

Even when they get their funds from the bank?—Well, stock and station agents do not always, but in some cases they do.

*The Chairman.*] Are not they usually 1 per cent. more?—Yes, I think that is probably the case.

*Dr. Sutch.*] So that your advance rate of 7 per cent. really fixes the advancing rate for other credit-making institutions?—It has a bearing on it.

It does not fix it?—It all depends on the type of business, because if the type of business were such that a bank would invest in it, the borrower has the option of going to the bank and getting it, so that there again the type of business and the other aspects affecting the borrower come into account.

And the banks compete with one another?

*Mr. Harle.* Yes, intensively, within the minimum rates.

*Dr. Sutch.* And are the overdraft rates in New Zealand ever raised with the specific purpose of decreasing the amount of credit made available?

*Mr. Fussell.* It is very hard to say whether that is the case, but looking over things it seems to me that if a certain amount of credit has been issued, on the face of it, that is profitable to the bank. But if, at the same time, it is found that the total of deposits is insufficient, it is necessary to put up the deposit rate. The necessity to put up the deposit rates to increase the deposits in relation to advances compels the banks to put up the advance rate. One rate pushes the other up.

*Dr. Sutch.* So that the rate is not ever put up to choke off people who want to borrow?

*Mr. Shaw.* I think that that might be so if it is considered in the interests of the country that borrowing should be restricted.

*Dr. Sutch.*] I think so. But seeing that the individual banks are competing against one another for business they would not be inclined to take that point of view?—I do not know. In a matter like that they would take the country's viewpoint, because the banks generally are looking a good deal further ahead than the ordinary man who comes for an overdraft.

*Mr. Fussell.* And then I should say for the sake of competition no individual bank would risk getting itself into an involved position.

*Dr. Sutch.*] That is true. But some stock and station agents have got into involved positions through competing for business?—Yes. But that is because they have not got bankers in charge of them.

*Mr. Harle.* May I suggest that their difficulties have been because they have been trying to carry out a banking business without banking resources.

*Dr. Sutch.*] Quite probably. That is just what I wanted to get at—Question 4. Why are deposit rates raised other than to attract deposits?

*Mr. Fussell.* I cannot think of any reason why they should be raised other than to attract deposits, except, of course, to retain deposits we have if the rates outside rise.

*Dr. Sutch.*] And if there were no competition, would the deposit rates be forced up?—They would not be forced up if we could have the volume of deposits by paying a lesser rate. There is no reason why we should offer a greater inducement than we feel is necessary.

In question 4 you say the only limiting factor in the reduction of deposit rates is the competition of other rates?—Yes. That is because we cannot have the volume of deposits if we do not meet that competition. If we lowered our rates, as you can see, our deposits would dwindle away.

But you have introduced another factor. You might require more deposits quite apart from competition?—Then our rates would have to be the winning competitive rates.

So we would have to include that in the limiting factors in the answer to this question 4?—Do you mean the possibility that it might be necessary to increase deposits?

Yes. Would it be a limiting factor?—If it were necessary to increase deposits, yes, it certainly would. But that would be an indication that already the advancing had proceeded to such a degree that there were more advances than deposits, so that you would see it was about time some limitation were devised.

*Mr. Harle.* For instance, on the occasion that deposit rates reached 5 per cent. that was primarily caused by Government over the counter sales of stock at 5½ per cent.

*Dr. Sutch.*] I recognize the competitive force, but I was looking for some other force than competition. If there were no competition, would deposit rates fall to zero in any conceivable situation?

*Mr. Fussell.* It seems quite conceivable that people would lodge all the deposits that the banks wanted without any inducement whatever. There would be no deposit rates. But, on the other hand, we have the competitive factor. A bank might want to compete with its neighbours. It would think to itself, "Now if I can increase my deposits by £2,000,000 I can increase my advance business."

*Dr. Sutch.*] Yes, but without competition, I meant?—I should put it this way: No competition, no inducement necessary.

And in the same question 4, you talk about people possessing liquid funds but refraining from employing them. How are those liquid funds held?—They are held to the extent of about £22,000,000 by way of deposits on current account, to the extent of about £39,000,000 by way of fixed deposits, and to the extent of about £60,000,000 or £70,000,000 by way of deposits in trading concerns, Post Office Savings-banks, and trustee savings-banks.

And what do they do with these liquid funds?—At the present time, as you know, the total advances, including advances on Treasury bills, do not show much disparity between the total deposits.

So that they are not even lending these deposits out?—That is another question, and I would not like to say anything about it unless that question is being dealt with.

Is the amount of legal tender issued by a bank determined by the amount of advances?—It is not necessarily determined by the amount of advances, although there is some connection. For instance, you might say that in a country where the total advances were £40,000,000, the notes in circulation would