

While prices of primary products remain at their present level it is, of course, impossible to restore the farming industry to a condition of prosperity. But in so far as it is possible to assist the farmer, it is in the interests of the whole community that funds be found from some source for this purpose.

The three great problems with which the country is faced are, therefore, the precarious position of the farmer, the position of the public finances, and the great and chronic problem of unemployment. These problems are inextricably interwoven, and they constitute a menace to the whole stability of our social organization.

FIXED INTEREST CHARGES.

Before dealing with the Government's proposals for assisting the farmers, balancing the Budget, and the problem of unemployment, I would like to refer briefly to the question of fixed interest charges. In some quarters it has been urged that relief for the Budget could be obtained by a writing-down of interest on all public securities held in New Zealand. It is suggested that this could be arrived at either by a voluntary conversion of our internal debt on the lines adopted in Australia or by a statutory reduction of interest rates.

The position of New Zealand, however, in this respect is not analogous to that of Australia. There are no large loans falling due in the near future which would lend themselves to conversion, and the average rate of interest at present paid on Government securities in New Zealand—approximately $4\frac{1}{2}$ per cent.—is too low to make it reasonable to expect that any lower rate will be obtained by conversion operations.

In the next place, any compulsory reduction of interest payable to bondholders would in reality mean default by the State, and would seriously damage our credit. Whatever the position of private borrowers may be, the State is still able to pay its debts. In my opinion, it could not, and should not, plead inability to pay when the bondholder demands his interest. European experience seems to show that destruction of confidence in the security of savings is the most serious calamity that can befall any nation, and the Government's chief aim must be a proper maintenance of public confidence.

Moreover, the State is not only a borrower, but a lender of many millions through the State Advances and other Departments. If, therefore, a concession were extracted from the bondholders, the State would be expected to pass this concession on to its borrowers. But many of these borrowers have been financed out of loans raised overseas, and under no circumstances could the State claim relief in respect of overseas interest payments. If, therefore, the concessions extracted from the New Zealand bondholders were passed on to all borrowers, the State would lose more than it would gain, by some hundreds of thousands of pounds. The result would be to further burden the Budget instead of bringing it relief.

It is well known, of course, that mortgage charges are perhaps the chief source of embarrassment to farmers and others under present economic conditions, but an arbitrary reduction would drive capital away from this class of investment. This would not be in the interests of borrowers themselves. Further, such a reduction would work out very inequitably in those cases where mortgagees are in a worse position than mortgagors. In the case of many farmers the relief afforded would be entirely inadequate. Moreover, if a fixed reduction were made the mortgagee would tend to regard that as the limit of his duty, whereas much greater concessions are being made by voluntary negotiations. Again, many mortgages are for a long term, and it is quite possible that prices will show some recovery within a year or two.

Finally, as the State holds about one-third of the mortgages in the Dominion, a reduction in mortgage charges alone would very seriously prejudice the budgetary position. So far as the State tenants and State mortgagors are concerned, the Government is doing its best to meet their necessities in a generous way. Each case is dealt with on its merits.

It may still be argued, however, that, although the State is in no position to claim a reduction of its interest payments to its bondholders, nevertheless these bondholders enjoy a secure income and should be called upon to share in the sacrifices which the whole community is being forced to bear. I agree with this view. But the most effective way to see that the holders of Government bonds bear their share of the general burden is through taxation, and the same considerations that apply to the bondholders apply to all receivers of investment income. If taxation is fairly and justly applied by the State, there is no breach of contract between the Government and its creditors.