go up, and that would mean that instead of paying a debt with 20 lb. of butter you might have to use 40 lb. We would have to produce more.

Our trouble is that the farmer is lacking income ?—But income comes from overseas.

It comes from New Zealand ?—I know what you mean there, but if we send to London all our produce and buy on the London market, it means a great deal what the exchange value of our money is on the London market.

I do not see the difficulty there. The New Zealand farmers are producing more, and yet they have not the income to pay for the things they want ?—On account of a price fall. It is the same thing with the overseas debt. They were contracted in different times when we got a good deal more for our primary produce.

But our overseas debt is a minor matter ?—It is a large factor—£150,000,000 is it not ?

But the annual interest payment is only about £8,000,000, or 10 per cent. of our total production ?—That may be so.

So that only 10 per cent. is involved, and that is not a big thing ?—Perhaps not.

The great difficulty I see is that it is difficult to translate into money form the wealth the farmers produce, and indeed the wealth others produce, to enable us to keep on trading here amongst ourselves. In the last analysis every country consumes all it produces. They exchange goods for goods ?—Yes by exchange. Taking that further we are producing less than we did in value although the physical quantity is more. The goods we want others to consume do not return us the same amount. The goods we want to consume are more difficult to get.

That is reflected in the increased London balances ?—Yes.

They can be utilized there, if necessary, to pay off our national debt there ?—Yes, but even that would be difficult, because these balances were paid for at the rate of £125 for each £100. It would be an expensive method of paying off a debt in that manner.

If the exchange remains as it is, that would still have to be taken into consideration anyhow ?—Yes. It would mean an extra £40,000,000 in terms of New Zealand money to repay the national debt in London.

Mr. Clinkard.] Now, Mr. Fussell, I take it that to provide credit at a cheap rate, it would be necessary to prohibit other competitive parties from paying more than a stipulated amount for deposits ?—I would not like to say, prohibit, exactly, but it would be necessary to induce them either by prohibition or persuasion, no doubt.

Well, induce them, anyhow ?—Yes.

We have heard a lot about the value of the note. I listened attentively and it seemed to me that the case quoted by Mr. Langstone showed that the purchase of the gold would depend entirely on the confidence of the recipient of the note ?—Not entirely, but to a large extent. If it were legal tender he would not have any option of any other form—that is, if he wanted to part with his gold. He would stick to the gold no doubt, if there was not sufficient confidence. The banks have carefully built up that confidence by sound trading. Confidence is the greatest national asset we have.

That confidence is preserved by the legal assets of the banks—that is, by having assets available to back up the notes ?—Yes, and by careful trading, and with due regard to those other factors I have previously mentioned, not to lend unwisely, and not to allow assets to become frozen.

I take it that it is for that purpose that the banks pay interest on fixed deposits, in order that they may hold these assets against liabilities ?—If they do not pay interest and hold deposits they cannot make advances soundly.

If Mr. Langstone's suggestion holds good—and of course in actual effect we know that the banks can issue credit and so on—but if they did that unwisely and issued a considerable amount of currency without assets behind it, would they pay interest on deposits ?—I do not see the connection there.

The suggestion is that the banks can create their own credit out of nothing practically. They can print notes and issue them. If that was freely done would the banks then pay interest on deposits ?—Probably not. The real trouble is that if the banks advance without a proper backing in assets they are not able to pay back the depositors. The deposits are held against these advances.

Is a relationship maintained between the deposit rate and the rate of interest on loans made or notes issued ?—No, there is no definite relationship. The joint ratio is usually endeavoured to be maintained between the deposits as a whole and the advances, and the interest is paid on fixed deposits to bring up the total of deposits. If the banks paid no interest their deposits would not be large enough. There is no fixed relationship between fixed deposits and current account deposits.

But between the total deposits and the titles to goods and services the banks hold ?—Yes.

It is said that owing to some peculiar method of utilization of social credit you can at the present time place the country in a very advantageous position compared with our competitors. Have you a knowledge of the nature of the financial operations mentioned ?—I have not gone into that. I believe that in relation to sterling such currencies as are referred to are considerably depreciated. The lower standard of living in such countries has a bearing on the matter. No doubt, but it is said that although there is a lower standard of living that does not come into the question so much as the method of financing, and that consequently they are in an advantageous position. I would like to hear an authentic view on that contention. I think the general economic position in such cases is reflected in the volume and value of exports, and if there is a premium on exports, naturally exports are encouraged. In Japan, for instance, they are able to make goods cheaper than anywhere else, and if they get a premium on exchange naturally trading is stimulated.

Well, their units of value are smaller than ours.

Hon. Mr. Downie Stewart.] There are violent fluctuations in Japan at the present time ?—I think the yen was worth a fraction over 2s. at one time and is now worth a little over 1s.

Captain Rushworth.] Is it not a fact that the League of Nations has just arranged to send a Committee of observers to find out exactly what they are doing there ?—I do not know.