

as was imposed last year, or (3) a voluntary conversion loan whereby the internal debt would be converted into new securities bearing a lower rate of interest. They suggest a reduction by 20 per cent. to a minimum of $3\frac{3}{4}$ per cent.

Reviewing these proposals the Government is of opinion that at this juncture a voluntary conversion loan is not advisable for various reasons:—

In the first place the average rate of interest on the public debt is too low to make it probable that any voluntary conversion scheme would be successful. The tables show that the average rate of interest on the debt held by the public is only $4\frac{7}{8}$ per cent., and on that held by Government Departments about $4\frac{1}{4}$ per cent.

In the next place the proportion of the debt held internally in New Zealand as against the external debt is much lower than was the case in Australia. It would appear that in order to procure a successful conversion it would be necessary to bring down the rates of interest so far below the market rate that it seems inevitable that the conversion would not be in effect voluntary but compulsory. In other words, it would amount to a composition with our creditors. Moreover, although some calculations in the reports of the Economists and the Royal Commission suggest that a net saving to the Budget of £300,000 or more would be made, later figures worked out by the Treasury satisfy me that after making all the necessary concessions to our own mortgagors and taxpayers the saving would be so small as not to warrant all the risk and turmoil of an attempted voluntary conversion. It may be that at some later date the question of a voluntary conversion will require to be reconsidered, but I do not think it is expedient at present.

Finally, as in the case of private interest, it must be remembered that the interest from Government bonds was subjected to a special income-tax last year. It is my experience and observation that many investors, both large and small, readily agree that they must pay whatever taxation the State finds it necessary to impose, but they strongly resent any suggestion of a forced reduction of interest by the Government on its own bonds. In reality they received a 10 per cent. cut last year by virtue of the taxation. I am therefore still of the opinion that the fairest way to call on the holders of Government bonds to pay their share towards the general need is by taxation. I therefore propose to maintain the taxation imposed last year. This will not put them on a level footing with the private mortgagee if he is to suffer a 20 per cent. flat reduction. I propose, therefore, to supplement the taxation on interest from Government bonds by a stamp duty on interest coupons of 10 per cent.

This brings me to the position of the tax-free debentures. Apparently both the Economists and the Royal Commission contemplate that any stamp duty imposed or interest reduction should apply to the tax-free debentures as well as those not tax free. The argument used is that this stamp duty is a special revenue duty framed for an emergency and not forming part of the ordinary system of income-tax. This view is held not only by the Royal Commission and the Economists, but it appears to be considered justifiable by some of the stock exchanges and other organizations dealing in investments. I am unable to acquiesce in this view, and it must therefore be understood that while the recommendation is submitted to the House by the Government on the advice and acquiescence of the authorities I have quoted, it does not express my own personal view.

Interest on Local-body Debt.—This will be dealt with in the same way as interest on the public debt—that is to say, interest on local-body debt will be included in the proposal for a stamp duty of 10 per cent., and the special income-tax imposed last year will remain. Provision will be made in the legislation for payment to local bodies of the proceeds from the duty derived from the interest on their securities, less a deduction of 5 per cent. to cover costs of administration.

Other Interest.—In order to preserve the existing relative position and ensure that the reduction in fixed charges is an all-round one, it is necessary to consider the position of bank rates and deposit rates generally. In so far as bank rates for advances are concerned, the question of a reduction has been discussed with the Associated Banks, and an announcement in regard to the matter will be made by the Chairman of the Associated Banks shortly.