If the Government wanted further Treasury bills, could it get them ?—Yes, I think so ; only the bankers of course can answer that.

Do you think the rate of interest is a deterrent to Government borrowing on Treasury bills ?—Not to the same extent it is to private borrowers.

So that the rate of interest mentioned in question 9 would not be a material factor in Government borrowing on Treasury bills ?—To some extent it would. A higher rate, of course, would increase the charges against the Budget, and *vice versa*.

There is no doubt it is a big charge. When the Government is in the mood to borrow the interest-rate does not seem to weigh with it ?—Yes.

Do you think the Treasury bills that have been held against the exchange overseas have held up advances other than by the fact of 5 per cent. interest-rate ?—I do not think so.

So that there is a plentiful supply of credit in New Zealand ; the difficulty is that there is too high a rate ?—The difficulty is that the demand is not sufficient at the price.

Why should the banks charge 5 per cent. to the Government on the best security in New Zealand, and at the same time charge a smaller rate to much less secure private and local-body enterprises ?—I am afraid the banks would have to answer that question.

You think they are charging what the market will bear ?—I do not know what the details were when the arrangement was made. It is possible the arrangement was a 5 per cent. arrangement.

Some of it, I think, was 5 per cent., some £5 8s. 9d. per cent.—although I would not be sure. You stated that your fluctuation of $1\frac{1}{2}$ per cent. either way on 125 was not a fixed thing ; you did not fix that because it was the margin of gold points ?—There is something to be said on the gold points. Between England and America, both on the gold standard, the gold points were narrow.

Three-quarters ?—Much less. In New Zealand the margin is much wider largely on account of interest. I worked it out at $1\frac{1}{2}$ per cent. ; I do not know that any one else has done so.

It covers all those costs ?—Yes. Between England and America, if a favourable balance of trade occurs, it may be corrected quite speedily by the people concerned, because the distance is short. Here it takes much longer to correct, because of the much longer time it takes goods to come to New Zealand.

On a gold standard ?—On any standard, but there is additional justification for a wider range because we are so dependent on exports. The prices are so variable, and we might use a wider range to correct balances and to modify the effects.

You do not think a gold standard held in New Zealand even before the war ?—I have no doubt that the system was practically a gold exchange standard.

Gold movements do not affect price-levels in New Zealand ?—No.

So that, even though we had gold sovereigns circulating, we were not on a gold standard ?—No. It depends how you define the gold standard. Our balances were corrected by expansion or contraction of funds held overseas, and not by expansion or contraction of gold held here.

I am wondering whether our system is going to change materially when the trading banks hold reserves in the central bank rather than overseas, but we will leave that. Do you think the exchange-rate which was so long at parity was at times held there artificially ; in other words, was pegged ?—I think undoubtedly it was held there.

By the banks—pegged ?—Yes.

And that pegging is what the banks call " natural " ?—Yes.

So that the present rate which the chambers of commerce have described as " artificial " is no more descriptive of it than the parity rate which the banks enforce ?—I should say, without examining the figures, that in 1920, owing to the fact that the banks held considerably more money in London than they do at the present time and did not alter the rate then, our rate is a more natural rate now than the parity was in 1920.

That is true, and the changes that the banks have made in the rate have been artificial changes as far as New Zealand is concerned, in so far as they have been affected by Australian conditions ?—There is no doubt about that. In 1923–24 there was a shortage of notes in Australia and the banks were not in a position to give credits in Australia to the full amount of funds in London. The rate there went to about 96. There was no limitation whatever in New Zealand, and full credit could have been given in New Zealand for funds in London, but our rate went to 97 purely in sympathy with the Australian rate.

The whole of our trading community was penalized because of Australian conditions ?—Our exchange-rate moved entirely on account of Australian conditions.

It has been stated by the banks' representatives that the exchange-rate is a result of the interaction between supply and demand of London funds, but the banks themselves did not know what London funds they held on New Zealand account. They were not segregated ?—Quite.

So that it is a sort of artificial definition, to say that it is determined by demand and supply of London funds.

Mr. Langstone.] But that would presuppose that there would be a returning trade from Australia eventually to balance it ?—I think so. It is three-sided really—London, Australia, and New Zealand.

Dr. Sutch.] If our exchange were put up to 130 it might conceivably be in the national interest, but as you pointed out formerly there are disadvantages that might lead to a depression as between countries ?—That is one possibility. It would also create disturbances in New Zealand.

But we would take it that the ultimate result of those disturbances would be in favour of New Zealand rather than adversely. If overseas conditions were equal the outward advances might be in favour of New Zealand ?—It would be in favour of some people, of course, against others.

But any such funds which the Government have taken over have been financed by Treasury bills. The issue of these Treasury bills has not been inflationary ?—No.

The money has been spent in London in investing in the short-term market ?—The money borrowed by the Government on Treasury bills in New Zealand has not been spent in New Zealand.