was increased to £1,500 would the value of the scheme be increased ? Take your own firm : is the number of advances of £1,000 greater than those between £1,000 and £1,500 ?—Well, the advances to dairy-farmers do not generally run to £1,000 ; the sheep people take bigger money.

You think the limit of £1,000 is sufficient ?—I think so.

Mr. Forbes.] Do you prefer doing business with the sheep-farmer or with the dairy-farmer ?—I think the sheep-man is preferable, as a rule.

The man you would have the most difficulty with is the dairy-farmer ?—Yes.

There is not the same profit ?—There is not the same turnover.

Have the dairy companies got into your business at all ?—Yes, a good deal.

Are they sound concerns ?—Many of them are quite sound. There is no reason why they should not be if they handle their affairs prudently. Where they get into trouble is in making advances to the farmers.

Have any of them come to grief ?—I have noticed one or two mentioned as going into liquidation.

But as a whole they are fairly sound ?—Yes.

They do a good deal of financing of the dairy-farmers ?—Some of them do. The group concerns do a large amount of business.

Where do they get their money ?—From the shareholders.

They have been of assistance to the dairy-farmers ?—Yes.

Those concerns that have devoted themselves to dairy-farm work ?—Yes.

Do you think this Bill is going to be of any assistance to these people ?—I am not objecting to the Bill at all, provided it is run on business lines. I think that 80 per cent. is rather a heavy margin on chattel security for people living on high-priced land.

Do you think there is plenty of finance available ?—Yes, for all ordinary purposes. You see, so many of the dairy-farmers are at present financed by the dairy companies. The biggest dairy-farmer we deal with comes along and wants an advance against his milk cheque. That is the sort of advance we generally go in for. The only security we take is the order on the dairy factory for his milk cheque, which is paid to us at the end of each month and gradually reduces his account.

Do you think the dairy-farmers are improving their position ?—I think they are.

Have many of them gone off high-priced land ?—Yes, a good many.

It is getting on a better footing ?—Yes.

New men are coming in at a more moderate rate ?—Yes. In the Commission that was sent round to look into values and to recommend reductions, they have only been able to advocate reductions in rents. Well, that is no good to the man who is under the State Advances, because they cannot reduce his interest. The allowances which have been made in the way of rents are no good to him, and in many cases he has had to walk off.

Does your firm do much business in that deteriorated land ?—Yes ; we have heavy business there, I am sorry to say.

I take it that the average farmer owes his present position to having bought land at too high a price ?—Yes.

Then, whatever the bank rate may be, the margin is not sufficient to warrant further advances ?—That is so.

And that, side by side with any financial scheme, we would have to have some means of lowering the land-values ?—Well, you have to get down to bed-rock and get to the real value of the land.

Your firm is not in business as a money-lending concern : You do not care who lends the money so long as they do not interfere with your trade ?—No, not a bit.

Right Hon. Mr. Coates.] Do you remember the date of the interview with me ?—I could not remember it, Sir.

Have you seen a copy of the Rural Credits Report ?—I have a copy now.

Well, it has been available for twelve months, and I regret if a copy was not sent to you. As a matter of fact, it went through the Press. The remarks I made were intended to come to your notice, and we hoped that they would induce a little more consultation with the people engaged in certain industries before the Bill came in. Are you aware that I discussed the proposals of the Bill with the members of the delegation that saw me ?—No, I did not know that. Personally, as chairman of the concern, I have never been asked.

Nevertheless, it is a fact that the question of intermediate credits has been discussed with separate firms. I regret that you had not the opportunity of seeing the Bill. It has only been drafted about six weeks ?—Of course, the impression that we had has been removed by what the Chairman has told us. Now we can look at the thing from a different angle altogether.

You realize that, after all, this is a combination of the settler, the stock and station agent, the bank, and the central organization to endeavour to find money at a less rate than you can get it ?—Yes. I think you will find that the existing concerns would be only too pleased to fall in with your views and help as far as possible.

And the impression conveyed to the delegation that waited upon me—if I remember aright, I pointed out that the efforts would be in the direction of co-operating all means of assistance to help the vital industries ?—Yes, you did.

The Chairman.] Suppose this scheme was in operation, the Board would be in a position to find a farmer money, say, at $6\frac{1}{2}$ per cent. up to £1,000, and would accept securities for that amount. The Board would be working with firms like you own. Would your people be prepared to stand a part of the guarantee—say, 20 per cent. of it—when you have his trading account in order that he might get $6\frac{1}{2}$ -per-cent. money as against the present rate ?—That is a point we have not considered, and I would not like to say definitely. My own feeling is, yes, presuming we had a say in the question of the

amount to be advanced. If we were satisfied with the security as compared to the amount of the advance, I do not see why we should not. We are debarred from effecting guarantees at present; but, of course, that could be remedied.

You say some of the farmers are paying 9 and 10 per cent., and that is a rate we all know a man cannot carry. That is the one point we have to consider. You think that your firm would be prepared to guarantee 20 per cent. of the loan?—Presuming our shareholders would release us from our understanding. At present we are debarred from guaranteeing, as it was thought to be a dangerous policy.

Mr. A. Hamilton: I presume that a clause could be put into this Bill permitting any company to sign a guarantee notwithstanding what is in their articles.

The Chairman: Yes.

Witness: I should think there would be no difficulty in cases where that sort of thing appears in the articles. It could be arranged with the shareholders.

Mr. A. Hamilton: You would have to get a resolution passed by your shareholders.

Right Hon. Mr. Coates: I take it that Mr. Abraham agrees with any well-thought-out scheme that would give intermediate credit to the farmer at an interest rate less than he is paying now?—Yes, I think that would be helpful.

I have been told by stock and station people that such a proposal would be an imposition if they were finding 20 per cent. of the advance?—As far as my company is concerned, we would be pleased to see you come in. It would not alter our position with our clients, and it would relieve us of 80 per cent. of our liability. We do not make anything out of our advances directly, because we have to pay the bank. Frequently when I first started in business and was hampered for funds I made offers to financial people to come in and help me on the understanding that they were to get a proportion of what I was earning. I have always recognized that it would pay me to allow a man who is financing my client a proportion of my earnings rather than carrying the load myself.

Would you retain the supervision which you now keep on the money advanced?—I take it that a State office would be only too pleased to make use of our knowledge; they would be governed by us to some extent. I think it would be wise to do that. We are in a better position to do it than you.

My point is, would the supervision be effective, seeing that your responsibility may be reduced to 20 per cent.?—You mean, would we take bigger risks?

Yes, in one way; perhaps in not watching that a man looked after his stock?—We would do our best. We take many positions of trust in that way. I do not know whether it would be an absolutely sound principle to establish.

My point is, it has been stated that if you relieve the stock and station agent of his total responsibility in regard to the amount he has advanced, that he would then not take the same interest in either that farmer or his account?—I do not agree with that. Our interest is in the business we can get from the farmer, not in the amount we have advanced.

Letter from Mr. R. S. Abraham to Rural Intermediate Credit Bill Committee.

The New Zealand Live-stock Auctioneers' and Agents' Association,
Palmerston North, 11th October, 1927.

G. C. Black, Esq., Clerk, Rural Intermediate Credit Bill Committee, House of Representatives, Wellington.

DEAR SIR,—

I have the honour to return the copy of evidence submitted to the Committee, to which I have to make an alteration to the statement made on page A 2 (page 35 in text) in regard to a promise made by Mr. Coates. I regret that owing to my absence from town, I was unable to return the copy of evidence sooner.

In regard to the alleged promise by the Right Hon. Mr. Coates, I find that I was mistaken in saying that the copy of Commission's report had not been sent to me. This was duly received.

In regard to the statement that we were to be consulted before a Bill was brought down, the actual words used by Mr. Coates were: "He would be very glad indeed to have the association's opinions upon any suggested legislation in this connection, and opportunity would be given of giving evidence before any Committee set up. The same thing might apply to the proposals of the Bank of New Zealand. At the moment the Government had not made any commitment in that connection, but he expected that a Bill would be forthcoming, and, if the association so wished, the contents of that Bill would be at their disposal."

The date of the deputation to Mr. Coates was the 28th July, 1926.

Yours faithfully,

R. S. ABRAHAM, Chairman.

Mr. ERNEST HASSALL examined. (No. 7.)

The Chairman: Your name?—Ernest Hassall.

Who do you represent?—The New Zealand Live-stock Association and the New Zealand Farmers' Co-operative Distributing Company, Limited.

You have seen the Bill, and you desire to make some comments?—I am in full sympathy with the Rural Credits Bill, but I think it would be unwise to give trading-powers to rural intermediate credit associations. When a deputation representing the farmers' co-operative trading associations interviewed the Hon. Mr. Stewart and Colonel Esson we were told it was not the intention of the Commission that trading facilities should be provided for these intermediate associations, yet we knew that many farmers thought that such was the intention, and from our reading of the report it was thought that such interpretation might reasonably be placed upon it. We realized that the Bill might be amended in Parliament and pressure might be brought to bear in a direction which we thought unwise. Full facilities for co-operative trading are already provided by the existing farmers' co-operative trading associations with their branches and agencies throughout the Dominion. I have here a copy of a map prepared by the Farmers' Co-operative Wholesale Federation which shows where the branches of their various affiliated associations are spread throughout the Dominion. In addition to

the affiliated associations, there are the North Otago Farmers, the Farmers' Union Trading Company, and the Wairarapa Farmers' Co-operative Association, with numerous branches and agencies. I believe it has been suggested that the Government should make advances to dairy companies under the proposed Act for purpose of buying stock, fertilizers, seeds, machinery, &c., for their suppliers. If this were agreed to, it would encourage dairy companies, despite the fact that some of them have made trading losses in the past, to extend their trading operations, instead of attending strictly to their legitimate business of manufacturing. They already have the advantage of being exempted from income-tax, and should not be given Government assistance in their trading operations. I understand that they are not free from income-tax on their trading operations, but I think the Income-tax Department must have much difficulty in separating their trading operations from their manufacturing ones. I suggest that, if assistance of the kind is to be given, it should be made under the supervision of the Advances to Settlers Office, or of a special Farm Board, through the existing farmers' co-operative and stock-agency firms, who already have the necessary machinery and organization for supervising and making valuations, and that dairy companies and firms who arrange such advances should be asked to accept a proportion of the risk involved. There is a danger of auctioneers, merchants, and storekeepers making losses for present indebtedness if the securities are given to the Board and the cream cheques are mortgaged. Quite a lot of money is owing at present to merchants, storekeepers, and others; and if the farmers are permitted to give their securities to the proposed Board, and to mortgage their cream cheques, without settling their old accounts, then trouble will undoubtedly result. The capital invested in the existing farmers' co-operative trading companies in shares, debentures, bonds, and deposits is approximately £7,757,018, and many of them have made heavy losses in financing struggling farmers and trying to keep them on the land. In proof of that, I have had prepared a table made up from the balance-sheets issued, up to June of this year, and this table shows that the capital that had been invested in the existing associations was—Subscribed capital, £5,136,565; bonds and debentures, £1,006,381; and deposits, £1,614,072; making a total of £7,757,018. In the good times prior to 1920 co-operative associations had given large returns to their farmer shareholders. For example, the two Canterbury associations, with headquarters at Christchurch and Timaru, had paid out £758,000 and £488,000 respectively. And I say that no action should be taken that would further imperil these investments by encouraging a number of weak associations to set up and usurp their functions. The trading facilities provided were—Investments in properties, £1,752,411; plant, £233,573; stocks of merchandise, £1,544,692; and advances and sundry debtors, £3,844,465: making a total of £7,375,141. This shows that the financial assistance that has been given to the farmers by these associations amounts to nearly £4,000,000. A portion of it is ordinary monthly trading accounts, but the bulk of that money represents the assistance that is now being given by those farmers' co-operative trading associations. I call them "trading associations" as distinct from dairy companies and others. (See Table in Appendix at page 57.) I have also a statement here from Mr. A. C. Bushell, of the Farmers' Auctioneering Co., a very large concern in the Waikato, and according to this tabulated statement they have extended credit amounting to £377,489 to their clients. He is unable to attend personally, because his annual meeting is being held to-day, but he has sent me a telegraphic message, which I received this morning, and which reads as follows:—

"Rural credits well-meant attempt assist needy farmer. Doubtful if much success will attend scheme. Experience institutions such as ours in supporting needy farmers has not been happy one. Governments proposal lend quarter million free interest ten years at expense other financial institutions who are assisting farmer and paying heavy income and land tax might well be employed other ways farmers' benefit. Instance making mortgages on farm lands more popular by reducing income-tax these investments. Scheme may benefit lucky few, but will not solve problem farmers' finance. Advancing money to buy cows will not increase number milked or their production; simply help transfer from one farmer to another at more or less inflated values. Advances manures, seeds will help large number, but if farmer has any security at all to offer he can get accommodation now. Are Government prepared advance without security and without reference to any equity? Experience past money easy terms low rates inflates values. Co-operative associations stock and station agents have plenty money available for financing farmers provided reasonable security for individual advances can be seen. Were we to handle Government moneys we should want take same reasonable precautions. Government no right take greater risk than we ourselves. Proposal finance dairy companies' trading schemes savours class legislation. Associations and companies present existent able give necessary service at reasonable cost. Present means of living, which are already at low ebb, would be still further reduced. Large joint capital invested in finance to farmer. Might be necessary recall this in order recover capital. Loss to Government in income-tax considerable. Since 1917 inclusive, we have paid income-tax, £94,727; land-tax, £10,680. Sorry cannot attend. Trust few points mentioned may be helpful to you."

That is expressing Mr. Bushell's personal views. Now, there was a point I noted in the discussion with Mr. Abraham which I may as well mention, and that is in connection with the rate of interest. I think the idea that the rate of interest is responsible for the difficulties of the farmers is somewhat overstressed. As a matter of fact, if you take the average dairy-farmer, and assume that he has an advance of £1,000, and he saves 1 per cent. on that, that amounts to only £10; and then say he has a mortgage of £2,000—those are fairly average figures—he would save another £20. Now, £30 is not going to push him under or lift him up. That is only one of many incidental reasons for his difficulties. Another point is the question of the profit being made by companies on their interest bill. Take my own company, for example: We have to pay our bank 7 per cent. interest on our overdraft. We previously paid 6½ per cent., and when we were charging 8 per cent. on our advances we were making

a nominal paper profit of $1\frac{1}{2}$ per cent. We recognized that that $1\frac{1}{2}$ per cent. did not pay us, but we felt that 8 per cent. was as much as the farmer could afford to pay, and when this rise took place we did not increase our rate; and I think that that also applied to the majority of the stock and station agents and the co-operative associations. I believe that very few of them have increased their rates on advance accounts. They felt that they did not want to pass it on. The question of interest on these advances is not really the most important matter, as I said before. The rate of interest on the larger mortgage is, of course, an important matter, and that is where the advantage of the long-term mortgage credits comes in. I may say that what affects the farmer very greatly is the repetition of legal expenses when rearranging his mortgages; and that, of course, you have also corrected in your long-term rural credits. I also have a letter from Mr. Frank Bushell, who is in Southland. He is the general manager of the Farmers' Co-operative Wholesale Federation (N.Z.), Limited. His letter deals mainly with the viewpoint that trading should not be allowed under the Bill. Now, dealing with the Bill itself, we are, of course, naturally most anxious that our clients should have all the assistance that they possibly can get; but it seems to me that there is some danger with the intermediate credit associations in the small capital which they have to provide. At the end of twelve months an association of twenty members would have only £100 of their own, and yet they could borrow a very large sum of money from the Government. Of course, there is the security behind it; but as Mr. Abraham has said, it is very questionable whether 80 per cent. would be a safe thing to advance on stock at present prices. On last year's values it certainly would not be.

Mr. Walter.] What objection have you to the dairy companies trading: is it just because it is unfair to your business?—Yes; because they are only duplicating the co-operative facilities we have provided.

But apparently they have always done good business for the farmers: they have cheapened the cost of manure, for instance, and other things that are required in big lines by the settlers?—I do not think they should be assisted by means of Government loans.

You think they should not be assisted by the use of cheap money?—No; and also by exemption from income-tax. It is difficult to separate their trading operations from their manufacturing operations. That is a very difficult thing indeed.

But they are certainly helping the settlers considerably. They have reduced the prices on fencing-wire and manures, I believe, as much as £1 a ton?—I question that. Certainly in my district the dairy companies are not supplying at £1 a ton under the merchants' prices.

You also say that the little help we could give in the matter of interest would not benefit the farmers very much. Why, then, has there been such an outcry when the banks have only advanced their rate $\frac{1}{2}$ per cent.?—If we can reduce the rate, say, by $1\frac{1}{2}$ per cent., would it not be an advantage?—Well, I would be very glad to see you reduce the rate of interest to farmers; but we think that the question of interest is being overstressed.

But it was overstressed considerably, and there was a big outcry when the bank rate was raised $\frac{1}{2}$ per cent.?—Well, the complaint against the bankers, I think, was largely caused because they were making large profits, and it was consequently thought that there was no justification for raising their rate of interest.

What percentage of security do you think would be safe in connection with these proposed advances on stock and chattels?—Sixty per cent. on present-day values. Of course, the difficulty the stock and station agents have had to face in that connection is that after they have advanced to the farmer say 60 per cent. they have found that he was behind with the mortgage interest, or something of that kind; and then he has come along for further assistance, and, of course, they being anxious to help him, and to try to put him on his feet they have let him have further assistance; and then he may have got further and further into difficulties. You may make a hard-and-fast margin, and say "That is all we are going to lend," but in practice you will find that in some cases you will have to lend a great deal more.

Do you think there are many farmers in your district who, having paid too much for their land, have by good farming brought up the value, although not sufficiently to reap the benefit of the State advances?—Certain of them have; but, in regard to those who bought in the boom time, I am afraid some of them will never overtake the deficiency unless reductions are made by the vendors or mortgagees.

Would not this scheme help them: by lending them money on their stock and chattels would it not help them to get the balance of their mortgage-money paid off?—I do not think the amount contemplated is large enough to help such a man very much.

There are several in my district who have not got the security to get the benefit of the State advances, and if they have to get a second mortgage they will have to pay 8 or 10 per cent. Would not this scheme help them to get a sufficient margin so that they can benefit by the cheap money from the State Advances?—I do not think the limit proposed is large enough to do that. If it was £1,500 it might be more effective.

Instead of having to borrow on second mortgage, they could borrow on their stock and chattels?—Yes.

Mr. A. Hamilton.] You are representing the co-operative association, and you are affiliated with the proprietary one as well?—Yes, the Stock Auctioneers' Association.

You are here pretty well as a member of the Mercantile Stockowners' Association?—Of the Auctioneers' Association, yes.

You are pretty well in agreement with what Mr. Abraham has said?—Yes.

You have no objection to dairy companies trading, provided they find their own money?—None at all.

Providing they stand on the same basis as others who are trading?—Yes, and pay income-tax on their trading operations.

There is no feeling between your company and the dairy companies?—Not in the least. We are quite on friendly terms with them—in fact, we supply some of them.

Do you think that the work of the co-operative associations has been an honest attempt to foster co-operation amongst farmers?—Yes, I certainly do.

What do you think has been the experience of such associations generally?—They have been over-generous, and too anxious to give assistance to farmers in trouble; and, further, during prosperous times, when they were making profits, they were giving too much back again in the form of rebates, and so on, while the proprietary companies were quietly building up substantial reserves.

You think that the co-operative concerns have not built themselves up as the proprietary concerns have done?—No, because of the obligation they felt they were under to return rebates. You see, during the good times they were giving in some instances as much as 25 per cent. of their commissions back again; and they were paying 5 and 6 per cent., and in some years, I believe, as high as 7½ per cent., rebates on purchases.

There is no antagonism between the co-operative concerns and the proprietary (auctioneering firms)?—No. They are working along very well together. I may say that if anything is done unfairly by any agent to any farmer it is usually put right. In my own company the men are told not to take any unfair action. Generally the desire seems to be to give the farmers all the assistance they can reasonably expect.

You have no objection to the Bill providing money for the farmers?—No. I would be very glad if the Government or the Board would provide a considerable proportion of the money we are finding at present.

Where do you get the most of your money from?—Well, about half of the money we are providing, roughly speaking, comes from the bank, and the other half is part of our own capital.

You would be pleased to get a lot of your money back that you have now invested with the farmers?—Yes, so long as we are able to retain the business.

Regarding the question of a guarantee, as suggested when Mr. Abraham was giving his evidence, would you be prepared to give the Board such a guarantee and attend to the supervision?—That, of course, would have to be submitted to my board for approval. But I may say that personally I think the suggestion is a good one.

You have no objection to the Bill if the trading element is left out?—No; I would welcome it.

And you have no objection to the trading element being in it, providing it is carried on on the same terms as other trading firms?—No.

Mr. Forbes.] Do you think there is any chance of getting a group of, say, twenty farmers to pool their securities?—No; I am sure you would not get twenty farmers anywhere in New Zealand to pool their securities.

It is stated in the Bill that “Any twenty or more persons engaged in farming operations may by subscribing their names to a memorandum of association in the form in the Schedule hereto, and otherwise complying with the requirements of the Companies Act, 1908, as modified by this Act, in respect of registration, form an incorporated company with limited liability, under the name of ‘The [*Distinctive name of association*] Co-operative Rural Intermediate Credit Association’”?—I do not think there will be many associations formed.

Do you think that proposal a good one?—No; I think the other proposal—individual borrowing—is a much better thing than to form a group association.

But if a number of your clients required financing could not your company get them to form an association under this Bill, and so get some relief in connection with advances?—We might, but there is certain machinery proposed in regard to the various Supervisors and committees which would make it a bit irksome. If it could be arranged through some central office, I think that we and other firms by guarantee and supervision could do the work more effectively.

You think this would bring about duplication of supervision?—Yes. You should try to save any additional expense. The men who make our valuations are visiting these farms periodically in the course of their ordinary work. If you have these District Supervisors, and so on, they will have to travel about and visit these farms, and also attend at the Office and at the other committees, and so on. I prefer the scheme of the individual borrowing direct from the Board.

Mr. Forbes.] You have not studied it from that point of view?—No.

But if you had the supervising you think a good deal of expense could be cut out?—Yes, I think so.

Mr. Reid.] You think there are a fair number of farmers whom this Bill will not serve?—There is a very large number. I do not think you can legislate to help all those who are in difficulties.

The Chairman.] You have mentioned taxation: we have been trying to get at an estimate of what the taxation would be on the 1 per cent.?—We have never gone into that. In fact, if we had not capital of our own invested in the business we could not continue to lend money on the 1 per cent. margin. It would not pay our office expenses.

You have to get interest on your own money as well as on borrowed money?—Yes, exactly.

Mr. M. MYERS, K.C., examined. (No. 8.)

The Chairman: You have taken considerable interest in this Bill, Mr. Myers; we would like to hear your statement.

Mr. Myers: In doing so may I refer to this memorandum, copy of which I received from you this morning, containing Part II (a) of the Bill.

The Chairman: The memorandum referred to contains the alternative proposals that were put before us the other day, and which the Law Draftsman has just finished and which Mr. Myers has just had placed in his hands.

Mr. Myers : First of all, I do not profess to be a business man. I have, of course, had a good deal to do with business men, and any knowledge I have of business has been derived in that way. Nor, as you know, do I now practise as a solicitor, and therefore my association with business men is not so close as it used to be ; but possibly for that reason I may be regarded as more independent in any views which I may express. In the first place, so far as the Bill itself is concerned, I propose to restrict myself to Part II of it. While it may be all very well to have on the statute-book powers such as are contained in Part II, my own personal opinion is that Part II will never be of very much use, and I should think it is not likely to be of as much benefit as one would like to see, having regard to the existing conditions which have given rise to the necessity for something being done to help the farming industry. My own opinion is that the scheme contained in Part II (A)—I am referring to this typewritten memorandum—is likely to be very much more satisfactory. I do not believe you would get farmers to combine in the somewhat cumbersome way contemplated in Part II. The scheme in Part II (A) is different altogether. It enables a person to deal directly with the Council or Board, as the case may be, and it possesses many advantages which I think would commend themselves to the individual farmer. More than that, I think the scheme as contained in this typewritten part of the Bill is sound from the point of view of the probable investor. I do not care what any one says about chattel securities, there is always some risk in lending on chattel security. There must be, in the very nature of things ; and it would be difficult, I think, to induce the public to advance money, repayment of which is not guaranteed by the State, for the purpose of being lent out to individual farmers by a Board such as is contemplated in this Bill. The position is, however, different if, as I understand, the Bill provides (I am speaking now of the new part of it) that a portion of each advance—20 per cent., or whatever it may be—is guaranteed by a third party. That very guarantee affords a great measure of security to the investors who are asked to invest their money in debentures under this Bill ; and if, in addition to that, there is a substantial amount of money found in the first instance by the State which remains a debt by the Council to the State, and over which the debenture-holders would have priority, it does seem to me that the security that would be given to investors under the Bill would be an exceedingly good one, and would attract money for the assistance of the farmers. I know of no other way in which, under existing conditions, the money of the ordinary investor, the ordinary member of the public, could be attracted for the assistance of the primary industries. I do not know that I can say more than that, but I shall be glad if I can assist the Committee by answering any questions.

Right Hon. Sir Joseph Ward.] If there is no margin in the land, Mr. Myers, and the amount advanced by a co-operative association was in excess of the value of £1,000, and a man wanted £1,000, would that in the ordinary way be acceptable to the public as a security ?—Do you mean that a farmer whose land is already overmortgaged, and who desires money on the security of chattels and has £1,000 of security to offer—

What I mean is this : This is intended largely to help the man whose securities are not sufficient to borrow money privately. If a man's land is mortgaged at more than its value, and he has stock, and he wants to get under a chattels security £1,000 and the value of his stock is not £1,000, do you think the guarantee as proposed in this Bill would be sufficient to warrant a man to invest ?—I do not suppose that in such a case the Board would lend the money. Surely the Board would not lend £1,000, even if 20 per cent. was guaranteed, to a man who had not £1,000 of stock to offer as security.

We have had evidence given here by a representative of a farmers' co-operative association, who stated that his directors have agreed in cases of that sort to make that advance, notwithstanding the fact that the margin is not sufficient ; and that it is just that class of man who wants help, otherwise he will not get out of his trouble ?—I do not think that that class of man would be helped by this Bill. The Bill, if it becomes law, would be very useful indeed to the farming community as a whole, but I doubt whether it would be of any use to a man whose position is almost hopeless, and that is the position you are putting to me.

It is the man who is weak that wants assistance ?—I do not agree altogether with that. If you can, without doing any counterbalancing injury, help the farmers generally—especially under present conditions—by advancing money at a cheaper rate than they are able to get it at present, I think it would be of great benefit to the farming community as a whole. If you want to assist—I heard the expression used, “lame ducks”—I mean the lame ducks whose lameness might perhaps be cured, and not those whose lameness is incurable—I think you would have to carry your Bill further even than is proposed in Part IIa, because it would be idle to deny that the giving of assistance to men of that kind connotes and involves a considerable amount of risk.

Do you think from your legal knowledge that a better scheme could be propounded than this ?—I do not think so ; unless, of course, you are going to take a bold course and say, “You are going to help these lame ducks regardless of cost, and you are going to make the public funds responsible for the loss.”

Mr. H. E. Holland : It would be popular with the lame ducks.

Mr. Reid.] Your only objection to Part II of the Bill is that it is cumbersome : Would you eliminate it ?—No, I should leave it, because one's opinion may be wrong. It may be found that people will see some benefit in associating under that Part and would take advantage of it. Personally, I do not think they will ; but that is only an opinion.

Mr. Elliott : I made a note about the debentures and I would like your opinion—on clause 18 (2) of the Bill which states : “All debentures issued by the Board under this section shall constitute a floating charge on all the assets of the Board, and shall have priority according to the date of their issue.”

The Chairman : It is now proposed to be amended.

Mr. Myers : You must provide some funds for the Council if you are going to make the issue of debentures successful. You must provide something for the Board which would correspond with

the capital of a company if a company were issuing debentures. It does not matter if the Council or Board owes half a million to the Government if that sum is in effect capital of the Board, and is subject to the priority of the debenture-holders. The debenture-holders have a very excellent security.

The Bill has been amended?—Yes, it has been altered. I would like to consider it a little more carefully, even if the result of my consideration may not be in time to enable this Committee to consider it. If I can suggest any amendments that would be useful——

The Chairman : We will be glad if you can.

Mr. A. Hamilton : The total capital of these proposed associations under Part II is very small, is it not?—I would not worry very much about that part of the Bill at present. I think you will find that for a time at least the individual will desire to deal as an individual. The time may come when he will take advantage of Part II, but it will not be soon.

Do you think the individual guarantee is really a sounder scheme than this one under Part II?—Undoubtedly.

Mr. H. E. Holland : I am just a little bit curious about the amendment that Mr. Myers has referred to. How does it happen that a witness can bring an amendment here that the Committee knows nothing about?

Right Hon. Mr. Coates : Mr. Holland does not realize that Mr. Myers has taken a very keen interest in the scheme to assist the farmers.

Mr. H. E. Holland : That is not the point. I want to know how a witness comes to have a proposed amendment before the Committee knows anything about it at all.

The Chairman : The whole of the amendments that are there are in the evidence three days ago.

Mr. H. E. Holland : That was the meeting that I missed. That explains it.

The Chairman : That is so. This subclause (2) of clause 18—“ All debentures issued by the Board . . . and shall have priority according to date of issue ”——

Mr. Myers : The words “ and shall have priority according to date of issue ” are struck out. It would never do to leave it as it was in the Bill originally.

Mr. Myers : I do not know whether there is a provision in the Bill, but I would suggest that there might be a provision that no advance will be made by one of these Boards without the concurrence of the local District Public Trustee, who I assume will be on the Board as Chairman. It is all very well to say that the finances of the particular district shall be left entirely to the Board, but the Public Trustee ought to know what is going on, and ought to have some sort of control. I think it would be a wise thing to make some sort of provision of that nature. It is not likely to create any difficulty, and it would only mean that in an occasional case the Board might have to refer the matter to Wellington.

TUESDAY, 11TH OCTOBER, 1927.

Mr. R. E. HAYES, examined. (No. 9.)

The Chairman.] Your full name, Mr. Hayes?—Robert Edward Hayes.

And your official position?—Secretary to the Treasury.

You have read the Bill, Mr. Hayes?—Yes, sir.

Have you any comments to make on it?—Yes, sir, I have a few general comments I would like to make. I would like to say that, as to the details of this class of finance, I do not profess to have expert knowledge. I have not handled chattels and farm-stock and station-agent finance in detail, and I do not profess to be competent to express opinions as to many of the matters mentioned in the Bill. As to the general principles involved, of course I have read the Royal Commission's report, and I think the Bill as set out practically enunciates what the Royal Commission considers to be essential machinery in order to place the scheme on a sound financial basis in the future. As far as I can make out, the Commission's views are that it is absolutely essential that co-operation should exist amongst the farming community in the different districts. That is practically the basis of their scheme, and I think that is in the Bill—that is to say, in order to make a success of the attempt to give them sound finance the movement, as it were, would have to come from that direction rather than from the top. With the co-operation spirit being worked up, the efforts of the central organization would be more effective. As far as I can make out from reading the Commission's report, in nearly every country that appears to be the chief essential for progress and success in establishing finance of this kind. The next point which, of course, interests me is in connection with the Consolidated Fund, and how far its standing in this matter is affected. In the Bill the State is lending a quarter of a million, and the new organization is to take over securities or use in establishing a basis for credit organization. That is in the Bill as printed. I have some suggestions in connection with that matter which I would like to bring before you as affected by the further proposed amendments.

We would be glad if you would?—I would like to do that, because these new amendments affect that clause to some extent. The original clause as set out in the Bill is that we should hand over to the Board securities—that is to say, investments—of our own. Now that, I understand, is proposed to be altered, and we shall have to find the cash—that is to say the Treasury will be required to sell its investments at any time, and it may not be at a time when it is profitable to do so, and any loss will have to be borne by the Treasury in disposing of the securities in order to find the cash for the Board, and also the interest is free for a certain number of years. There is a further proposal made, I notice, in the new suggestions, and it is that those moneys to be advanced out of the Consolidated Fund shall not be repaid or repayable, so as to reduce the amount for the time being held by the Council. That is the new proviso to clause 14 (2). It appears to me that that is going to make the State grant perpetual; it will never be repaid. That is quite a new proposal. As far as I understand the principle of this finance, in all other countries the farming industry eventually repays to the State whatever aid they may have got from the State; the farmers eventually clear off their indebtedness to the State.

The Chairman.] The reason for that suggestion, Mr. Hayes, was that a low rate of interest might be secured, the State being a further security to the bondholders. The State would not be bearing any losses, and it would be getting interest on the money?—Of course, I can see the object of it. The industry undoubtedly benefits, and it is not supposed to be a guarantee, although it is made perpetual. But putting that sum down in perpetuity really makes it a guarantee up to that amount; that is what it virtually means. Then there is another new clause, which deals with the issue of debentures. That is one of the new proposals. It is clause 19A, and is as follows: "Notwithstanding anything in the last preceding section, the Council may, with the prior consent of the Minister, issue debentures that are not expressed to be redeemable at the expiration of any fixed period, but are in accordance with the provisions of such debentures in that behalf made redeemable at the option of the Council, or made redeemable at the option of the holder in the event of default being made by the Council in compliance with the terms of the debenture as to payment of interest or otherwise." That is to say that those debentures are perpetual. They are something in the nature of perpetual bonds.

Mr. Elliott.] What are you quoting from?—From the new amendments put forward in connection with the Bill. A copy has been handed to me. I understood these have been before the Committee.

The Chairman. They are the new proposals which have been brought before the Committee. They have now been drafted by the Crown Law Draftsman, and a copy was forwarded to Mr. Hayes. We have not got extra copies here yet.

Mr. Hayes. Of course, the first thing that struck me when I read that clause was that long-term money was being raised for a short-term credit; and the generally accepted opinion is that short-term credits should have short-term money. Difficulties may arise through that.

The Chairman.] Do you think that clause is rather objectionable?—I say that that clause should be very carefully considered. I suppose this will be something like a perpetual deposit system. Then there is another point: It may affect the long-term money we are raising for the rural advances if these perpetual debentures go on the market. We are, of course, raising long-term money for rural advances shortly, and those bonds will be on the market every year from time to time. How this is going to affect them I do not know. You are asking for long-term money here as well. Those are the chief points I thought I would draw attention to. I notice that these unredeemable investments are not made trustee investments. The new proposals have one or two good features. I should say that the new proposed Board is a very good Board. The idea there is to get men who know the conditions in the different districts. I think that is a very good Board. Then there is another point, and that is the new proposals practically make this a trading concern or an agricultural bank. You are trading outside now,

and not only among the members of the association. The original idea was that only farmers who formed the association were the people who would get an advance. Now, I understand, the new proposals extend that to any individual farmer, whether he joins such an organization or not. In fact, I suppose very few farmers would join such an association when they can get the same conditions through their local Board whether they belong to the association or not. It seems to me that it detaches itself from the co-operative idea to some extent.

Mr. H. E. Holland.] Does it affect the security?—I do not know that it affects the security a great deal, because that security is centralized.

I mean, so far as the shares are concerned?—I doubt whether many of the shares will be taken up, when the man who has no shares can get the use of the organization.

The Chairman.] You mean, the use of the Board?—Yes.

Mr. H. E. Holland.] He would not require to take up any shares?—No.

The Chairman. He has to find a guarantor.

Mr. A. Hamilton.] I think you have referred to trading. How would there be more trading under the new proposals than in the Bill?—Well, before it was restricted to the shareholders' association, but now you can trade anywhere you like. It is a broad trading association. It is like a bank—an agricultural bank. That is what it comes down to. It would not take many turns of the pen to make it into an agricultural bank—the whole thing.

Right Hon. Mr. Coates.] You are referring to the new proposals?—Yes, to these new proposals. That is what struck me about these new proposals.

The Chairman.] Have you any comments to make about the First Part of the Bill?—Not in general, sir. I thought that most of the proposals in the First Part of the Bill—as regards organization and co-operation—had been fully discussed here by men who know more about it than I do.

Mr. Elliott.] Do you object to the quarter of a million loan?—No, I do not object to it. I just drew attention to the difference between the original scheme, as outlined in the Commission's report and in the Bill, and the new proposals. In other countries the farmers' organizations that get this capital advanced to them clear themselves of it in a given time.

You also say that the debentures issued under the new clause 19A may affect the debentures issued under the rural advances?—Well, it is raising long-term money, and we are raising long-term money under the other Act, and if these debentures are out on the market—long term non-redeemable debentures—there may be some competition. Of course, there is one important difference: under the other Act they are trustee investments, these are not. There is that difference.

Do you think it advisable to have the two classes of debentures?—Well, at first sight it does not seem to be. I do not quite know what the object of this is—this non-redeemable money.

Mr. H. E. Holland.] Would not the new proposals have a tendency to damage the other proposals in the Bill?—Yes. Take the debentures, for instance. One set of debentures is trustee and the other is not. That is one of the features of it that wants to be considered. You have the two classes of security under the one Act.

With regard to the £250,000, are not the securities equivalent to the money?—But the new proposal is that we have to find the cash. We have to find the cash out of the present securities we hold.

Supposing there was any failure on the part of the Board, would the Government eventually have to be responsible for the liability—although there is no legal responsibility, the Government could not possibly allow default?—I should not think so. That is what we read under the other Act, the Rural Advances Act. Although there is no specific backing by the public revenues behind the securities, no Government could possibly allow the thing to default. I think that would also apply here, although perhaps not so pointedly as it does in the other Act.

The Chairman.] Supposing perpetual bonds were issued purely as bonds payable to bearer, could the owner of them be actually found?—No; they would pass from hand to hand. They would be bearer bonds.

They would have to be in the form of inscribed stock?—That would be a different proposition altogether. Bearer bonds are very popular.

Could they be made registered bonds?—Yes, they could be made registered bonds, although it destroys their fluidity a bit. Bonds are very popular amongst the trading-people; they can be passed round. One of our objections to bonds is that people get hold of bonds who do not know how to look after them. We have had some difficult cases of that kind. But many of the big people take bonds, and they know how to use them and keep them secure.

Do you suggest that it would be an easier way to hand over the securities than to hand over the cash in connection with the £250,000?—Yes. The original idea was, I think, that the Treasury should hand over the securities. Instead of us having to realize on the securities, they could do that themselves. But that is purely a matter for the Government or the Committee to decide. We could do it, of course.

But it would be easier for you?—Yes, it would be easier for us, because, among other things, we would not have the cost of selling; and if we had to sell on a bad market the securities might depreciate.

And the Board would be able to sell the securities as they require the money?—That is what I take it would be the arrangement.

And the Board could please itself whether it sells the securities or keeps them as a reserve?—Yes. As a matter of fact, at the present time the principal finance of the banks is founded upon their securities, realizing on them as required. That would be the better way.

In the Bill it states that the bonds are to be limited to five years: are you objecting to the extension of that period?—Which clause are you referring to?

To clause 19 ?—From the Treasury point of view, I think that is immaterial. I am speaking now solely from the Treasury point of view.

But you think it might affect the long-term credits ?—That was in connection with the new proposals.

We may consider an extension for a little more than the five years : what would your view be on that ?—Of course, I have always looked upon the long and short advances as quite separate departments. The Treasury is responsible for the raising of long-term money, and one of the axioms that we have learnt is that short-term credit should have short-term money. I would not suggest that the five years should be made very much longer.

Would there be any objection to making temporary arrangements with the Treasury on similar lines to the rural advances ?—I do not know how you could do that. The Rural Advances Act states that the Rural Advances Branch is to be financed by the State Advances Accounts temporarily. That is where they get their cash. That is legally the position. Of course, the loan-money comes into those accounts from the Treasury, but they are carried on temporarily by transfers from the funds of the State Advances Department. They use that money until we get the new capital in, which will replenish their accounts again. I do not see how you could do that here.

Mr. A. Hamilton.] You cannot go on to the market unless you have the security ?—No. You must wait until you get the assets into this concern before the bonds are issued.

And it is not wise to go on to the market for anything less than, say, a quarter of a million ?—No ; it would be too small.

Colonel Esson.] Assuming that the Treasury hands over the whole amount in securities to the Board, the Treasury would give the most favourable securities and the Board would then have £250,000 worth of securities bearing interest : there is not likely to be any loss of interest there ?—I am not speaking of losses at all. If you issue short-dated debentures as against that security there should be no loss.

Mr. A. Hamilton : How long will it take for these securities to be issued ?—In the Rural Advances Branch we find it takes a long time—much longer than we thought.

Right Hon. Mr. Coates : By experience we find some delay in getting the mortgages prepared.

Mr. H. E. Holland : Is there any power to compel a lawyer to move within a certain time ?

Mr. MacDonald : Sometimes he has to give three months' notice to the man ahead of him.

Mr. Holland : Apart from all the technicalities, you find it almost impossible to get the lawyers to bring matters to a head.

Mr. MacDonald : We have no difficulty in our place. Most of the delay in the mortgages in the other scheme has been due to the people not completing because they do not want the new mortgage to start before the old one was off.

The Chairman : No further questions on that point. Thank you, Mr. Hayes.

COLONEL ESSON further examined. (No. 10.)

Colonel Esson : I take it that the question of trading that was raised the other morning has been practically settled to the satisfaction of the Committee—that it is not intended to provide money for general trading purposes through this organization.

The Chairman.] You think the Bill makes that sufficiently clear ?—There is no such intention expressed in the Bill, and I conclude it cannot be done. In regard to the proposals embodied in the Bill, one of the prime objects is to restore the confidence of investors. The Commission's Report emphasises that it is necessary to organize and co-ordinate farm credit to make it more attractive to the man who wishes to lend money at a reasonable rate on proper security ; next is to provide a loan currency which will conform to the requirements of seasonal production, also to reduce the charges to the farmer and relieve him in some measure from the burden entailed by the present system. The better regulation of the security should be effected by means of co-operation under Government supervision, and an initial advance of capital by the State should make it possible ultimately for all the charges to be borne by the business in the interests of which the organization is established. The general principle that the organization should begin at the bottom is most important. In that connection I wish to quote a pronouncement made by the president of the National Federation of Agricultural Associations in France. He says : "The first step toward the establishment of an agricultural credit system in France was to organize rural credit from below, to see that the roots were firmly fixed in the agricultural population itself. An idea formerly prevailed in France, as in other countries, that agricultural credit could only be established by the formation of great central banks from whence credit could flow from all the local centres. When the Government of France finally took up the question of agricultural credit in earnest it was planned on an entirely different principle. It was decided that agricultural credit should begin with the lowest group ; that the co-operative agricultural society or syndicate should form its own credit bank, and that these should grow from below. Under the French system we therefore have the credit syndicate, and out of these the departmental banks (regional banks), usually located in the principal towns, and, finally, the central federation of credit over which I preside. The development of the system has been from the growth of the small unit." It was stated that one of the reasons why the flow of capital into agriculture had been checked was that the sense of security had been disturbed, but that a reasonable amount of credit was available for reputable and efficient farmers who had reasonable security to offer. While that is probably quite correct, and while credit is obtainable under present conditions, the price is often too great in proportion to the productive capacity of the farmer. Dealers' credit is generally expensive. The dealer has to protect himself against loss by increasing the price of his goods, by charging a high rate of interest when he lends money, and by supervision, for which the

producer must pay. The stock and station agencies have rendered, and continue to render, great assistance to the primary producers. As a matter of fact they have established a service which through long usage and custom is almost indispensable; and, considering the circumstances under which their capital is obtained and advances are made, with few exceptions their interest charges are not unreasonable. However, the business of money-lending appears to have been adopted by them not from choice, but rather as a matter of commercial expediency and necessity. To retain their customers the stock and station agents have gradually assumed the roll of bankers, and in order to obtain the capital to meet a growing demand for intermediate credit many have accepted deposits and have pledged their resources sometimes at such high rates of interest as to make successful farming for their borrowers difficult, if not impossible. The main objection to this system is that it is costly, it diminishes the farmer's power of borrowing elsewhere, restricts him in his markets and profits—in short compels him to buy in the dearest market and sell in the cheapest market. The problem is how to discount farm securities at the lowest possible rate. The solution is not to be found in the duplication of existing lending institutions, but in organizing the resources of the primary producers themselves so as to provide a basis for joint concerted local action in their own behalf in order to get the capital they must use. In almost every part of the world the organization of rural finance is based upon the development of the co-operative principle because it gives the farmer himself the experience which teaches him to use money in a business way, leading ultimately to financial independence by putting him into relationship with a self-supporting institution through which capital can be obtained. In combination small farmers can command capital, credit, technical advice, and commercial attention. Disunited they are more or less helpless, and more or less tied. The strong argument in favour of the group system of finance is that you begin at the bottom and teach these people to help themselves. An essential feature of the co-operative system is that it improves the credit status of the individual borrower. The fact that the resources and responsibility of several individuals are combined together increases the confidence of lenders, and creates an asset which is equivalent to the asset of goodwill upon which corporate industry relies. Members of a co-operative association lend their assistance to avoid the charges of needless staffs and middlemen by supervising the conduct and dealings of each other. On the other hand, individual credit is more risky, and is costly in the matter of supervision. It is true that in the United States individual advances are made, but they are made through approved agents, such as banks, trust and agency companies, and mainly in localities where there are not sufficient farmers to form associations. In such cases the agents are required to endorse the loan and accept the responsibility for it. The Bill, as originally drafted, gives power to discount farmers' securities for such institutions, and there is already in existence an individual intermediate credit system administered by the State Advances Office with a limit of £500. I understand it is proposed to increase that amount to £1,000. I am afraid that this, if done, will retard the development of co-operation, because it will place the non-co-operator on more favourable terms than the man who is willing to co-operate. The result may be that the co-operative part of the Bill will not function, and its object to free the farmer from his present credit entanglements will fail. The individual farmer is slow to move, naturally reluctant to accept anything new, and if he can obtain advances at a reasonable rate is unlikely to contribute share capital and join with others, even if it involves the purchase of his seed, fertilizer, &c., from the one firm and the sale of his produce to the same firm. The farmer will probably continue to act individually, and the system will not give that relief which it is designed to afford. It must be obvious that if the Board or Council deals directly with the individual on the partial endorsement of an agency, the personal responsibility of that institution is weakened, and the assistance and oversight of the borrower's neighbours will be lacking. If a stock and station agency is to have a monopoly of a farmer's trade, it would not be too much to ask them to endorse even the whole amount of the loan and to undertake the full responsibility of supervision. In connection with the proposed advance of £250,000, if securities were handed over to the Board forthwith they would bear interest at a reasonable rate; there would be no interest loss on the investment; it would be almost equivalent to handing over cash, as the Board could at once issue debentures against the £250,000. There is no analogy between this system of financing and the rural advances (long-term) system. In the latter case the Board is catering for a class of business under which debentures issued under this Act will not be brought into competition. The short-dated debenture really gives the intermediate system its great advantage. By organizing the credit that is at present available temporary investors will be attracted by the short-dated debentures. Large corporations on the Continent and in the United States invest very freely in such securities. They can be purchased to fit in with their finance and usually return a better rate of interest than they would get from the banks. The curriencies principally run from six months to two years. It would not be necessary to go beyond a five-years currency for the debentures.

The Chairman.] You ought to get money for short terms at short interest—at less than the present rates. We would want to be below 6 per cent. ?—Yes. A question put in the States—Was it necessary for an intermediate credit bank to find the whole of the cash for the associations ?—brought the answer, No; the moral effect was very great. For in addition to the service of discounting and advancing, “they are also valuable in that credit made available by them encourages private financial institutions to extend loans. Farmers' co-operative associations have often found commercial banks willing to give credit on very reasonable terms as soon as advances have been promised and approved by the intermediate credit banks. An association that has been deemed a safe risk by an intermediate credit bank has thereafter a better standing with private financiers. They were a means of restoring public confidence.”

Right Hon. Mr. Coates.] Do I understand you to say that in regard to the proposed addition to the Bill, and its reference to advances and certain guarantees being given, that that would be

detrimental to Parts I and II?—I am afraid so, if the limit of £500, which an individual can get under present conditions, is increased. The Board can make all the conditions considered desirable, and is not actually bound to demand the endorsement of the whole amount.

Mr. MacDonald: In some cases it may not be necessary.

Right Hon. Mr. Coates: After all, the Board advances first of all what they think the chattel is worth, and then the Board decides what amount of guarantee they require, but it shall not be less than 20 per cent. ?—From the agent?

Yes, or from any one else. For instance, Mr. MacDonald, Mr. Hamilton, and myself had a fellow who wanted to take up a farm, and he wanted £1,000 to work it. How under Parts I and II of the present Bill could we assist him? Your local organization is prepared to guarantee 30 or 40 per cent. as the case may be. How would you be able to assist the man under the existing Bill?—I would leave that very largely to the Board: if the security existed they could carry him on endorsed promissory notes or bills. Primarily, the object is to get farmers to secure their own economic salvation through the business organization most suited to them—namely, co-operation.

The Chairman: We have here a letter from the State Advances Department which shows the difficulties they have to deal with. They have 898 applications in hand for a total of £348,000, but have only granted £79,260 out of the applications.

Colonel Esson: It is proposed to set up machinery to deal with applications locally. The District Boards should have power to finalize loans within certain limits.

The Chairman: You are suggesting that the State Advances should come under the new Board, but limiting to £500?—The two methods are somewhat in conflict. I am not so much concerned with the individual as with the group. For the former the £500 limit is large enough in view of the risk involved. If placed on the same footing as the associations the associations will not develop, or they will be slow in developing.

Right Hon. Mr. Coates: What difference would there be in lending to a co-operative society and a co-operative auctioneering company?—The former is not operating for private gain but in the interests of the producers themselves—not for outside shareholders. It would be better to remove intermediaries between the borrower and the lender. The borrower practically, through his own agency, getting the money direct from the lender.

Under the Government Advances to Settlers Branch of the chattels security the money is found by the State?—Yes.

Under this system, which would transfer that system to your Rural Credits Board, or whatever Board is ultimately set up, money lent does not become a charge on the State, other than the amount placed at its disposal?—No.

You say that it would be undesirable to assist the farmer who could get sufficient guarantees?—It would be more desirable to have him in an association.

Under the present scheme, would not the stock and station agents develop more than from other sources?—Their services would undoubtedly have to be largely utilized, and their co-operation is hoped for.

They would practically dominate, would they not?—They might, and there might be a temptation to unload doubtful accounts. The intention is that agricultural finance should be organized from below on a sound basis, and the Board's power to discount notes and bills of exchange for agencies is contained in clause 13, subclause (2). A tendency for an agent to lean on the District Board in the matter of supervision would have to be provided against.

Mr. A. Hamilton: Did you find in places you have mentioned that individuals were dealt with?—In the States they deal with individuals, but not directly. They deal with the individual either through his agent or through the association. A perfectly sound organization provides credit for certain districts, but that organization does not deal directly with individuals.

What do you mean by an organization?—An intermediate credit bank.

The association would deal with them?—Yes. The principal objection to the individual dealing was the expense of supervision and the possible establishment of a lot of small local banks.

You were saying that the main idea was to lend out money on a sound basis: do you think that the associations with the capital that is provided—share capital—do you think it is sound?—I think so, if the shareholders' position is properly investigated before they are accepted and if they are reputable farmers. They must be farmers, and not speculators. I have some notes made during an interview with the president of the Federal Land Bank at Berkeley, in California. That bank covers the territories of California, Arizona, Utah, and Nevada, and operates through local associations. They administer a lot of intermediate credit. California is well advanced in co-operative marketing. Generally the co-operative concerns are well managed. The short-dated debentures had a very favourable market, and the response given them reflected confidence in the management of the banks. Most of the borrowing was for six-month terms at the rate of 4½ per cent.

My experience in New Zealand is that it would be very difficult to get twenty farmers to combine for any purpose whatever. You have to get ten farmers to combine for a party telephone, but it is very difficult?—Where the element of personal gain is involved co-operation is not so difficult. The spirit already exists in New Zealand, which is one of the best of countries so far as co-operation is concerned. Our professional lawyers, doctors, and dentists are combined. We have already our Meat Boards, dairy factories, producers' guilds, trade-unions—every one of which is more or less co-operative; the State itself is the greatest co-operator of all.

I would not call that co-operation?—Call it team-work, self-protection, or combination—the example holds good. In almost every part of the world the system is operating, and the initial difficulties have been overcome. Information and instruction will have to be given. Here is a sample of what has been done in the United States in the way of supplying information. These publications are distributed all over the States.

[The following pamphlets were handed in by Colonel Esson :—

- Supplement to Agricultural Co-operation : a Selected Annotated Reading List.* By Chastina Gardner, Assistant in Market Information Bureau of Agricultural Economics, U.S. Department of Agriculture.
- The Significance of the Co-operative Movement in the United States.* By Henry C. Taylor, Chief, Bureau of Agricultural Economics, U.S. Department of Agriculture.
- Co-operation and the Federal Government.* And Address of William M. Jardine, Secretary of Agriculture, U.S.A.
- Production Credits for Members of Co-operative Marketing Associations.* By U.S. Department of Agriculture.
- A Classification of Ledger Accounts for Creameries.* By George O. Knapp, and Burton B. Mason, and A. V. Swarthout, U.S. Department of Agriculture. No. 865.
- Co-operative Grain-marketing : a Comparative Study of Methods in the United States and Canada.* By J. M. Mehl, Investigator in Co-operative Organization. Bulletin No. 937, U.S. Department of Agriculture.
- Producers' Co-operative Milk-distributing Plants.* Bulletin No. 1095, U.S. Department of Agriculture.
- Sales Methods and Policies of a Growers' National Marketing Agency : a Study of the Organization and Achievements of Twenty-six Years of Co-operative Marketing by Part of the Cranberry-growers of the United States.* By Asher Hobson and J. Burton Chaney, Bureau of Markets, U.S. Department of Agriculture. Bulletin No. 1109.
- Operating Methods and Expense of Co-operative Citrus-fruit Marketing Agencies.* By A. W. McKay and W. Mackenzie Stevens, Bureau of Agricultural Economics, U.S. Department of Agriculture. Bulletin No. 1261.
- Organization and Development of a Co-operative Citrus-fruit Marketing Agency.* By A. W. McKay and W. Mackenzie Stevens, Bureau of Agricultural Economics, U.S. Department of Agriculture. Bulletin No. 1237.
- Agricultural Co-operation in Denmark.* By Chris. L. Christensen, Agricultural Economist, Bureau of Agricultural Economics, U.S. Department of Agriculture. Bulletin No. 1266.]

Were you anticipating that the State Advances chattels security would be done away with?—No; we did not propose to interfere with that.

You were suggesting that it should be handed over to this Department?—I presumed it would ultimately be handed over to the Intermediate Branch.

You have seen the suggested new idea of the individual with the guarantee: do you not think that the guarantee of some well-to-do farmer who would guarantee his neighbour, or some strong institution guaranteeing some needy person, really brings in a sounder security than the share system of the association?—Under the share system a very modified form of guarantee is sufficient; but before a loan is made by an association it must be secured, and by guarantees where necessary.

No, there is no guarantee in the association. If a man has £1,000 security in stock, you want to be able to lend him at least £900, or perhaps the full amount, otherwise it is not a great advantage to him?—Under the association scheme he can get £990 to begin with, but he must have security to offer.

Do you not think that is pretty risky?—Not on good security that was guaranteed by some one. The association will not grant loans indiscriminately.

Do you not think that under the present scheme associations could be formed by mercantile firms by getting twenty of their clients to join up?—Yes; but at the same time those twenty clients would have freedom to purchase, sell, and borrow wherever they liked.

Do you not think the mercantile firms would get out—supposing their twenty clients each owed £1,000, they could group that twenty together and they would get about £19,000 in cash without any help?—Yes, still the twenty farmers would secure relief. The firm uses the farmer's bank credit to obtain capital to make advances, but if the farmer could use his own bank credit and pay the merchant cash it would be more satisfactory to all concerned.

There are any amount of independent farmers?—Quite so, and they can get better terms. Where long credit is given the dealer must make some provision against losses.

Mr. Elliott.] You said that you were somewhat concerned as to co-operative assistance rather than individual assistance?—If the individuals are brought into combination they can do better.

One point has not been made, and that is that individual assistance will be the means of stimulating land-settlement, from this point of view: We all know that there are hundreds of farmers to-day who have big able-bodied sons who should be on farms of their own, and who are farm labourers or they are driven to the towns. The father is in a sound position, but he has not the capital to give his son a start. Do you not think that under the individual advances the father would come forward with his guarantee—a perfectly sound guarantee—which will enable his son to take up a leasehold and get a start? Do you not think that the individual advances in these cases would be preferable from the point of view of land-settlement rather than advances through an organization where the farmer is not prepared to pledge his assets to an association?—The advantage of cheaper money is offered through an association, and probably a lesser guarantee than would be required by the other body.

You think he ought to go into an association?—I would like to see the smaller men combine, because I believe their success lies in organization. However, power to deal with such cases already exists in the Bill. The Board may discount securities for an approved organization or association that is promoting production and assisting land-settlement.

The Chairman.] Would it not be less risky to lend to an individual with a guarantee?—The Board must decide as the nature of the security against which it lends money. The supervision of sharehold neighbours is an important factor.

But the State Advances now merely lend on the security, and our experience shows that they had to take particularly gilt-edge securities, in which there was no risk at all?—For the reason that they had no direct means of supervising farms on which the loans were made, and the cost of supervision would be too great to warrant an extension of the business. Under the co-operative scheme the associations themselves should supply that want, and the cost of management is reduced to a minimum.

If a stock firm came to the Board and got twenty of its clients whose securities were quite good, it could get, under the association, £19,600; and the stock firm would get that in cash, and they would leave the association, and after them the Board, with the whole liability?—Yes, plus the security the Board requires or improvements. But the £19,600 would not be lost to circulation. They would use the money in the prosecution of their business. The competition for customers is keen. One of the difficulties is that an army of supervisors is necessary under the present system, the cost of which has to be borne by the producers. Several firms are operating in the one district, and each has one or perhaps two men to do the work.

Mr. Elliott : Are there any more witnesses? Is it possible to consolidate anything? We are working in the dark.

The Chairman : There are no more, unless Mr. Polson comes. I think he will be very short.

Mr. H. E. Holland : There is a matter of the copies of evidence which are supplied to us. As a general rule I mark these proofs when they come. A notification has been sent out from the Joint Samoan Petition Inquiry Committee that we cannot have the completed corrected evidence until we return the incorrect. I do not want to return my uncorrected stuff when I have marked it for my own reference, and I am not doing that in connection with the Samoan business. If I cannot get the complete copy, I will have what I have got. We ought to have an understanding that members may be allowed to keep their own corrected copies for their own purposes.

The Chairman : You are asking that the fact that we have these uncorrected copies should not be a bar to us getting corrected copies without returning these?

Mr. H. E. Holland : There should be no objection to it.

The Chairman : We will deal with that matter finally on Friday.

APPENDIX.

CORRESPONDENCE ADDRESSED TO THE RURAL INTERMEDIATE CREDIT BILL
COMMITTEE ON INCIDENCE OF THE PROVISIONS OF THE BILL.

LETTER FROM THE ASSOCIATED BANKS OF NEW ZEALAND.

The National Bank of New Zealand, Ltd.,

General Manager's Office, Wellington, 29th September, 1927.

The Chairman, Rural Intermediate Credit Bill Committee, House of Representatives, Wellington.

DEAR SIR,—

Rural Intermediate Credit Bill.

At a meeting of the associated banks held on Tuesday last it was resolved that I should address you on behalf of the associated banks in connection with the above Bill.

In the first place, I desire to impress upon you and your Committee the general feeling amongst business people that an arbitrary interference with the laws of supply and demand frequently does not achieve the desired purpose, and often has results quite contrary to those intended. So far as the class of financial assistance contemplated by this Bill is concerned, it is felt by the associated banks and, we think, by other sections of the community that there are at present ample sources of financial assistance to farmers, provided, of course, that the individual farmer desiring assistance can submit a reasonable proposal to the institution from which he desires to borrow.

If it is felt that the State should afford, either directly or indirectly, further assistance to the farming community, it is considered that such assistance could quite properly be granted in other directions which would not involve interference or State competition with established businesses.

Attached to this letter are a number of detailed comments on the Bill as drafted. These comments are in some instances directed merely to the machinery provisions in the Bill, while in other instances they deal with very important matters of principle.

On behalf of the associated banks, I desire particularly to call your attention to certain matters of principle which we consider should be altered before the Bill goes on the statute-book. In particular I desire to call your attention to the somewhat extraordinary basis adopted to determine the limit of the borrowing-powers to be enjoyed from time to time by the Rural Intermediate Credit Board. It is, I think, universally accepted that the primary factor to be taken into account in determining the amount of money which can be safely borrowed by or lent to any institution is the value of its assets available for repayment of the borrowed moneys. This principle is recognized, for example, in the Local Bodies' Finance Act, 1921, where the power of local authorities to borrow by way of overdraft is fixed by reference to the revenue received by the local body. In ordinary business practice it is, of course, a commonplace that the amount of financial accommodation afforded to any one in business depends upon that person's assets available for repayment of the amount borrowed. In the present Bill, however, this principle is not observed, in so far as the advances made by the Crown to the Board are taken into account as one of the factors in determining the amount of money which the Board may borrow from the general public. The consequence is that, as section 18 is drafted, if the Board does not receive any advances from the Crown its power of borrowing from the public will be directly measured by the amount of its loans to farmers; but should the Board exercise its right of borrowing from the Crown, the amount so borrowed, instead of diminishing the Board's power of borrowing from the public, increases the amount which it may borrow from the public. This principle, I respectfully submit to you, is quite unbusinesslike and wrong.

I desire further to point out to you that, while the Bill makes careful provision for dealing with the possible profits arising from the transactions under the Bill, it is entirely silent as to the position should losses be made, with the one exception of the section (27) providing for the appointing of a receiver if losses exceeding a certain amount be made. The type of advances contemplated by the Bill is by no manner of means a class which can be described as "gilt-edged." It has been the experience of banks and financial institutions not only in this country, but all over the world, that a certain percentage of losses are inevitable when transacting business of this type. After all is said and done, the loans made are simply secured by the mortgages and charges granted by the ultimate borrower, the intervention of the various bodies contemplated by the Bill not really adding substantially to the amount of the security. It seems to us, therefore, almost inevitable that losses will be experienced, and we think that the Bill should prescribe the manner in which losses, if incurred, are to be borne.

Yours faithfully,

G. W. McINTOSH, Chairman of the Banks.

Rural Intermediate Credit Bill.

Section 4.—The meaning of this section is somewhat obscure. If the Public Trustee is to be the principal member of the Board, then the section appears to be in conflict with section 7, providing for the election of a Chairman. As Commissioner of Rural Intermediate Credits, the Public Trustee's duties are defined in section 20, and there is no necessity to create the office of Commissioner. Section 20, in this event, would require the word "Commissioner" in the third line of subsection (1) to be altered to "Public Trustee." If the intention of section 4 is that the Public Trustee shall be the principal executive officer of the Board, then the word "officer" should be used instead of "member," and a provision should be incorporated with section 11 dealing with the other officers of the Board.

Section 12.—Nothing is said as to the procedure at meetings of a Local Advisory Committee, or as to the effect of any decisions arrived at by such Committee.

Sections 14 to 17.—These sections are objectionable, and unsound in principle, in that they provide for advances to be made to the Board on terms which are far from businesslike. If the scheme is to be successful, then it should be capable of standing on its own feet without assistance in the direction of the Crown making advances, either free of interest or at a rate of interest lower than the current rate it is paying for money at the present time. The banks, as large taxpayers, strongly object to grants of this nature being made to one section of the community at a time when the Minister of Finance does not see his way to reduce the burden of taxation upon the mercantile community generally.

Section 17 is additionally objectionable in that it provides for a straight-out gift of £10,000 to the Board out of public funds.

Section 18, Subsection (1).—The principle embodied in this section is entirely wrong. The power of the Board to borrow should depend on its assets, and not upon its liabilities. The limitation of the Board's borrowing-powers in the Bill as at present framed depends, in the first place, upon the amount borrowed by the Board from the Crown, and, in the second place, on the amount advanced by the Board to borrowers. Assuming that a Board borrows the maximum amount of £250,000 from the Crown, it becomes entitled to borrow a further £250,000 on debentures from the public before it has made any investments at all other than the investment of £125,000 in the Redemption Fund.

Section 18, subsection (2), is defective in that it does not state when, if ever, the floating charge is to crystallize. Apparently the first series of debentures issued by the Board must be paid in full before holders of the second series receive anything; but no provision is made for a case where a later series of debentures is issued prescribing a maturity date earlier than that prescribed in the first series.

The section does not make it clear what is the order of priority between debenture-holders and, say, those who discount bills of exchange for the Board, or between debenture-holders and the Crown.

Section 19, Subsection (3).—As the Board is a statutory authority, the form of debenture to be issued should be set out in a schedule to the Bill in the same way as is done in the Local Bodies' Loans Act.

Section 20.—While recognizing that the Crown feels that some senior Government officer should be responsible for the administration of the statute, it is felt that it would be preferable if a Treasury officer were appointed rather than the Public Trustee under this section.

Section 22.—The exemption from stamp duty of the debentures and stock issued under the Bill is not proper. There should be the same liability for stamp duty as is the case in connection with debentures and stock issued by any of the institutions competing with the Board.

Section 26.—It is considered that at least until such time as the Board is in an undoubted financial position the securities issued by the Board should not be made a trustee investment, unless, of course, they are guaranteed by the State. It is scarcely necessary to point out that in the earlier years the Board will be financially unsound, quite apart from any losses which it may make in respect of its loans. It will only be when the profits of the Board's operations have been accumulated to such an extent as to provide a reasonable margin of assets over and above liabilities that the Board will be financially sound.

The classes of investments to be made by the Board are not themselves trustee investments, and are not even the class of investment which an average creator of a trust would allow his trustees to invest in in cases where permission is given to invest in investments other than those specified by the Trustee Act, 1908. In the past the class of investments authorized for trustees has been limited, and efforts to enlarge it have always been looked upon with disfavour. With one or two exceptions, the securities of the wealthiest of our Harbour Boards are not trustee investments, nor are shares in any of the soundest companies trading in the British Empire.

Section 27.—The provisions in paragraph (b) of subsection (1) allows altogether too large a loss of the Board's capital before the debenture-holders are entitled to take steps to get their money back.

Section 32 provides for an audit of the accounts at six-monthly intervals. Reference in paragraph (b) of section 27 is to an annual audit. The two sections should be reconciled with one another, and provision should be made for the publication of the result of every audit, so that if it be ascertained as a result of an intermediate audit that the Board has suffered a loss justifying the debenture-holders claiming payment of their money they will not have to wait until after the 31st March next following.

Sections 35 to 37.—The form of these sections could quite well be improved. It would be sufficient if section 35 contained a declaration that a company might be formed under the Companies Act, and that all the rules in the Companies Act should apply except as expressly negatived or modified in this Bill.

With regard to the form of memorandum, it would appear to be quite unnecessary to depart from the statutory form contained in the Companies Act, except in so far as is essential for the purposes of this Bill. It is quite unnecessary to mention the name of the acting-secretary in the memorandum.

Subsection (2) of section 35 is silent as to the terms on which a shareholder is to pay the balance of his share capital. It is quite unnecessary for this subsection to contain a declaration that a subscriber to the memorandum of association shall be deemed to be applying for allotment to him for the number of shares set opposite his name. Any provisions with regard to payment of share capital should apply to all shareholders, and not merely to subscribers. If the minimum number of shares to be held is to be at least twenty-five, it appears to be almost unnecessary to divide the capital of the association into shares of £1 each. It appears to be quite unnecessary, and possibly dangerous, to allow an association to be registered without the nominal capital being stated.

Section 36.—This should be altered to make it clear that the total number of directors of an association is five.

This section contains reference to the articles of association, but apparently from subsection (1) of section 35 there is no necessity for an association to register articles. If the names of the first directors are included in the memorandum, then it is quite unnecessary to name them in the articles.

It would be preferable to prescribe the form of articles for use by all these associations, and to permit no deviation from the approved form except by statute.

The provisions contained in subsection (4) of section 37, and in section 54 and 59, exempting the associations and others from payment of fees and duties are objectionable.

Section 38, Subsection (3).—This appears to be in conflict with the provisions previously contained regarding the number of directors.

Section 42.—As the Bill is drawn, this section would seem to allow the Board to substitute fresh articles of association for those registered by the association when incorporated. While it is, no doubt, desirable that there should be uniformity in the articles used by associations, the proper method of obtaining this is to prescribe a statutory form of articles from which no departures are permitted.

Section 47.—Subsection (2) does not make it clear what are the relative rights of the Board and the bank in respect to advances made to the association. If every borrower from the association repays his loan in full, then, of course, no difficulty will arise. In view, however, of the class of loans contemplated, some losses must be expected, and the Bill should contain provision accordingly. Nothing is said as to the liability of shareholders in the association for loans made to the association. Presumably their share capital would have to be applied in case of need in repayment of such loans, but this is by no manner of means clear.

Subsection (4) of section 47 does not make it clear what rights, if any, are conferred upon the bank or other financial institution as a result of the endorsing by the Board of a bill of exchange. A bank or other financial institution discounting Bills should have the full right of recourse against the Board as endorser, including the right to recover the amount of any Bill as against the Board's Redemption Fund in priority of all other claims against that fund.

The limitation of interest contained in subsection (9) of section 47 should not name any rate, but the rate should be fixed from time to time by Order in Council, so as to provide for market variations.

Sections 51 to 54.—The principle of allowing surrender of shares is wrong. With the exception of the provision contained in the Dairy Industry Act, such a provision is unknown in the Companies Acts of the English-speaking Dominions. As framed in this particular case, it means that the only real capital of the association will be £500—that is, twenty shareholders with twenty-five shares apiece. Of this amount, £100 will be paid up and £400 will remain unpaid. Any capital in excess of £500 can be withdrawn practically at a moment's notice. There should be no prohibition against the transfer of shares in an association other than that which is usually found in the articles of well-conducted public companies. If a shareholder is a borrower from the association, then the usual provision regarding paramount lien should appear in the articles. The management of an association should deal with transfers of shares in the association, and not an outside body as is proposed in the Bill. There appears to be no real reason why the association should not issue share certificates, or some other evidence that a shareholder does hold shares in the association.

Section 58 is regarded by the banks as conferring upon the Board a right to inquire into the business relations of a co-operative society with a bank or other financial institution, which is absolutely unjustifiable. There is, of course, no reason why the Board should not have returns from a society indebted to it as frequently as it desires: otherwise the Board has no right to know what the position is between a bank and any of its customers.

LETTER FROM THE FARMERS' CO-OPERATIVE WHOLESALE FEDERATION (N.Z.), LTD.

Wellington, N.Z., 27th September, 1927.

The Clerk, Rural Intermediate Credit Bill Committee, House of Representatives, Wellington.

DEAR SIR,—

I have to acknowledge your letter of the 21st instant, and, in reply, beg to advise you that this federation is not desirous of tendering evidence.

I understand that provision will be made precluding the possibility of advances being made to associations or societies for the purpose of financing the marketing of merchandise.

Yours faithfully,

FRANK BUSHELL, General Manager.

LETTER FROM THE DAIRY FARMERS' UNION, WELLINGTON DISTRICT, TO THE HON. MR. DOWNIE STEWART, MINISTER OF FINANCE.

(Referred to the Rural Intermediate Credit Bill Committee by the Right Hon. Mr. J. G. Coates, Prime Minister.)

The Minister of Finance, Wellington.

Rural Credits.

DEAR SIR,—

Palmerston North, 23rd September, 1927.

This subject came up for discussion at last meeting of our executive, and members were of the opinion that the minimum term of the loan—viz., six months—is too long, and that it should be reduced to three months. Can you please advise us if it is at all possible to have this remedied, if thought necessary, before the Bill becomes law?

Trusting that we are not asking too much of you in this matter, and thanking you in anticipation of an early reply.

Yours faithfully,

C. D. FRASER, Secretary.

CAPITAL INVESTED IN FARMERS' CO-OPERATIVE TRADING ASSOCIATIONS.

Name and Address.	Capital.		Capital invested.		Trading Facilities provided.			
	Subscribed.	Paid up.	Bonds or Debentures.	Deposits.	Properties.	Plant and Furniture.	Stocks of Merchandise, &c.	Advances and Sundry Debtors.
North Auckland Farmers' Co-operative, Whangarei	£ 64,783	£ 132,033	£ ..	£ ..	£ 65,116	£ 2,610	£ 18,693	£ 86,417
North Auckland Farmers' Co-operative, Whangarei (Preference) ..	73,315	456,576 W.O.	..	..	..	..	..	..
Farmers' Trading Co., Ltd., Auckland	456,576	303,341	288,669	94,685	369,952	59,839	352,626	250,692
Farmers' Auctioneering Co., Ltd., Hamilton ..	307,578	478,871	..	34,239	162,295	17,591	91,440	377,489
Tokomaru Farmers' Co-operative, Tokomaru Bay	658,267	15,810*	..	..	..	..	..	..
Gisborne Sheep-farmers' Co-operative, Gisborne	21,405*	113,743†	(300,000)‡	800	(671,067)‡	§	66,752	101,216
Hawke's Bay Farmers' Co-operative, Napier ..	221,123†	162,754	69,850	{ 58,236	118,640	§	89,254	182,031
Farmers' Co-operative Organizing Society, Hawera	254,175	172,899	..	{ 50,536	72,762	7,562	34,030	182,382
New Zealand Farmers' Co-operative Distributory Co., Ltd., Feilding and Wellington	259,310	163,310	..	48,730	90,323	9,122	23,520	75,038
Wairarapa Farmers' Co-operative, Masterton ..	229,562	..	..	15,474	..	..	..	..
Farmers' Co-operative Wholesale Federation, Ltd., Wellington ..	370,583	358,481	60,000	40,512	199,498	15,865	160,524	353,888
Farmers' Co-operative, Wellington ..	24,400	24,400	..	..	..	498	4,808	18,221
New Zealand Farmers' Co-operative Association, Christchurch	118,998 W.O.	889,330	530,000	715,082	425,879	60,000	428,068	1,250,627
Canterbury Farmers' Co-operative Association, Ltd., Timaru	1,184,017	309,690	..	414,848	164,055	43,137	193,782	550,812
North Otago Farmers' Co-operative, Oamaru ..	426,805	50,860	..	71,773	27,261	4,868	45,768	61,875
Otago Farmers' Co-operative Association, Dunedin	101,720	189,776	..	69,157	26,422	6,156	20,513	205,013
Southland Farmers' Co-operative, Invercargill	195,673	160,223	57,862	..	30,208	6,325	14,914	{ 136,672
..	168,275	..	..	..	..	..	..	{ 12,092
Total	5,136,565	3,982,097	1,006,381	1,614,072	1,752,411	233,573	1,544,692	3,844,465

* 1918 figures. † Mercantile shares only. ‡ Not included in additions. § Included with properties.

MEMO.—Figures for Gisborne properties include both freezing-works and mercantile premises, and, as separate figures are not available, have not been included in the additions. The same remark applies to their debenture issue at £300,000.

SUMMARIES.

Capital invested in Existing Associations.		Trading Facilities provided.	
	£		£
Capital subscribed ..	5,136,565	Properties ..	1,752,411*
Bonds and debentures ..	1,006,381	Plant ..	233,573*
Deposits ..	1,614,072	Stocks of merchandise ..	1,544,692
..	..	Advances and sundry debtors ..	3,844,465
Total	£7,757,018	Total	£7,357,141

* Gisborne figures not included.

Approximate Cost of Paper.—Preparation, not given; printing (580 copies), £63.

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