

The foregoing figures are based on the assumption that securities will be redeemed at par, but it would probably be found possible to purchase at a discount in many cases, and by this means an even greater reduction both of debt and in interest charges would be effected.

This, however, is not the only saving that would result from the proposed new system. The annual contribution from Consolidated Fund provided by the Bill is $\frac{1}{2}$ per cent. of the total debt covered by the Bill. Against this must be set off the amount of contribution now being paid annually by Consolidated Fund to the existing sinking funds (which would automatically cease) together with other additional amounts of revenue which would accrue. This would ensure a further substantial saving of some £324,000.

It may be mentioned that a system of debt repayment exactly similar in principle to that embodied in the Bill was adopted by the Commonwealth of Australia in 1923. There are slight differences of detail, the chief being that the Australian system is based on an interest rate of 5 per cent., while the New Zealand one is based on a rate of $3\frac{1}{2}$ per cent. A modification of the system is also in use in some of the Australian States, but this modified system lacks some of the chief advantages of that now proposed.

The principle embodied in the proposed system has also been in use in connection with the public debt of Great Britain since the year 1875, and has there proved itself to be the most satisfactory system yet adopted. In that case the principle of a fixed annual charge for the services of the public debt is supplemented by the provision for additional reduction from revenue surpluses when such are attained.

The following has been said by an authority on national finance: "Of many good reasons for paying off debt the best is to maintain the nation's credit. 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. 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."

Objection may perhaps be raised that the alteration of the sinking funds is breaking faith with past investors. It is pointed out that such an objection is groundless, for the proposed scheme will not only actually pay off debt year by year, in place of accumulating investments which it would be difficult if not impossible to realize when the cash is required, but will at the same time pay off the debt in about sixty-one years, as against seventy-five years provided for in the case of the present Public Debt Extinction Act. It is also pointed out that the present sinking funds will be kept intact and the interest earned thereon will be applied in reduction of the amount payable under the Bill for debt redemption. Furthermore the primary security of the investors is the charge against the whole of the public revenues of the Dominion, a much better security than is provided by the existing sinking funds. In this connection attention may also be drawn to the fact that on many previous occasions the form of the sinking funds has been changed without any serious objection being raised thereto. As instances it may be mentioned that the existing Public Debt Extinction Act brought under its provisions many loans which had previously been subject to an entirely different sinking-fund system. The sinking-fund provisions of the State Advances Office were repealed in 1921-22, and fresh provisions enacted, and still another instance may be cited where loans which were subject to a sinking fund in New Zealand were funded by agreement with the Imperial Government.

STATE ADVANCES SINKING FUNDS.

The provisions for redemption of the State Advances debt were amended by legislation in 1922, and the position is even less satisfactory than that for the redemption of the public debt, for there is now no obligation under the State Advances Act to provide for any annual payment to a sinking or redemption fund. The Act merely provides that any profits remaining after the constitution of a general reserve fund are to be paid over to form a sinking fund. As pointed out in my last report, there are insufficient profits in the Advances to Workers and the Loans to Local Authorities Branches to enable any sinking-fund contribution to be made, while even in the Advances to Settlers Branch the profits have not hitherto been sufficient to provide an adequate sinking fund. Owing to the higher rate of interest which has to be paid on loans there appears to be little prospect of building up an adequate sinking fund unless the law is amended to provide for a statutory annual contribution on a percentage basis, and for the increasing of the instalments payable on advances to an amount sufficient to cover the rate of interest together with the amount of such annual charge for sinking fund. If a debt-repayment scheme similar to that proposed in connection with the public debt were instituted, but with a smaller contribution and a longer term, the State Advances Department would in years to come obtain benefits in the reduction of the annual charge for interest corresponding with those which have been mentioned in connection with that proposed scheme.

AUDIT OF GOVERNMENT STORES AND PROPERTY.

I have on previous occasions in my reports to Parliament emphasized the great importance of this branch of Audit duties. In many Departments it has hitherto been the practice to write off losses and deficiencies in stores without sufficient investigation as to the cause of the loss, and without reporting the circumstances to Audit in order that the discharge from the Public Account