

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

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

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

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

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

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

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

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

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

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

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

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