

153. We are of opinion that the question of taxation is one outside the order of reference of the Commission, and we do not venture to suggest the rate of stamp duty which should be imposed. It should, however, be a rate commensurate with the sacrifice demanded of other classes of income.

154. Dealing now with the question of a conversion loan, the disadvantages are—

(a) Considerable cost is involved in the process of conversion :

(b) Immediate relief to the Consolidated Fund would not be possible, as probably at least three months would be required to complete negotiations :

(c) It would penalize investors for the whole duration of the loans.

155. The advantage is that conversion would give relief to the Consolidated Fund over a long period and would tend to reduce the general interest-level.

156. We believe that the Government should carefully consider the possibility of making an appeal to investors to convert their securities into loans carrying a reduced rate of interest.

157. In effect, we recommend a combination of stamp duty and conversion, mainly because by this means immediate relief to the Consolidated Fund can be obtained. We suggest, first of all, that the Government should at once call a conference of representatives of the leading financial institutions, the press, and representative brokers, with a view to gauging whether a conversion issue would be likely to meet with success. Nothing would be more fatal to our credit than an unsuccessful conversion scheme, and we could not suggest an immediate appeal unless the probability of success had first been gauged.

158. As a basis for consideration of a conversion scheme, we suggest a general reduction in interest on all internal loans bearing interest at $4\frac{1}{2}$ per cent. or over, of 15 per cent. (that is 3s. in the £1). If such an appeal be made it should be preceded by a full statement of the financial position of the Dominion, and, in particular, of the budgetary position for 1932-33, and we believe that, if properly organized, a successful termination to a conversion scheme might be anticipated. If a conversion scheme be decided upon, advantage should be taken of the occasion to arrange suitable maturity dates, in order to eliminate problems of redemption for some years to come. We suggest also that an option should be given to the holders of tax-free loans to convert into taxable loans at such premium or higher rate of interest as might be considered equitable. The annual gross saving in interest on the basis suggested above is estimated at £564,000.

159. Before passing from this phase of the subject we would refer to the large amount of the Public Debt held by State Departments, principally the Post Office, State Fire Office, Public Trust Office, Government Life Insurance Office, and various Treasury accounts. The amount of the debt so held is £53,270,000. Of this, the Post Office holds £46,046,000, of which, however, £37,911,000 bears interest at 4 per cent. or less. The reduction suggested would, therefore, affect only £8,135,000 of the debt so held. The loss in interest on this amount would be reflected in reduced Post Office profits (subject, however, to any saving which might be effected by a reduction in the rate of interest paid to depositors), and, as Post Office profits are paid into the Consolidated Fund, the reduction would, in effect, be a charge on that fund.

160. Any losses of interest on public debt held by the Public Trust Office, the Government Life Insurance Office, and the State Fire Insurance Office, should be borne by the respective Departments.

161. The amount of the debt held by Treasury accounts is relatively small and need not be separately considered.

162. Dealing now with the question of interest on mortgages, debentures, deposits, dividends from preference shares, &c., our view is that, as the interest charge on securities of this nature does not affect the public expenditure, the matter does not come within our order of reference. We feel, however, we would be failing in our duty were we to make no reference whatever to the matter.

163. Private compositions affecting both principal and interest are being arranged daily, but, in our view, a general change such as is contemplated cannot be left altogether to natural economic forces to bring about, as such a policy may under present conditions be too slow in operation and may not result in an equal all-round adjustment. We feel, therefore, that it would be reasonable to widen the scope of the existing legislation in order to accelerate the private compositions referred to. We do not feel that it is our duty to suggest the nature and form the legislation should take. It should, however, aim at the policy we have advocated from the outset—that is, equality of sacrifice, and a general levelling-down of costs of production. It would be necessary in drafting the legislation to make provision for a special Court of equity to consider applications by mortgagors or mortgagees, and the aim should be to make the process as simple and inexpensive as possible.

164. Mortgagees and others whose incomes are derived from fixed investments cannot hope to escape a comparable and equitable contribution to the general sacrifice which it has been suggested should be imposed on holders of public securities.

165. To permit them to do so would be unjust and give ground for complaint that one class of investor had been penalized, and the State as a borrower would be seriously prejudiced.

166. Cognizance must be taken of the fact that the burden imposed by mortgage charges based on inflated values is impossible. A reduction of interest, necessary as it may be in the meantime, is merely a palliative, and in many cases will prove futile. The all-important question of capital values is involved. A reduction in the rate of interest from, say, 7 to even 4 per cent. is not going to help a borrower who has a mortgage of £10,000 on a property which to-day will not produce sufficient to enable him to pay the reduced rate on £5,000, or even less.

167. Finally, there is one further class of fixed income to which we must refer, and that is the incomes of those who hold local-body securities domiciled in the Dominion. There must be some adjustment in incomes of this nature, and we accordingly suggest the imposition of a special stamp duty in the meantime as a means of relieving the burden of local rates, to be followed later by a Conversion Scheme such as we have outlined in respect of the Internal Public Debt.