

Furthermore, there is an important point, which has already been stressed by the Chairman of the Parliamentary Committee—namely, that the *market* value of bank shares is greater than the *nominal* value, so that if Major Douglas's suggestion were adopted, a shareholder who had paid a market value of £4 for a share with a nominal value of £1, would find the maximum return on his investment reduced to 1½ per cent. This would have the effect of inequitably reducing the incomes of members of the community.

In his evidence before your Committee Major Douglas referred to the Bank of England dividends as being 6 per cent., and mentioned that as a well-known precedent for the 6 per cent. maximum dividend he proposed in respect of the banks in New Zealand.

We would point out to the Committee that the Bank of England dividend rate is 12 per cent. per annum, a fact which again indicates Major Douglas's inaccurate knowledge of the matter under discussion.

(b) Major Douglas's suggestion that the banks be deprived of their inner reserves is inequitable in the extreme.

It is a sound principle of banking to build up reserves to enable banks to cope with difficult economic conditions with unimpaired stability and to maintain and retain confidence. The effect of such wise trading can be seen by comparing the splendid record of the banks of British countries with the fate of banks of other countries which have not paid sufficient attention to making proper provision for such conditions. Major Douglas proposes to try the experiment of depleting bank reserves at the very time when the policy of maintaining adequate reserves has been abundantly justified.

On his own showing Major Douglas links part of his fantastic suggestion with his entirely unfounded and unwarranted assumption that "As things are going on at present there is no possibility whatever of the present banking system continuing for any considerable length of time—even three, four, or five years—without a complete catastrophe—complete breakdown of the present system." So he would deprive banks of an important part of their resources and bank shareholders of an important part of their income, and would make a present of the proceeds of his suggested confiscation to customers with overdrafts—many of whom are much more wealthy than many bank shareholders.

As to his assumption of a breakdown of the present system at an early date, on the way things are going at present, we would point out that there is at the present time encouraging evidence that Britain is making a decisive recovery from the effects of the depression.

In conclusion, we feel bound to say that we are convinced that the carrying-out of Major Douglas's suggestions in New Zealand would retard improvement here and do the country real damage.

[Whilst reading paragraph 4 on page 7 in connection with Major Douglas's statement that the Bank of England dividends were 6 per cent. whereas the rate was 12 per cent., the Chairman said, "12 per cent.?" and the witness replied, "Yes." Later, Mr. Harle produced a copy of the *Bankers' Almanac and Year-book, 1933-34*, and showed the Chairman the reference on page 9 in regard to dividends. This read]:—

Dividends: 10 per cent. per annum for sixteen half-years to August, 1921; 12 per cent. per annum to February, 1922; 11 per cent. per annum to August, 1922; 12 per cent. per annum for twenty-two half-years to August, 1933 (subject to income-tax). Dividends are payable April and October.

*Mr. Harle*: We think you will accept our comments in that form; there are many other comments that one could make about Major Douglas's fantastic schemes, but we do not feel that it is necessary to labour the question. He does not understand what he is talking about in some of his statements.

*The Chairman*: I feel that the associated banks have given us a very full statement and very valuable documents.

*Dr. Sutch.*] Now, I am just going through these questions as you have them. You say, "Broadly speaking, it may be said that the law of supply and demand determines interest-rates charged and paid by the banks." Now, there is an ample supply of credit in New Zealand, that is correct?—Yes.

Would it not be advantageous if the price of this credit were lowered to accommodate itself to demand?

*Mr. Fussell*: It would most certainly, and the desires of the bank are in this direction.

*Dr. Sutch.*] These deposit rates which you have mentioned here—they are obstacles in the way of reduction of rates at present. It could be possible to reduce interest-rates to zero and could there still be no demand for credit?—I would not say rates could be reduced to zero, but they could be reduced to a very low figure. If there was no possibility of obtaining credit the whole economic system would break down.

I have struck a situation where credit overseas was reduced to 1 per cent. and still no borrowing?—I can imagine such a situation. If the rate were at zero and the price-level were to fall more than 5 per cent. during the year, a person who had borrowed would still have to pay back more purchasing power than he had borrowed.

You mention a margin between deposit rates and advances rates—that is one way a bank makes profits, what are the other ways?—In the discounting of bills and the buying and selling of exchange and different agency business.

Do they make profits on investments?—They make profits on investments and securities.

And on the internal exchange of cheques?—Yes, broadly speaking, the internal charges cover working-expenses.

Two shillings and sixpence per £100 would be to cover working-expenses?—There is almost as much work involved in transferring the small amount as in transferring the large one.

Do advances exceed deposits?—Not at the present time.

Generally?—I should say that the policy of the banks is to have a certain ratio between advances and deposits. And I think normally the policy in New Zealand has been to have deposits slightly in excess of advances.

*Dr. Sutch.*] Is the income of banks not an average of 30s. per £100 per annum of the total average assets and liabilities of the bank? Does it ever average that?—I could not say exactly as to the real average, but everything points to the fact that it does not.

Why do you use the term "fictitious" income?—"Fictitious" means that it is not actual income; it is based on the assumption that the income is earned on that basis, whereas it is not, because we pay income-tax on our assets and liabilities. You do not earn income on your liabilities.

Do the banks suffer because of this taxation?—They certainly suffer at the present time.

How?—Because, for instance, they are not earning as much income as that 30s. per annum.