

Most of our borrowed money has been applied to useful public works, and splendid assets can be shown for it. In this respect we are fortunate, compared with other lands, whose constantly increasing burdens are the results of wars or the preparation for them.

If a sinking fund were created, and the funds thereof advanced to settlers and local bodies, there could be no reasonable objections.

There would be no fear of such funds being annexed. This would be impossible, as they would always be closely invested by being lent out to hardworking settlers and local bodies, and the repayment would extend over a large number of years.

At present the consolidated revenue is paying annually to the Public Trustee as sinking funds :—

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|-------------------------------------------------------|--------|
| On old war loans, under section 54 of the New Zealand | £      |
| Loans Act, 1908 .. .. .                               | 39,950 |
| Under different Loans to Local Bodies Acts .. .. .    | 52,358 |

It is intended to discontinue such payments to the Public Trustee, and in future to invest them, together with the interest on the sums already accumulated by the Public Trustee, in loans to settlers, workers, and local authorities. These investments will be made by the State-guaranteed Advances Board under carefully drawn regulations. The body controlling the sinking funds will be the present Commissioners of the Public Debt Sinking Funds, constituted under the provisions of section 47 of the New Zealand Loans Act, 1908—namely, the Minister of Finance, the Speaker of the House of Representatives, the Controller and Auditor-General, and the Public Trustee.

The funds will be kept apart from those of the other branches of the State-guaranteed Advances Department. The Superintendent will be made a Commissioner, but will be under the direction of the Board.

The past experience of the Commissioners and the Advances Board will be most valuable, and the whole business can be carried on at a minimum of cost. Our present debts not provided with a sinking fund or internal reserve for their repayment amount in round numbers to £63,000,000. A sum of £140,500 per annum, inclusive of the present annual amounts paid to sinking funds, will require to be set aside under the proposal to repay that amount in seventy-five years, and the balance provided by the consolidated revenue; and this I can see my way to do.

The amount to be paid into the fund will, of course, vary each year according to the then amount of the public debt. The sum required will be certified to by the Controller and Auditor-General within thirty days after the close of each financial year, and the Minister of Finance shall before the end of the following financial year, in such sums and at such times as may be required by the State-guaranteed Advances Office Superintendent for investment, pay over the total out of the consolidated revenue. The moneys may be lent by the Advances Board on fixed loans or on the instalment system; but in granting loans the Board will take into consideration the amounts that may be required to wholly or partly repay any loan maturing in the future.

When a portion of the public debt is repaid before the expiration of seventy-five years from the time the accumulation for its redemption is commenced, the fund must be replenished by an annual payment to equal the consequent loss of interest.

Suppose that in twenty-five years the Board decides to repay £1,000,000 of our debt. An annual contribution must thereafter be made which, with accumulations thereon during the remaining fifty years of the term, will equal the amount which the interest on this £1,000,000 would have reached if allowed to accumulate.

The amount of the annual sum will depend upon the interest being earned by the fund. If it is the same as that of the £1,000,000 redeemed, the annual payment to the fund will equal the interest saved by the repayment. Suppose the interest on each is 4 per cent., then £40,000 yearly will be saved by paying off the loan, and thereafter this £40,000 will be paid into the fund. If the interest then being earned by the fund is  $4\frac{1}{2}$  per cent., £37,500 only of the annual £40,000 interest saved by discharging the loan will be required. If less than 4 per cent. is being earned, more than £40,000 annually must be added to the fund. It will be merely the interest saved on repayments (a little more or less) diverted to take the place of that of the paid-off capital which would otherwise be accumulated.