when the bank in England has purchased my Japanese exchange and I am here in New Zealand to buy wool, who finds the money for the wool that I am going to buy. I only come with a letter of credit. Who provides the money ?—You come here with a letter of credit ?

Yes. I come here from Japan with a letter from the bank certifying that my credit would be good here in New Zealand up to £12,500 ?—It is rather a technical matter, but it would be necessary for the Japanese firm to have some form of credit in London.

But they have done it. They have sent goods there and sold them. They have bought a New Zealand exchange in London. But that is in London. It is not here. And the money is in London. It comes out here in a ship. I come out here in a ship. I come out here in a ship to buy wool and I buy wool up to the credit that you have given me in London, but who supplies the money to pay the £12,500 for the wool ?—The money is supplied by the Japanese person in London because he pays it into the bank.

That is not in New Zealand. The farmer is paid here in New Zealand. When he sells his wool he gets a cheque. The banks pay it, do they ? They admit that his credit is good and they supply the money to back up that credit ?—No. They do that because the money has been paid into the bank in London and the bank itself is the one unit on both sides. The bank has received £10,000 and can pay it out on the other side.

You paid £10,000, so you have got a credit in London ?—Yes.

When you come to New Zealand you have got £10,000 in New Zealand plus 25 per cent. exchange which the Government say the importer has got to pay ?—Yes. The net result is that £10,000 has been paid to one part of the bank and the bank has paid out a net £10,000.

The point I am trying to get at is this. I know ultimately that other goods would come out or something like that, but I want to know the immediate effect of it. The banks provide the necessary money to back up that credit, so that that person can buy the wool ?—Yes.

So that really the wool is the basis of currency and the price is determined by a Japanese or a German or somebody else that comes here to buy it ?—Of course, the price of wool is determined by the demand for it in the open market.

But if they like to say that it is worth 1s. 6d. a pound ?—If they are willing to pay.

If they are willing to pay, then the price is 1s. 6d. a pound and they arrange the credit. Then the banks see that the necessary finance is there to meet those credits ?—Putting it very simply, if the wool-buyer pays the bank £10,000 in London the bank will pay the person who is selling the wool £10,000 here.

You think it would be possible, then, allowing for these ups and downs, for the Government through stamp duty to definitely assess the value of wool in its various grades and say, " Well, that is the price that has got to be paid." Would the banks find the necessary credit for that ?—It is a policy matter, but I rather doubt it, because I very much doubt the ability of a small economic unit like New Zealand attempting to fix the price in the world's market of a product because if we said the price of wool is going to be 2s. the wool-buyers would say, " Well, until the price comes down to 1s. we will do our buying in Australia." What are you going to do about it ?

You fix the price for milk in Wellington, do you not ?—You can do that here because nobody is going to go over to Australia and get his milk because the price is a penny dearer here. That is because there is not a world market for it.

Do you not think that is what happens ? If butter to-day in London is a shade over 6d. plus the 25 per cent. exchange-rate, which is 1½d., that makes it 7½d. Now that is the farmer's income from butter. That is his income ; that 7½d. will only buy that amount of goods in London because it is a sterling exchange ?—It will buy 6d. worth of goods in London : 6d. expressed in sterling in London.

But when those goods come to New Zealand the Government have come into the picture. They say, " To run New Zealand, because prices have fallen, we have got to get more income." So they put on, say, a 30 per cent. Customs duty. The 25 per cent. exchange-rate has got to be added too. They put a sales tax on it. They have got the importer's charges and costs, and the retailer's distributing charges. Now you find that that sixpenny article in London, which the farmer has got 7½d. for in New Zealand, that article is 1s. 6d. when it lands here owing to those internal charges. They are not external charges ?—For the sake of argument I would rather you used a smaller price than 1s. 6d., because I do not think that 300 per cent. is a fair thing to add on. You mentioned 6d. to start with.

We will make it a shilling then. But if the farmer has only got 7½d. as his income from his labour, his commodity that has been sold over in London, how can he buy back with the price at 1s. ?—The thing is that under no system can you import without expenses at all.

Quite so. But the expenses of importing are not greater than the expenses of exporting. A customer who exports from this country is an importer at the other end, and *vice versa* ?—Looking at it from the goods side, we will say that if butter is exported to England some of the butter is applied to pay for its freight. That means the farmer only gets paid for a certain portion of the butter because a certain proportion has got to be paid for the freight.

You advance it ?—No. I mean that if the price of a pound of butter on the London market is such-and-such a figure and the farmer has to send it from here, he has got to pay the cost so that the farmer sacrifices part of the butter to pay the expenses.

Quite so ?—I have said that when the farmer imports he sacrifices part of the quantity of imports that he might otherwise want.

But he does it both ways. Does not the other fellow on the other end pay anything ?—No. But the man who sells the goods does so at his price, and if you want to pay that price you must pay the cartage also.