borrowers. Thus the net relief to the Budget of local bodies should not be the total savings on interest. Some £25,000 would have to be set off against the adjustment of interest on the securities held by the Departments if the Government Budget is not to suffer to this extent. It would be appropriate for the Government to reduce its grants to local authorities by this sum. In these circumstances the Budget of local authorities as a whole would balance with slight additional economies above the 25 per cent. standard already suggested.

Varying Incidence of Proposals.

125. We have not had time to consider the varying incidence of such a set of proposals upon different local authorities. Some would benefit, while others would lose on account of the varying ratio of internal to external interest burden. This, however, is a problem which would have to be considered in any general review of local-body finance.

Review of Local-body Finance.

126. Local-body finance as a whole will no doubt come under detailed review by the special Commission which it is proposed to set up to investigate the urgent problem of local government in New Zealand.

SECTION XIV.—BANKING POLICY AND TREASURY BILL FINANCE.

Bank Credit in the Depression.

127. In a period of acute depression it is important that credit should be available to sustain and encourage enterprise. This can readily be done, provided the community is making the adjustments in public and private finance necessary to re-establish the basis of profitable enterprise. The main responsibility for supplying credit rests with the banks. That credit has been made available by the banks is clear from the following table:—

TABLE 7.—BANK DEPOSITS AND ADVANCES.

December Quarter.	Deposits. £ m.	Advances. £ m.
1928	55·73	48·10
1929	55·01	53·80
1930	53·23	56·38
1931	51·98	51·02

It is not surprising that a decline in both advances and deposits should have taken place in 1931. Advances are still higher than in 1928, despite the fall in national income and in the value of securities. This indicates that the banks have pursued a policy of providing credit to sustain production during a period of difficulty. Their capacity to continue to provide credit in this way depends in part upon their resources and in part upon the speed with which the community makes adjustment to the new economic conditions.

Bank Deposits and Business Conditions.

128. The resources of the banks in turn depend upon deposits and cash reserves. In both respects the position of the New Zealand banking system is strong, though some decline in deposits has taken place since 1928. This decline is, however, wholly in respect of current or free deposits, which fell from £22·18 m. in the December quarter, 1928, to £16·14 m. in the same quarter of 1931. This fall is due to the decline in prices and in business activity. It is possible to conduct financial and commercial operations with a smaller amount of free deposits. Fixed deposits, on the other hand, have risen from £29·84 m. to £34·64 m. This is evidence of the confidence of investors in the banks, though it increases the interest payments the banks are called upon to make. Such an increase in fixed deposits shows that capital is available for investment when economic conditions improve.

Bank Rates.

129. Banks and Government Savings-bank's deposits rates were reduced by ¼ per cent. to ½ per cent. in August, 1931, and some reductions were also made in private savings-bank deposit rates. But these were not uniform. In addition the Public Trustee and over-the-counter security rates were reduced. In a general plan of interest adjustment these rates should be further reduced, and with them advances rates. It may be necessary to deal with some institutions by legislation, but bank-rates could for the most part be arranged by agreement.

Financing Deficits: Treasury Bills.

130. In addition to the normal requirements of private business, banks may be asked to supply credit to the Government until Budget equilibrium is restored, to finance redemption operations, and to sustain some loan expenditure. We have to consider the effects on the banking and the general economic situation of the financial operations associated with the supply of such credit. In normal conditions a deficit in the Budget would be regarded as unsound public finance. In a time like the present, however, when national income has been so severely reduced, a Budget deficit may be unavoidable. The costs of Government are in some respects rigid, and, though drastic economies may be made and higher taxation levied, it may be difficult to bridge the gap in the Budget at once. The general economic effects of economies and high taxation have to be considered. If pressed too far, they may exert a detrimental influence upon economic recovery. Yet it is vital in any Budget proposals to aim at stability and