

RAISING AND CONVERSION OF LOANS AT A DISCOUNT.

The attention of the Audit Office has recently been focused on the effect which the practice of raising and conversion of loans at a discount has upon the national debt of the Dominion, and it is evident that very considerable additional burdens are from time to time cast upon the taxpayer by this custom. It is obvious that this increased indebtedness provides no additional cash for development purposes, and it seems questionable whether any benefit is derived from the practice of raising and converting at a discount and endeavouring by this means to keep down the charge for interest.

As an instance of the effect of this practice I may refer to the conversions effected by the Treasury during the past year, £16,759,496 4-per-cent. Consolidated Stock, 1929, having been converted into £17,484,336 1s. 4½-per-cent. Consolidated Stock maturing in 1947 and in 1948–58. These conversions involve a direct increase in the public debt of £724,840 1s., representing discounts allowed on the conversions, and also involve additional cash expenses amounting to £192,535 17s. 6d., the total expenses, including discounts, being £917,375 18s. 6d. The annual interest charge is also increased by £116,415.

To enable a complete estimate of the total amount by which the public debt has been added to by this means would involve an audit of the history of practically every loan, a work which could not be undertaken without very considerable trouble and expense. I have, however, had an investigation made of one particular loan of which the history has been carefully reviewed. The loan in question is part of the New Zealand loan of 1879. It was originally issued as a convertible debenture loan at 5 per cent., with an option to convert into 4-per-cent. Consolidated Stock, 1929. The original debenture issue was floated at £97½, but actually netted about £95½ (see B.—2, 1926, page 3). By March, 1881, £4,476,000 of the debentures had been converted into 4-per-cent. Consolidated Stock, 1929. The following statement shows the amount of cash received, and the amount of debt now owing in respect of such cash. This loan matures in 1929, and may be considered for the purposes of the following figures to have formed portion of the conversion transactions effected last year.

Particulars.	Total Amount.	Amount of Debt for each £100 Cash received.
	£	£
Cash received in respect of £4,476,000 debentures when first issued at £97½	4,364,100	..
Debentures originally issued	4,476,000	102·564
Conversion into 4 per cent. Stock, 1929 (representing debentures converted at £120 in 1880–1881)	5,371,200	123·077
Conversion into 4½ per cent. Stock 1948–58, (representing 1929 Stock converted at £104½ in 1929)	5,599,476	128·308
Excess of present debt over cash received	1,235,376	28·308

NOTE.—The figures quoted allow for discount only. If the other charges and expenses of raising the loans were taken into consideration the increase in the debt would be more marked.

It will be seen that in respect of the £4,364,100 cash originally received there is now owing the amount of £5,599,476, representing an excess of debt over cash received of about 28 per cent. If the amount of £4,364,100 and subsequent transactions had in each case been raised at the then current market rate of interest, and therefore at par, the present debt would be only £4,364,100. The effect of such transactions, therefore, is that the taxpayer has been relieved of portion of the annual charge for interest during the currency of the loan, whilst the debt and also the annual burden on future taxpayers has been increased. In effect, part of the annual charge has been postponed, and accumulated until the maturity date of each issue, instead of being met during the period of the loan.

The above figures will serve to show that a large portion of the total of our present public debt represents increases due to the causes now under notice, and such increases have occurred without any relative increase in the assets of the Dominion, and have therefore, in effect, been added to our “deadweight” or non-productive debt even though the original loan may have been raised for a productive purpose.

Our present system of accounts is not so arranged that the full annual charge of our London loans is brought into the accounts during the currency of the loan.

Another disadvantage of the system hitherto followed is that the public works which have been constructed from such loan-moneys are shown in the books and accounts at less than their true cost. If, for example, £100,000 of the original loan of £4,364,100 had been expended on a public work, such as a line of railway, the cost would be stated as £100,000. But it is clear that in fact the present capital cost of that work to the Dominion is no less than £128,308.

These matters have assumed a greater degree of prominence since the institution of the departmental balance-sheets, and it is obvious that it is impossible to accurately arrive at the capital cost of an undertaking unless the variations noted above are duly recorded in the accounts.

NECESSITY FOR UNIFORMITY IN RATE OF INTEREST CHARGEABLE BETWEEN GOVERNMENT ACCOUNTS.

A matter which has an important bearing on departmental Revenue Accounts and Balance-sheets, and also on the various separate accounts specially constituted by statute, is the absence of uniformity in fixing the rate of interest on loans between the various Government accounts. It frequently happens that some accounts are in need of money while others have money for investment, either temporarily