

on capital works any revenue which may be available, and thus reduce our borrowing by an equal amount, and allow the old loans to run on. If it were possible for the Dominion to provide annually out of revenue sufficient to supply the whole of the loan requirements of Government for works, and make it unnecessary to raise any loans in London, something might be said in support of this view, but so long as we require to go on the London market for loan-moneys so long will it be necessary for us to provide a sound system of sinking fund for the repayment of the moneys borrowed. Whatever may be the views of the borrowers, however, on this important matter it is obvious that the views of the lenders of the money must receive first consideration, and there is ample evidence to show that the provision in New Zealand for a system of debt-repayment based on thoroughly sound principles meets with favour in London financial circles, and enables us to obtain our loans on more favourable terms than would be the case if no such provision for debt-repayment existed. An eminent authority on national finance writes as follows: "Financial virtue requires that the good work of redemption should be carried on with regularity and as quickly as possible. . . . At bottom the object of making provision of the sort is to maintain the nation's credit amongst lenders. Nothing is more encouraging to a lender than to see his debtor paying off debt with reasonable rapidity and with absolute regularity, according to a fixed programme." Again he says: "To the deterioration of credit two things in particular contribute—to borrow when you can do without, and not to pay back when you can. To labour at the repayment of debt whenever times of peace and prosperity make that possible, and to maintain with rigid virtue a liberal provision therefor, are amongst the strongest obligations of patriotic statesmanship. They are also amongst the most difficult to fulfil. There is little popularity to be gained by repaying debt. Nobody feels immediately the benefit of it; that lies hidden in the future. It is fatally easy to divert funds to some more showy purpose, from which somebody with a voice and a vote will get direct benefit. It is easy, but it is disastrous."

It must also be borne in mind, when comparing the present rates of interest for new loans with the lower rates applicable to the older loan securities being redeemed, that the latter, on account of the lower rate of interest, will as a rule be purchasable at a considerable discount, making the transaction a more profitable one than would at first appear to be the case. For example, our 4-per-cent. securities maturing in 1943-63 could at the present time be purchased on the London market at about £86, thus effecting a capital saving of approximately £14 per cent., in addition to an annual saving of interest to the Consolidated Fund equal to 10s. per cent.

Under the operation of the Repayment of the Public Debt Act, 1925, public-debt securities of a nominal value of £1,831,752 13s. 2d. had at the 31st March, 1927, been redeemed and cancelled, at a cost of £1,809,868 7s. 6d. These transactions have effected an annual saving of interest to the Consolidated Fund equal to the difference between $3\frac{1}{2}$ per cent. (fixed by the Act) and the rate which was payable on the securities redeemed. The following statement shows the rate of interest that was payable on the redeemed securities, and indicates that an annual saving of interest to the Consolidated Fund amounting to £27,043 9s. 3d. will be effected as a result of the redemptions to the 31st March, 1927:—

Rate of Interest.	Nominal Value of Securities redeemed.			Total Cost of Redemption.	Annual Saving in Interest.
	Year 1925-26.	Year 1926-27.	Total to 31st March, 1927.		
Per Cent.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
4 ..	152,862 13 2	10,980 0 0	163,842 13 2	..	819 4 3
$4\frac{1}{2}$..	735,970 0 0	135,580 0 0	871,550 0 0	..	8,715 10 0
5 ..	900 0 0	6,800 0 0	7,700 0 0	..	115 10 0
$5\frac{1}{4}$ ..	..	300,500 0 0	300,500 0 0	..	5,258 15 0
$5\frac{1}{2}$ ..	..	13,900 0 0	13,900 0 0	..	278 0 0
6 ..	..	474,260 0 0	474,260 0 0	..	11,856 10 0
	889,732 13 2	942,020 0 0	1,831,752 13 2	1,809,868 7 6	27,043 9 3

It must be remembered that the scheme is only in its infancy. In each successive year the amount of moneys available for cancellations will increase, and consequently the saving of interest will as time goes on assume very much larger proportions.

In consequence of the passing of section 22 of the Finance Act, 1926, which exempted from the operation of the Repayment of the Public Debt Act, 1925, certain separate accounts, it was found that some of these accounts would suffer the loss of the sinking funds which they had built up out of their own moneys in previous years, and which funds now form part of the capital of the Public Debt Redemption Fund, and would also lose the interest earned by such funds, which is now payable to the Consolidated Fund. The Land for Settlements Account, for example, would lose sinking funds amounting to just under £1,180,000, which are earning interest amounting to about £60,000 per annum. This matter was brought under the notice of the Treasury, and an assurance has been received that legislation will be sought rectifying the position as regards the principal moneys. As it is clear that these separate accounts have an equitable right to receive the interest on the funds which they alone have created, it would seem necessary that the matter of interest should also be provided for.