

11 per cent., apart from the effects of the special taxation of interest, would be merely an adjustment to the fall in the cost of living. It would not reduce the real income of the recipient of interest. But some interest is not being paid and the total income from interest is lower now than it was in 1929. Hence the bondholder and the mortgagee are adversely affected by a fall in national income, though the net effect upon them may be less serious than upon other sections of the community. Their welfare will be best safeguarded by the restoration of sound trading-conditions. This necessitates a reduction in all costs. It is both socially equitable and economically sound that the recipient of interest should make a contribution towards the reduction in costs and bear a due proportion of the loss of national income.

92. For these reasons a reduction in fixed money claims would have beneficial effects. Provision is now made under the Mortgagees Relief Act for a downward revision in certain conditions of mortgage interest and principal. An extension of this principle to all fixed payments under private contract would assist in the reduction of costs and the more equitable spreading of the loss of national income. The adjustments in other incomes required for restoring Budget equilibrium and maintaining industrial output are serious. The exemption of any income element from the general public policy would raise the objection that a particular class of income was receiving specially favourable treatment. Any general adjustment in private interest should be all-inclusive, covering interest on all debts against which chattels have been pledged and interest upon goods sold under the time-payment system, as well as interest on all mortgages, urban and rural.

**Extension of
Mortgagees Relief
Act.**

93. If the borrower who is unable to secure relief from the lender after recourse to an Adjustment Commission then has the right to approach a tribunal, the adjustment could proceed on a sound constitutional basis. It would then be open to the lender to show why a reduction in interest or other fixed charges was inequitable to him, and to convince the Court that no reduction should be made. We deal with the problem of interest on deposits, and advances of banking and other institutions in Section XIV.

94. Interest on the internal debt of the Government and local bodies is considered in Sections XII and XIII. Any revision of fixed charges should be confined to internal interest pending an all-round adjustment of economic conditions to the new situation. It is the responsibility of the people of the Dominion to meet the position by a common sacrifice among themselves. We draw attention to the fact that the fall of 40 per cent. in export prices has increased the burden of external payments by two-thirds. Some relief has already been granted through the Hoover moratorium. If this be made permanent, the money burden of the present external-debt charge will be reduced by nearly 15 per cent.

External Interest.

95. The same arguments apply to rents as to interest. Indeed, a reduction of interest on mortgages offers a suitable basis for rent-reduction. According to the Government Statistician's index number for rent, in twenty-five towns in the Dominion the fall in rent from 1929 to November, 1931, has been approximately 6 per cent. Thus, the recipient of rent, wherever it is paid in full, is receiving a greater real income now than he was in 1929. Unless a rapid downward revision of rents occurs, the reductions in wages will fall with special severity upon wage and salary earners, and costs in commercial and retail businesses will remain high. It is important that these costs be reduced, and it is equally important that the wage-earner should be placed in a position where he can take a lower money wage without making a greater sacrifice than the rest of the community. Hence the case for revising rents is not less strong than the case for revising interest. In any legislation it would be advisable to treat rents on a uniform basis with interest.

Rents.

96. Such a revision of fixed money contracts, even though made from the paramount consideration of the general economic welfare, might raise important questions concerning contract. In normal times the community would not be justified in passing legislation involving a capricious interference with contract. Conditions, however, to-day are far from normal, and the revision of fixed money payments is a reasonable measure of further economic readjustment. Moreover, contracts are expressed in terms of money, and money itself has a variable value. To-day its value in New Zealand, according to the movements in the cost of living, is 12·5 per cent. greater than in 1929—that is, a fixed amount of money will purchase 12·5 per cent. more goods in general than in 1929. Hence the real terms of a contract, when brought into relation with these new conditions, would not be modified in terms of purchasing-power to the extent that may appear at first sight.

Contract.

97. A final question arises regarding the revision of contracts in fixed money terms. What rate should be applied in making a revision? If parity of exchange is restored, the export price level will, under present conditions, be 45 per cent. below the 1929 level. Farm-costs as a whole have fallen by approximately 10 per cent. There would thus be a wide gap between export prices and farm-costs. This gap would be narrowed by a higher exchange-rate, or some other process that transfers real income to the farmers. Reasons have been given in Section VIII for stating that a higher rate of exchange will bring but a slight increase in farm-costs in the immediate future. With a corresponding fall in import prices these additional costs will be reduced.* Thus the

**The Rate of
Reduction.**

* See Addendum by Mr. Park.