

You probably are aware that the matter has been considered?—Yes, I realize that the matter has probably been under consideration before.

It has been considered on numerous occasions?—Yes.

*Hon. Mr. Downie Stewart:* Last time it was taken out by the Statistician it was found that it would not make much difference one way or the other whether the banks were taxed on the normal method or on their present artificial method, because it fluctuated some years one way and in other years the other way.

*Mr. Fussell:* What year was that?

*Hon. Mr. Downie Stewart:* 1926 or 1927?—It is quite possible it would be so then.

*Mr. Ashwin:* The real difficulty is the Tax Department. In a banking business, so often it is almost impossible to check up on the statements. Unless they go to the extent of keeping a man at the banks they could not do it?—I put it to you that it should not be necessary to check up on the banks' statements in this country. They have been accepted always by the Tax Department and the Government, and they have no reason to do otherwise; such is the reputation of the banks in this country.

Similar statements are accepted from private individuals, too, and companies, but behind it all the Tax Department has the means of checking up an entirely private company or individual by going to their books, and they do that periodically, so that the power they have over the companies and individuals would be lacking to some extent in the case of the banks?—The Commissioner of Taxes can go to the banks.

*Mr. Ashwin:* He has the power to go, but not the means whereby to check up on the banks. I will not follow that.

*Mr. Fussell:* Do you mind my interrupting. Would it be possible for your Department to consider that, when times are bad, the amount that the banks were assumed to earn be taken on their assets and liabilities. Where they earned two-thirds of the previous year, they might be taxed on two-thirds of the average assets and liabilities. It would relieve banks in difficult times and enable them to pay more tax when profits were good.

*Mr. Ashwin:* Yes, we could quite easily do that; alter your rate of assumed income per cent., provided we could agree upon the rates?—We could have it on the present rate on the basis of incomes earned in a certain year, and fluctuating as income fluctuates.

*Hon. Mr. Downie Stewart:* Does it matter much so long as you pass it on?—The necessity for passing it on means higher rates than the banks desire to charge.

*Mr. Ashwin:* Mr. Harle, I think, mentioned that in Britain they follow a different banking procedure in regard to advances than in New Zealand—that is to say, they keep two accounts, a current account and a loan account, and when a man applied for an overdraft, say, of £1,000 they debited his loan account and credited the £1,000 to his current account?

*Mr. Harle:* That is called the cash credit system.

*Mr. Ashwin:* Well, that of course would reflect in the bank's total figures; the total aggregate volume of purchasing-power available?—If they were taxed on a liability basis such as we are, it would hit them very hard.

I am speaking not from the point of view of taxation, but from the point of view of information disclosed by bank returns. Their returns disclose the total of deposits that can be borrowed upon at any time; that is not the case in New Zealand?—You would require to know the limit. In granting an overdraft in New Zealand the borrower is granted a limit up to which he may overdraw. It is conceivable, and it is a fact, that he does not draw all at one time. He draws his daily requirements, so that the margin between that limit and his drawings is his undrawn drawing-power.

That is the point I wish to make. It comes down to this, that the total purchasing-power available to the community in New Zealand in good times is the amount of free deposits as disclosed by the bank in their returns plus the undrawn portion of the overdraft up to the limits fixed?—That is put very well.

Another statement arising out of your discussion with Dr. Sutch: You said if people took their money away outside the banks, the banks would lose deposits?

*Mr. Fussell:* Yes.

*Mr. Ashwin:* How would that come about?—For instance, say a bank had £1,000,000 advances and another £1,000,000 deposits, and the money derived from that was spent in such a way that it eventually found its way by being deposited in one of the other savings-banks or in another bank.

Are you speaking from the point of view of individual banks?—I meant that if the person who had a claim on the bank did not want a deposit but wanted its value, the bank could not provide it for him unless it gave him gold in a gold-standard country, or gave him notes, but he certainly would not want to hold that form of value. That extra advance, if it were not in conformity with the amount of his deposits, would mean that the bank had that debt somewhere. When a cheque is drawn, that cheque is a claim on the bank. The negotiation passes that claim, but it does not extinguish that claim.

That is not my point. You mention here that it is necessary for the banks to offer deposit rates to compete effectively with the Post Office Savings-bank and the Public Trust. First of all, I will suggest to you that the class of money in the Post Office Savings-bank is different from that normally in a trading bank?—What do you mean by "the class of money"?

I mean that the class of money that goes into the Savings-bank is not commercial funds?—No, I quite agree with you there. It is usually funds that people wish to put by and do not intend to use as a circulating medium at the present time.

Then you see, does not that itself discount any competition between the Post Office Savings-bank and the banks?—No, I should say that the fixed deposits, the deposits on which the banks pay