

to repayment. That business is not forthcoming. The banks could offer people money, but people will not borrow unless they can use the money to advantage, and as a result of that we find that there is a large gap between the advances and the deposits, and that is caused to a large extent by the discounting of Treasury bills.

Have you any idea whether the drop is in rural securities or in town securities?—No; that would require investigation by the banks. I cannot guarantee whether it would be policy to give that information, but if it is available I shall be glad to hand it in.

You discount Treasury bills to the Government at 4 per cent. ?—I do not think it is as low as 4 per cent.

Five per cent. ?—By agreeing to rebate, the rate would be a bit lower.

We are told that the business in England is increasing very largely on account of the fact that there is so much cheap money, from $\frac{1}{2}$ per cent. to $\frac{3}{4}$ per cent. How can they operate in England at that rate while here for our best securities the rate is 5 per cent.?—In an old country, and a country where there is a short-term money-market, money is very much freer, but if in England they had the same system of banking taxation (I am not saying this as a complaint) as they have here, they could not do it, because they would find they would be paying 8s. 9d. on every £100 of their assets and liabilities by way of taxation, and that would absorb more than all the interest they got. But the reason is that, with the supply of money in the hands of the banks, they would be getting nothing for it if they did not lend it at a low rate of interest, and they find it better to get that than nothing at all.

It struck me that it might be possible for the banks to give a lower rate of interest ?—I could not say anything about that, but I will say that the banks' expenses in connection with their business are such that I do not see how they can do it. I personally believe it is as low as we can reasonably get, and the banks' profits have subsided a lot as a result of the depression. The banks themselves would like to see the rates lower, and would welcome anything that would assist them in that direction.

We often hear that there is no reason why £10,000,000 of costless credit should not be issued. What, in your opinion, would be the effect on the general security of the country, and on the general borrowing-powers of the country (assuming they had to borrow) with the issue of either £10,000,000 or £20,000,000 ?—I cannot understand that there would be any credit that would be costless. If the banks issued that credit, £10,000,000, that would be a debt, that would comprise a debt of the bank; that would give claims on them for £10,000,000 and if it were costless, why come to the banks; you could afford to give it yourself. It cannot be done. We will put it, the issue of £10,000,000 of credit?

Yes ?—If the Government hypothecated or sold securities to the banks to enable them to do that, that would increase the Government internal indebtedness by £10,000,000. The method of spending that would have to justify that debt, because it would have to be repaid. I could not say what effect it would have.

We have a lot of money from overseas. With the issue of further money here we are building up greater liabilities. What effect has that on the lending overseas ?—That comes again to the same thing, because the lending overseas depends upon the confidence in the national credit here. If the Government decided for reasons of its own, quite sufficient reasons, that they would borrow internally another £10,000,000 for public works or other necessary expenditure, I do not think that that would affect the credit overseas as long as the money was soundly spent and provision was made for sound repayment. I do not think that that would be to our detriment overseas at all, as long as we did not behave in a way which would shake the confidence overseas in us. Naturally, if they know that the Government will repay that £10,000,000, they think that the Government will pay our £10,000,000, and they would be willing to lend also.

Mr. Holland.] I would like to know if it is the policy of the trading banks to increase the rate of interest on overdraft when times are bad and to reduce it when times are prosperous ?—No. That is not the policy, so far as it could be said to be a policy. They are anxious in hard times to lower the interest-rate, and in the present hard times you will see they have lowered it from $7\frac{1}{2}$ per cent. to 5 per cent.

But that reduction was under pressure ?—No. I would not say that, because the banks realize that in hard times it is most desirable, and I think that I am right in saying that the banks have suggested to the Government before that the outside rate, the Government over-the-counter rate and the Post Office Savings-bank rate, should come down. Let them lower their deposit rates to pave the way for lowering advance rates. I think that suggestion has been made from the banks, and so the general policy in hard times is to make things easier for their customers.

The banks mark various accounts first-class, second-class, and third-class, and, it may be only gossip, but it is common talk that the banks, in order to charge a higher rate of interest on overdrafts have shifted those accounts from first-class to second-class and in some cases to third-class ?—I will guarantee that that is not the case. I am absolutely sure of it.

I am glad to have your assurance of that. Suppose I have a property which is valued at say, £8,000, and I have £500 on fixed deposit in the bank, and I require temporary accommodation for, say, £200, for a short period—two or three months. Can you imagine any bank refusing to give me that accommodation ?—I could not. I know for certain in our own bank they would be very glad to give you the accommodation, and I know, from speaking with members of other banks, that they are the same. Banks usually do all they can to meet their customers. If you have a fixed deposit and you want temporary accommodation you get it, and, moreover, the banks make it favourable for you in that they do not charge you more interest on the advance than you are getting on the deposit. If you are receiving £20 interest on your fixed deposit they will not charge you £21