

If we regard this last item of £6,500,000 as non-productive expenditure, it will be seen that it is practically offset by debt-repayment. Thus the net increase in the debt—viz., £23,580,000—is represented by productive assets which either wholly or mainly earn the interest payable on the loan capital invested in them.

So far as public works are concerned, the two heaviest single items—viz., railways improvement and hydro-electric power—cover definite programmes of work in which we have almost passed the peak period, and, so far as can be seen, a falling-off in loan requirements could be looked for from now on.

Moreover, with the increase in the accumulated wealth of the Dominion it should be possible in future to supply more of our own requirements, partly out of increased local borrowing, but, as the years go by, to an increasing extent out of revenue.

Under these circumstances, and with a separate source of finance for farmers, to which I shall refer later, it appeared to me that the plain policy for New Zealand to pursue was to aim at an annual reduction in borrowing until in a short time the increasing debt-repayment resources would enable annual debt repayment to exceed new annual borrowing.

DEBT-REPAYMENT SYSTEM.

What makes this policy effective is the fact that our debt-repayment system provides an increasing amount each year for debt-repayment. This increase is due to the fact that we utilize the interest saved on the debt redeemed each year for further redemptions. In fact, the system operates on the principle of a table mortgage, in that each year an increasing amount of principal is repaid as the interest payable decreases owing to redemptions. Nor does the fact that the resources are applied to annual repayments in any way destroy the sinking-fund basis, because the interest that would be earned by the investment of the annual contributions under an accumulating sinking fund is made good each year by the increased annual contributions provided for under the system. This, however, does not mean any increased cost to the taxpayer, who is saved the interest otherwise payable on the securities redeemed. Moreover, the system, which is similar to that in operation in Great Britain and Australia, saves the costs of constantly renewing loans over a period of sixty or seventy years.

The moneys available for debt-repayment have been largely concentrated on war debt, which is the great burden on the taxpayer. As pointed out in the last Budget, the war debt of now approximately £72,000,000 costs the taxpayer £3,490,000 in interest, as against £2,105,000 for the ordinary debt, which is about two and a half times as large as the war debt.

STATE ADVANCES AND FARMERS' FINANCE.

The heavy payout by the State Advances Office continued during the financial years 1926 and 1927, during which time advances aggregated over £12,000,000. Although the Office continues to pay its way, the capital borrowed for State advances was inflating the public debt, and there were indications that to continue providing large sums for State advances as part of the ordinary loan Budget would adversely affect our credit abroad.

Land-values have now for the most part been reduced to a more economic level, and with the slackening of borrowing on the part of local bodies it was hoped that capital would again flow into the finance of primary industries. To give greater security and a more liquid investment for the private lender, while giving the borrower all the advantages of the State Advances table mortgages, the Rural Advances Act was passed in 1926, as an outcome of the report of the Royal Commission on Rural Credits. This Act provides for the sale of bonds secured on first mortgages of land, and provides an independent source of finance for advances to settlers outside the ordinary loan programme and the public debt. The scheme, which has special financial advantages for borrowers in using bonds to liquidate their loans, is slowly gathering momentum, and given time would, I think, solve the problem of long-term finances for farmers, on the lines that have been found so successful in America, Denmark, and other countries. Up to the present over £1,000,000 in bonds has been applied for.