vent such increase becoming a permanent addition to the public debt. In my opinion a portion of the interest charge which would be saved to the country by a successful conversion operation could be fairly utilised as a sinking fund to provide for the extinguishment of the additional debt created by the conversion. I am convinced a very large saving of the annual interest-charge can be effected, and, if any extra debt can be provided for at maturity, it is easy to see that the country will be a great gainer by the ideas I am now placing before you if they are carried to a practical and successful issue.

EXTINGUISHMENT OF OUR PUBLIC DEBT.

The question of the extinction of our loans has given me much concern. The time is approaching when, in my opinion, it would add to the stability of the colony, and place it in the forefront of any country in the world, if we would resolve to make a moderate sacrifice in providing with our annual interest a small payment to enable the loan to be extinguished within a reasonable period upon a system somewhat similar to that which is now applied to our loans to local bodies. The question of how various Administrations use the sinking funds of the colony would, under such a proposal as I am now endeavouring to sketch, completely disappear, inasmuch as the sinking fund would be included in the annual payments of interest. If we realise to the full the advantages that would follow a general conversion of our stock into 3-per-cents, and utilise the large annual saving in interest thus obtained to repay our indebtedness, the ability of the taxpayers to provide the redemption fund would not be taxed beyond present limits. I fully recognise the fact that financial authorities urge that a borrowing country should not provide a sinking fund until it has ceased to borrow. Circumstances alter cases, and I say that, with the novel prospects of obtaining money at such a low rate as would enable us to provide for the gradual reduction and extinction of our debt without adding to our annual burdens, the provision of a sinking fund is a course that has much to commend it. While posterity has doubtless to reap the reward of the efforts of ourselves and those who have preceded us, and should bear a full share of the burdens created to make the country, still, as prudent men we should, while recognising the necessities of the times in which we live, endeavour to make our legacy as light as possible for those who will follow us.

I think there is much to be said for this proposal; and I am seriously of opinion that it would give greater stability to this country were we, when the right time arrives, to adopt an effective system for the extinction of our indebtedness.

LOCAL BODIES' LOANS.

The general lowering of the values of money has necessarily brought before me the question of the rates of interest which are being paid by local bodies for the moneys they require for carrying on their public works. It is, of course, difficult to make a change retrospective in its application where a commitment for a period at a particular rate of interest has been agreed to by a local body. But I am decidedly of opinion that the advantage to be gained by the cheapening of money should apply to local bodies throughout the country; and it seems to me desirable that the rates which are now being paid to investors in securities of local bodies should be lowered, so as to be in keeping with those we are paying for our borrowed moneys. I propose, after due notice has been given, to readjust the lending rates of Government departments, and to take the necessary steps to relieve such local bodies as have funds provided from these institutions for carrying on their finances. In connection with this, I desire, however, to point out that, unless other financial institutions of the country are agreeable to conform to the system which has been initiated by the Government, we will not stand by and allow any undue advantage to be gained by them to the detriment of the Government institutions from the colony's action in lowering interest-rates. The more the question of cheap money is thought out by all classes in the country, the more it will be seen that it is of the first importance to the future prospects and development of New Zealand that we should be placed upon a footing at least equal, if not superior, to that of countries closer to the consuming markets of the world.