

is a principle which is widely held and has received the test of generations of bankers and of banking in many countries, that the banks operate best and most satisfactorily in the interest of the people when they are not nationalized concerns.

Is the apprehension that if it were controlled otherwise than by the present method that public pressure and public clamour would always tend to demand inflationary measures?—It seems to us that that is the tendency, and that, I think, was in Sir Otto Niemeyer's mind when he said, in recommending the Reserve Bank, "It must be free from the fact or fear of political interference, otherwise it will do more harm than good."

When that question was asked about the rural bonds, as to your financing the Government with those, does the same principle apply there whether it was £400,000 or £4,000,000? You would have to have regard to your resources before you decided to assist the Government in any way?—Yes—that is, subject to the fact that the Government is sovereign. The Government might compel the banks to issue money against these bonds.

But is it a fact that you can issue unlimited credits to the Government?—In effect the thing is that the Government borrows, and in the cases where Government, for their own expenses, have borrowed huge amounts, it has resulted in economic and financial dislocation.

There is another question that is quite often raised in New Zealand and has been raised in this Committee—that is, why is it that some banks in England allow interest on current account whereas in New Zealand it is not so. Am I correct in saying that the reason why that is done in England is that as an offset to that when an overdraft is granted immediately the account is debited with the limit of the overdraft and interest paid on that, irrespective of whether it is fully used or not?—In those banks that operate on that system that would be an important factor.

That would enable them to compensate themselves for allowing interest?—That is quite so.

Whereas in New Zealand, although I may have an overdraft limit of £1,000, I am only charged on the day-to-day balance?

*Mr. Harle:* I think, subject to correction, that the London City banks do not allow interest on current account. That system is confined to the country banks.

*Hon. Mr. Downie Stewart.]* Am I right in saying that when the advances exceed the deposits the general policy of the banks is not to ration individual clients, but to make a general control either by raising the overdraft-rate or raising the exchange-rate when they have control of the exchange?—Their policy is to do it generally, not to ration.

Rationing, of course, would always give rise to discriminations and controversy?—Yes. It is subject to the fact that the banks always ensure that the money they lend is soundly lent.

You are aware, of course, that there are a great many authorities who agree with your view that non-monetary causes were the main factors in bringing about the depression?—That is so.

There are two schools of thought on it are there not?—Yes.

*Mr. Langstone.]* The question of the account-keeping side of the bank is a very correct and scientific method of recording the trade transactions and the transfers of credit from one person in the community to another person or to groups of persons?—Those transactions are recorded, and I think very efficiently.

Very efficiently; there is no doubt about that, I think. Have the banks within their staff or within the management of the banks, a kind of study circle where members and executive heads study the banking question in relationship to all other questions?—We have not got what is known as a study-circle, but there is the Institute of the Banking Diploma, and bank officers are encouraged and also financed to study the various subjects affecting banking.

That is, from all angles of banking; you study the whole lot and are not confined to any one particular form, say, the orthodox system of banking? You can study any system?—In the subject "currency and banking" are included financial systems and types of banking and so forth. You are aware of the subjects as set for the Bachelor of Commerce degree?

Yes?—The subjects for the Banking Diploma are similar; there are not so many, but on the same standard, and if you pass for one degree they count for the other.

I thought that that would happen from the way in which the questions are being answered. The first gentleman who spoke, Mr. Harle, made a statement with regard to what Major Douglas had said, and stated that the question of his fantastic suggestions taking the reserves and limiting the dividends to 6 per cent. was not a fair proposition. That is right, is it not?—That is the intention of the thing.

Now, is share capital absolutely necessary for banking; can you carry on banking without share capital?—No, not in my opinion.

How do they do it with the Commonwealth Bank of Australia; there is no share capital there?—In that case the Commonwealth State Bank is trading on the State credit through the right of note-issue.

If the Commonwealth Bank of Australia are trading on the credit of the nation, the banks in New Zealand must be trading on the same basis; is that so?—Is not a distinction made between the holding of share capital and the non-holding of it?

I said it was not necessary; I suggested that share capital was not necessary?—Formal share capital might not be necessary in the case of a State bank.

Or in any other bank. In your banking operations, if the bank only had its share capital and its reserve funds, and if that was the maximum amount of trade they did and they could not go beyond that, how would the bank get on?—They would be very much restricted. May I stress the necessity for share capital; it provides resources for the banks to use and, in the second place, it is a basis of confidence. If I open a bank and have no capital at all, how can I induce people to lodge deposits with me? I certainly could not start off as a lending agent.

There was no trouble in Australia when they started without any capital at all?—Do you mean the Commonwealth Bank?