You remember the Auditor-General pointing out a case where in 1879 we raised a loan of so-much. We transferred it into stock at 4 per cent. giving them a big discount. Then gradually it went through another process and latterly we had to reconvert it at a higher rate of interest. All the work done fifty years ago has gone out of existence, but the debt charge remains and is increased by 28 per cent.?—I do not know whether the work has gone out of existence or not; I assume it was used for railway construction or similar work.

Yes, for railways and for bridges washed away. Therefore you have got no asset, but a liability. Wherever you had any money through revenue purposes, even if you have got no asset, you have still got no liability?—That comes down to this: whether you will make the community save the cost of that asset in one bite or spread it over a period.

The question of an internal price-level: We will assume that we gave a farmer £3,000 for a quantity of butter in New Zealand currency. We took that Home and it was sold for £1,000. £1,000 worth of goods was brought into New Zealand, and by way of bringing them up to an internal price-level we added an exchange-rate or a Customs duty or something of the sort. There was only £1,000 worth of goods, and we had £2,000 making the balance of £3,000 we had given for them. Would it affect your exchange-rate?—Yes, that would be the exchange-rate.

It still leaves you £1,000 in England to buy £1,000 worth of goods, but still leaves you £3,000 in New Zealand. Do you not see that that is totally different from what you are doing to-day? The fellow to-day is getting £1,000 for the goods, but owing to all the internal charges, no external charges, they are at least £2,000 in New Zealand. He has only got £1,000 worth of income to buy them with?—Apart from the exchange, the cost of imports is put up by taxation, but then that only boils down to this: That that farmer, or whoever it is, having received the £3,000, has to hand a share of it over to the State who in turn spends it for him.

The reason they gave him the £2,000 bonus in the first place was to monetize his wealth to meet monetary commitments?—But his taxation is part of his commitments.

Taxation is only difficult when you have not an income. He has still the same taxation on £3,000 as he had on £1,000?—Why?

For the reason that he has still the same rates and insurances to pay, and the same cost of living?—You mean he has got fixed charges. That is taxation on him. Some of his taxes are fixed, his land-tax and rates are fixed. His income-tax is not, and to some extent his Customs tax is not.

It is not so much value; it is a question of monetization of it, or the demonetization of it. In New Zealand the people are short of income, not of wealth?—Our income is a question of cost on the one side and returns on the other.

Our income is determined by real things, goods and services, but we leave it to some other country to fix what that monetization point will be?—We cannot do otherwise.

Why can we not? Why did the Government inaugurate an exchange-rate?—To increase the return to the primary producers.

There was no need to have kept it to 25 per cent.?—The higher it went up, the greater would be the difficulty of maintaining it.

The difficulty in maintaining the exchange-rate was this: That they stopped the price from falling as low as it would have fallen, but they never put the extra money in to sustain that price. If they had put 25 per cent. more currency into circulation, we would not have felt the exchange in this country at all?—By that you mean that the rate was fixed without relation to our internal conditions to the extent that the rate was artificial?

I say the whole thing is artificial?—What you were advocating was an extension of the same thing.

With this fundamental difference: That we give the farmer the income first; when the charges come afterwards he is in a position to pay them; he is solvent?—In other words, you say that the exchange-rate should have been left to look after itself and the additional money paid out in New Zealand.

I say that has a two-fold effect—one, you give the farmer here the price for his product, the exchange overseas belong to the Government. Seeing that they have paid for them here, then they know the quantity of them overseas. It is quite a simple thing, then, for the Government to determine what quantity of goods is to come into New Zealand?—Whatever you add on the one side you have to add on the other, and also have regard to whether the community in their present state of incomes can buy those goods.

The void is with the bank to-day. The banks say they cannot put money into the pockets of people unless they have assets and securities, but the Government could, if it wished?—The Government could? How?

By starting public works, pensions, superannuation, &c.?—Or increasing salaries?

Yes. It seems to me desirable that if they fix an internal price-level for goods they would have to fix an internal wage-level?—That is implied, you would have to control it right through.

Replies to Questionnaire submitted to the Associated Banks, 7th March, 1934.

Question 1. What determines the rate of interest charged and paid by the banks?

Answer: Broadly speaking, it may be said that the law of supply and demand determines interest-rates charged and paid by the banks.

A considerable portion of a bank's profit-earning capacity rests on the margin between their deposit and their overdraft and discount rates. The necessity for maintaining an adequate margin has, therefore, a bearing on advance and deposit rates.