their holdings for the most part represent savings invested after careful thought, with the double motive of avoiding risk and ensuring a constant if low return. The average return on these investments, which was 7·4 per cent. in 1929, was only 2·47 per cent. in 1932.

The shareholders, as in other businesses, exercise complete control of the banks. They elect, reappoint, and remove directors, according to the degree of efficiency with which these are deemed to be discharging their trust, and, through the directorates, they control the management and staffs of the institutions. It is inconceivable that the shareholders would permit their servants to take a course of action which was inimical to their interests. That the officers of the bank would themselves initiate such a policy is incredible. Like the shareholders, they have all their own stake in the country. The trading banks in Australia alone employ about twenty thousand men and women.

There are 756,000 people in Australia who have deposits in trading banks. One person in every nine in the Commonwealth is a depositor.

Similar general principles apply to New Zealand conditions, where the trading banks employ some 3,300 men and women in their services. The shareholders in New Zealand holding shares in the trading banks in New Zealand number approximately 11,130, representing an average capital holding of £487.

4. *Statistical Information furnished.*—New Zealand bank figures are averaged and "quarterly" returns of Assets and Liabilities furnished the Treasury each quarter. In addition to this, weekly figures, including "clearings," are furnished by the Government Statistician.

5. *Note-issue.*—The Banking Act, 1908, provides that all bank-notes issued in New Zealand shall be a first charge on the assets of such bank.

At the outbreak of war in 1914 the Government enacted legislation (Banking Amendment Act, 1914) giving the Governor in Council authority to make, by Proclamation, bank-notes "legal tender" throughout New Zealand. By section 44 of the Finance Act, 1916, uniform regulations were enacted for use whilst the legal-tender position was continued. This enacted that the legal limit of note-issue of each issuing bank is made up by adding together:—

(1) The amount of all coin held:
(2) The amount of all bullion held:
(3) The amount of all public securities held:
(4) The amount of all war-loan advances made on special accounts:
(5) The amount of all soldier-settlement loan advances made on special account:
(6) The amount of all advances made on wool account.

NOTE.—Items 4, 5, and 6 are non-existent now, and therefore do not apply.

The assets enumerated above must be held in New Zealand.

"Public securities" are defined as "the public securities of the Government of New Zealand, or of the United Kingdom, or of the Commonwealth of Australia, or of any State of that Commonwealth.'

There are certain other provisions and extensions of the foregoing which the Government have power to bring into operation, but they have not been invoked.

Originally bank-notes were taxed by the Government at the rate of 7s. 6d. per cent. per annum, payable quarterly. From time to time Parliament has increased it by steps up to the present figure of £4 10s. per cent.

Further, as bank income-tax is based on an arbitrary basis, as explained later, the note-circulation also bears income-tax in addition of 8s. 9d. in the £100.

Now that the Reserve Bank of New Zealand has been created, the functions of note-issue will be taken over by that bank.

6. *Income-tax.*—Banks in New Zealand are not taxed on profits like ordinary trading companies, but on an arbitrary basis. This basis is the average for the year of their assets plus liabilities. On this total they are assumed to earn an income of £1 10s. per £100. This is the "assumed" income for taxation purposes. From this can be deducted bad debts and contributions made to staff pension funds. The net result is known as the "taxable balance," and income-tax is charged on this balance at the maximum rates.

It will thus be seen that the tax bears no relation to income, and that a bank operating in New Zealand may be working at a loss or making small profits only, yet it pays a heavy so-called "income" tax.

7. The system of banking in New Zealand is the "branch bank" one, which is the general system throughout British countries. This is in contradistinction to, say, the American system of thousands of separate banks, many with small capital resources only. The branch bank method gives greater strength to the system and better facilities to the community.

The method of making advances in New Zealand is the "overdraft" system, by which interest is charged half-yearly based on the fluctuating day-to-day balance of the debt.

8. As will be gathered from the foregoing brief review, the trading banks in New Zealand, from the time of the arrival of the Union Bank of Australia, Ltd., here in 1840, have been inseparably bound up in the progress of New Zealand, financing the old Provincial Governments, the General Government, the primary producers, and the industrialist alike, without fear or favour, realizing, as all banks should, that their interests and the prosperity of the Dominion coincide.

Mr. Harle: We have listened to various schemes and proposals put before your Committee, and we are particularly interested in those of Major Douglas, and we would ask permission to put forward a brief criticism of his proposals which we have prepared.

Chairman: Undoubtedly.

Mr. Harle: That is, dealing with his proposals; we have condensed it as much as possible. I shall read this statement—

Among the suggestions which have been submitted to the Parliamentary Committee are some by Major Douglas, which suggestions we feel we should briefly comment on, as they directly concern the banks.

So far as those suggestions concern the banks of this country, they are briefly outlined as under:—

(*a*) A limitation of bank dividends in respect of operations carried on within New Zealand to 6 per cent. per annum on the subscribed capital—the amount represented by the surplus above that figure to be applied (in the manner described by him) to reducing interest-rates.

(*b*) That the banks be deprived of the difference between the balance-sheet value and the estimated market value of bank assets, and that the amounts represented by such difference be transferred by way of gift (in the manner described by him) to the accounts of customers having overdrafts.

Both these suggestions are inherently unsound, and are in effect an unjustifiable raid on assets and reserves essential to the efficient conduct of banking business.

(*a*) The suggestion that dividends be limited to 6 per cent. per annum on the subscribed capital ignores the fact that in the case of some banks the subscribed capital represents several times the paid-up capital, while in the case of other banks subscribed capital is no greater than paid-up capital. Apart from this anomaly, which betrays a lack of knowledge by Major Douglas of the subject under discussion, the suggestion entirely fails to take into account the fact that dividends arise from the earnings of a much larger sum than the capital of banks—namely, the capital and reserve funds, which are the investment and the property of shareholders, and the reserve funds are often built up very largely from direct contributions by the shareholders in the way of premiums on new subscriptions of capital, as well as from undistributed profits. Thus, though the dividend is quoted as being at a certain rate on paid-up capital, that dividend represents the earnings of a much larger investment of shareholders' funds.