

only alternative which would provide immediate relief to the Consolidated Fund appears to be some form of special taxation of income from investments. This might perhaps take the form of a stamp duty on interest from Government securities. We see practical difficulties in the equitable application of such a tax to *all* classes of income from investments.

299. The imposition of special taxation on incomes from investments has, we think, the defect that it would fail to bring about a reduction in the general interest-level. Indeed, the imposition of such additional taxation might have the reverse effect, and would, in any case, retard a general fall. In most industries interest forms a substantial item of cost, and reduced rates would give some relief. Reduced interest-rates would, moreover, be accepted by the community as more in keeping with reduced wages and salaries than would mere increases in taxation. We are also strongly of the opinion that special taxation on income from one particular class of investment would be inequitable and unjust. Its only merit appears to be that in the unlikely event of a return of the price-levels of a few years ago the tax could be removed or reduced; but, as all authorities appear to agree that such levels cannot in any case be expected for many years, the reduced rate is unlikely to become an unjust rate.

300. We therefore recommend that an early opportunity be taken of conferring with representatives of leading financial institutions, brokers, &c., with a view to launching a conversion scheme on the basis of a reduction of interest by 20 per cent., but so that in no case should the rate of interest be reduced below 4 per cent., in the case of loans the income from which is subject to taxation, or below £3 12s. per cent.—*i.e.*, 4½ per cent., less 20 per cent.—in the case of loans the income from which is free from income-tax. We consider, also, that an option should be given to the holders of tax-free loans to convert into taxable loans at a premium or suitably increased rate of interest.

301. If such an appeal be made, and if it be preceded by a full statement of the financial position of the Dominion, and, in particular, of the budgetary position for 1932–33, we consider that a successful result may be anticipated. We would add that, 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 conversions for some years to come.

302. If such a conversion scheme can be brought to a successful conclusion, the annual *gross* saving in interest is estimated at £730,089.

303. There are, however, other aspects of the problem which must be considered, particularly the question of interest on loans from State lending Departments. Any reductions which are brought about in the interest-rate paid by the Government must lead to the consideration of reductions to those who have borrowed from State lending Departments. For the purpose of arriving at an estimate of the probable annual net saving to the Government we have assumed a reduction of 20 per cent., in the rate of interest payable on loans from State lending Departments, with the proviso that in no case shall the resultant rate of interest be lower than 5 per cent. On this basis the loss to the State lending Departments is estimated to be as follows:—

	£
State Advances Office	224,658
Lands and Survey Department	31,732
	£256,390

304. In addition losses would be incurred by the following Departments:—

Government Life Insurance Office.
State Fire Insurance Office.
Public Trust Office.
Native Trust Office.

305. In our opinion, such losses should be absorbed by these Departments, and should not become a charge against the Consolidated Fund.

306. There are further effects which must also be taken into account. We refer particularly to losses of interest which would be incurred in respect of investments of certain funds. These losses we estimate as follows:—

	£
Public Debt Redemption Fund	50,000
National Provident Fund	18,128
Teachers' Superannuation Fund	9,393
Government Railways Superannuation Fund	10,529
Public Service Superannuation Fund	22,502
	£110,552

307. The interest earned by the Public Debt Redemption Fund is credited direct to the Consolidated Fund, so that any reduction in the amount must fall directly on that fund, which could obtain no corresponding reduction in the amount of its annual contribution for debt repayment.

308. The estimated loss in connection with investments of the National Provident Fund could not, we think, be absorbed by that fund.

309. In the case of the three superannuation funds, the reports disclose that they are actuarially unsound. Any loss of interest on investments must, therefore, ultimately fall on the Consolidated Fund.

310. Another aspect to which we should draw attention is 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