

Honourable members are, of course, fully aware of most of these facts, but I have deemed it advisable to restate the basic difficulties which faced the Dominion and the steps that have been taken to bring about a sufficient measure of readjustment to enable the country to carry on. In a time of rapid changes people are apt to seize upon and perhaps strongly criticize particular items that directly affect them, and in doing so lose their perspective of the problem as a whole.

Experts do not altogether agree as to the causes of our troubles, but all are in agreement that cheap money is an essential element in recovery. Accordingly, while endeavouring to give relief for the present, the Government set out upon a campaign to bring about lower market rates of interest on a sound basis. It was considered that if this could be achieved it would be of much greater and more lasting benefit to all sections of the community than a simple cut in existing charges.

In New Zealand, the rates of interest on Government securities largely set the standard for the Dominion as a whole, and directly or indirectly affect all other interest rates. This being so, it soon became apparent that the 10 per cent. stamp duty imposed as a temporary measure would not meet the situation, and attention was turned to the problem of converting the whole internal public debt to lower interest rates, a financial operation far exceeding in magnitude anything previously attempted in this Dominion.

The conversion was an outstanding success, and illustrated to the world the willingness of the people of the Dominion to make financial sacrifices in the interests of their country as a whole. The whole of the £115,000,000 concerned was converted, with the exception of £475,000, equal to less than $\frac{1}{2}$ per cent. Approximately £356,000 of the dissented stock has since matured and been redeemed, so that the objective of taking off the market all stock bearing a higher rate of interest than 4 per cent. has for all practical purposes been achieved. The new stocks bear interest at $3\frac{1}{2}$ per cent. in the case of issues the interest on which continues to be free of income tax, and 4 per cent. in all other cases. The free of income tax concession continues until the maturity date of the original securities, after which the interest on all stocks will be at the rate of 4 per cent., subject to taxation. The basis of the conversion, however, was a reduction of 20 per cent. on the interest rates that previously obtained; but, in order to obtain uniformity in the new issues, any interest due over and above $3\frac{1}{2}$ per cent. or 4 per cent., as the case might be, was compensated for on an actuarial basis by the issue of additional stock by way of premium or by payment in cash where small amounts were involved.

The effect on market rates of interest is fully up to expectations, for the new 4 per cent. stocks are being sold on the market at higher prices than ruled previously for 5 per cent. securities. Therein lies the proof of the real success of the conversion operations.

In any plans for the establishment of lower interest rates the securities issued by local authorities could not be overlooked; but owing to the number and variety of such bodies immediate conversion on a comprehensive basis was not possible. Accordingly, as an intermediate step to conversion by each local body concerned, a statutory reduction of 20 per cent. in the interest payable on all such securities, but with a minimum rate of $4\frac{1}{4}$ per cent., was imposed. Local bodies generally, recognizing the benefits to be obtained from establishing the lower interest rates on a permanent basis and at the same time simplifying and consolidating their debts, are now engaged in drawing up schemes and making preparations for conversion operations. Numerous schemes have already been passed by the Local Government Loans Board and authorized by Order in Council. In a number of other cases the preparatory work is nearing completion, and during the next few months a large number should be placed before the bondholders.

Special rating areas are causing difficulties in the case of some local authorities, but it is proposed to bring down legislation to enable local authorities to amalgamate or suitably group such areas, or, where it can be done without inequity, entirely eliminate them and strike a consolidated rate for debt charges.

In order that the lower interest rates may be stabilized on a sound basis, I would urge every local authority that has not already done so to draw up an equitable scheme of conversion without delay and submit it for approval to the Local Government Loans Board. I would further appeal to holders of

Interest rates.

Public debt
loan conversion.

Local authorities
loan conversion.