In the general interests of the country the assistance given to farmers in the form of subsidies on the carriage of lime and fertilizers, and also on the manufacture of fertilizers, has been continued. I may add that, after careful investigation of the position of the fertilizer companies, the Government found it necessary to take a firm stand in regard to the selling-price of fertilizers. Where necessary, reduced railage freights on farm-produce have also been continued.

The benefits received from the increase in the prices of a substantial proportion of our exports, combined with the raising of the exchange-rate, have substantially bridged the serious gap between costs and market prices for a great many of our farmers. Since 1932 the export-price indices show an average rise of 20 per cent. On the other hand, prices internally have remained remarkably stable, the index for wholesale prices showing an increase of 3 per cent. and retail prices a decrease of 3 per cent. In fact, since the raising of the London – New Zealand exchange-rate retail prices have been stabilized, not increased. This is borne out by the tables issued by the Government Statistician showing that, in January and February, 1933 the New Zealand retail price-index stood at 26 per cent. and 27 per cent. above July, 1914. Despite the imposition of the sales-tax, and the increased exchange-rate, this increase above the July, 1914, level remained at 26 per cent. and 27 per cent. throughout the year 1933.

Interest-rates.

The success of the Government's policy of bringing about lower interest-rates is another powerful factor in aiding economic recovery. Following the conversion of the public debt and the substantial progress already made in the conversion of the debts of local bodies, the cheaper credit has now permeated through all avenues of investment. As a result, money is being freely offered now for investment in mortgages at $4\frac{1}{2}$ per cent. and even lower. These rates are lower than the minimum of 5 per cent. fixed for the statutory reductions under the National Expenditure Adjustment Act, and a marked contrast to the rates of $6\frac{1}{2}$ per cent. and 7 per cent. ruling prior thereto.

Mortgage investments.

The mortgage situation generally is complicated and an obstacle to economic recovery. The statutory reductions under the National Expenditure Adjustment Act and the operation of the Mortgagors' Relief legislation from the nature of things cannot be anything more than a temporary expedient, and what is wanted now is a sound method of liquidating the position that will tend to strengthen confidence in mortgage investments. Having succeeded in obtaining lower market rates of interest, the problem resolves itself into finding more adequate means of taking full advantage of those lower interest-rates. As there is no such thing as uniformity of conditions in mortgage investments, any further general reductions by legislation would be inequitable and would tend to shatter confidence and thereby keep capital away from mortgages, which would harden interest-rates and be a retrograde step.

National Mortgage Corporation.

It is accordingly considered that the solution does not lie in further legislation bearing directly on interest-rates, but in facilitating the refinancing of existing debts at lower interest-rates. For this purpose, and to organize mortgage finance on a comprehensive basis, it is proposed next session to bring down legislation for the incorporation by statute of a National Mortgage Corporation upon a basis somewhat similar to that of the Reserve Bank. To bridge the gap between the stock exchanges and mortgages, and thereby obtain finance at the lowest possible rates of interest, this corporation will be empowered to raise capital by the sale of mortgage bonds similar to the Rural Advances bonds which have been issued against the assets of that branch of the State Advances Office. Huge sums have been raised by the sale of such bonds on the Stock Exchanges of Europe and America. The underlying idea of these bonds is to spread risks by making the bonds a charge over all mortgages held and to turn mortgages into readily saleable stock exchange securities representing small amounts.

It is considered that the proposed corporation, if properly established under the control of a Board that would command confidence, would be able to sell bonds at 4 per cent. or lower and generally be able to lend for repayment of existing mortgages at $\frac{1}{2}$ per cent. above its borrowing-rate. A great many mortgages are at present running on overdue, and in these cases refinancing could proceed without delay. Other flat mortgages are falling due from day to day, and the opportunity to refinance the bulk of them will occur within a few years.