

# Federal Ministry Reconciled To Pensions Cut

## PLAN FOR CONVERSION OF LOANS

Vital Conference Goes On

DAY SPENT IN DISCUSSING INTEREST REDUCTION

Rate of 4 per cent. Suggested

Melbourne, May 27.

It was made clear at the meeting of Premiers today that the Federal Ministry is now reconciled to the proposal of the committee of economists that pensions of all kinds and bonuses should be reduced. The only point is whether the rate should not be somewhat less than that proposed by the committee.

Nearly the whole of the time of the conference was occupied in a discussion of a report which was submitted by the committee of Under Treasurers suggesting the terms on which the conversion of the internal debt might be conducted. The Under Treasurers recommended a reduction of 22½ per cent. in the internal interest bill. A rate of 4 per cent. as the interest for converted stock was suggested.

The proposed 22½ per cent. cut in interest will save £6,500,000, and will reduce the average rate to £4 0/9 per cent. A big advantage of the conversion will be that Governments will be relieved for many years of the shadow of internal loans falling due.

It is understood that special provision is contemplated for overseas money invested in Australia in short-term loans because of the exchange. They will share in the general reduction, but will not be included in a long-term conversion.

There was keen debate on the manner in which tax-free loans should be dealt with. A great many of these bonds are held by the public, and are guaranteed free of income tax. There was certain objection to the suggestion by the Prime Minister (Mr. Scullin) and the Federal Treasurer (Mr. Theodore) that these bonds should be treated on the same basis as other bonds, so that the sacrifice would be general.

An interesting discussion took place on the means of lessening the burden of exchange on interest payments in London. Delegates took the view that London should not be approached on this subject until the whole economy plan was put into operation. The discussion on the Under Treasurers' report has not been concluded.

In an official statement made after the adjournment for the day, Mr. Scullin said that the conference had had a long and detailed discussion on the report of the sub-committee of Under-Treasurers on the whole conversion loan and its many ramifications had been closely scrutinised.

The spirit of the conference was very good, and all were doing their best to devise an equitable scheme. Mr. Scullin added that the basis of the whole plan for financial rehabilitation was equality of sacrifice by all sections of the community. It aimed at immediate reduction of Commonwealth and State deficits to the controllable amount of £13,000,000 or £14,000,000 by the end of the next financial year.

on which the interest is £1,964,000, should be wholly converted into the new stock and subjected to the general reduction of 22½ per cent. in interest rates.

With regard to tax-free securities held by the public, on which the interest is £2,182,000, the committee left it for the conference to decide whether the holders should be invited to accept the reduction, or whether some form of compulsion should be adopted.

"If compulsion be adopted," stated the report, "the committee suggests that existing securities be continued, subject to a reduction of 22½ per cent. in the interest rate, but free of taxation."

Short term Treasury bills total about £22,000,000, at approximately 6 per cent. The question for the conference is whether these are to be

## LONDON'S OPINION

Proposals Will Restore Credit Overseas

CONFIDENCE BEFORE CASH

LONDON, May 27.

In London, the experts' scheme has been received as one that will help to rehabilitate Australian credit, and it is thought that its effect will be reflected in the prices of securities, and favorably assist any funding proposals.

The "Morning Post" says it is still not clear whether the conversion loan will be voluntary or compulsory, but city opinion is that it will be voluntary, as the committee has stressed the necessity of avoiding a breach of contract, which might stimulate the flight of capital.

Likening the condition of Australian finances to that of Mother Hubbard's cupboard, the "Financial News" says that the experts' proposals are most important and more directly addressed to the essential facts of the situation than any yet advanced. The position is getting desperate, and the present need is cash.

"There is no doubt that that need will be met when confidence is restored," it adds. "Australia now apparently faces the necessity for large cuts in expenditure. This alone is the condition for the restoration of confidence."

### Gamble in Bonds

The news that it is proposed to reduce interest on Australian loans has caused some apprehension among investors, but prices on the Stock Exchange so far have been little affected, although a few have been slightly marked down. Even when the market was at its lowest, there were investors who were prepared to indulge in a gamble on the conviction that there would be no default.

One man last week bought £20,000 worth of New South Wales stock on which the yield, allowing for redemption average, will be nearly 27 per cent. Another purchased a great amount of New South Wales 3½ per cent. bonds at £40, on which he will get a dividend return of 9 per cent., plus 150 per cent. bonus on redemption.

## BANKERS APPROVE AN INTEREST REDUCTION

Part of General Economy Plan

Melbourne, May 27.

Following on the tentative acceptance of the proposed reduction of 1 per cent. in interest rates on deposits in banks by representatives of the Commonwealth Savings Bank and State Savings Banks, as a preliminary step towards a reduction in lending rates, a conference was held today between the chairman of the Commonwealth Bank Board (Sir Robert Gibson), the Governor of the Commonwealth Bank (Mr. E. C. Riddle), the Superintendent of the Bank of Australasia (Mr. G. D. Healy), representing the Associated Trading Bankers of Victoria, and the manager of the Bank of New South Wales.

## 20 PER CENT CUT

How It Affects This State

TALK WITH PREMIER

The prolonged financial discussions in Melbourne will not affect the immediate plans for the session of the State Parliament to be resumed next Tuesday.

The Premier (Mr. Hill) said last night, in a telephone conversation, that it was doubtful whether he would be able to return in time to attend the earlier proceedings, but the other Ministers would carry on. He had been in communication with them, and it would be necessary for Parliament to remain in session to deal quickly with any emergency legislation arising from the Premiers' Conference.

### Equality of Sacrifice

"At the moment," Mr. Hill added, "I cannot say when I will return to Adelaide. There is a tremendous amount of work to be done. When the Premiers' Conference has concluded, the Loan Council will have to meet again to consider important matters. The overseas position has to be dealt with, and details of the proposed £12,000,000 loan settled."

The Premiers' Conference, he said, was proceeding on the lines of equality of sacrifice by the whole community in order to place the budgetary position of the Australian Governments on a manageable basis.

### Reduction in Private Interest

The leader of the Opposition (Mr. Butler) said yesterday that everything would be done by his party to facilitate the prompt consideration of any Bills associated with the new financial plan.

The Attorney-General (Mr. Denny) when questioned on this matter, said that Federal and State legislation would be necessary to give constitutional effect to the action taken by the Premiers. That was one reason why the Crown Solicitor (Mr. Hannan) had gone to Melbourne to confer with the Premier. An important phase of Mr. Hannan's mission was to advise Mr. Hill regarding the best method to bring about a reduction in private rates of interest. Mr. Denny said the statements made by the Federal Treasurer (Mr. Theodore) indicated that the various Parliaments would have to deal with interest charges.

### Data for Cuts

No details of how the 20 per cent. cut in expenditure will be applied in South Australia will be available for some time. The Premier (Mr. Hill) when questioned by telephone in Melbourne last night on this aspect of the plan, said the proposals had not advanced sufficiently to state what steps would be taken. The Premier, however, will soon have ample data to guide the Government in making reductions. Apart from the general activity of the State advisory committee, expert investigations have been proceeding for many months into further railways economies and other big spending departments, like education, agriculture, and soldier settlement, are also under close scrutiny. Mr. Hill announced recently that substantial savings are expected to follow reports the various committees could furnish.

### Reduction of £1,300,000

The plan submitted to the Premiers' Conference by the experts discusses 20 per cent. reduction on the



### Overseas Investments Here

The conference had agreed, he said, that in the proposed conversion loan special provision should be made to meet the position of overseas trade money, which had accumulated in Australia because of exchange position, and which had been invested in short-term Government securities. This was necessary because the money was only temporarily invested, and long term conversion would not provide a suitable investment.

Mr. Scullin added that this matter had been referred to the sub-committee of Under Treasurers to prepare a report.

The legal committee, to assist which crown law officers from other States were on their way to Melbourne, was drafting the necessary legislation to enable Commonwealth and State Governments to give effect to the whole plan.

The committee could make little headway, however, until the conference had made further decisions.

In addition to Ministerial delegates at the conference, there were present the Acting Commonwealth Statistician (Professor L. F. Giblin), the Assistant Secretary of the Commonwealth Treasury (Mr. Sheehan), and Professor Melville, who are acting in an advisory capacity.

### Reductions in Pensions

It was made clear that the Federal Ministry, despite the opposition it has previously expressed to such a step, is reconciled to the proposals of the economists that pensions of all kinds and bonuses should be included in the reductions to be made in Government expenditure.

The Prime Minister (Mr. Scullin) announced that he was prepared to give effect to a general reduction in expenditure in accordance with the recommendation of the economic experts.

This announcement is likely to facilitate the work of the conference. At present, pensions and bonuses paid by the Commonwealth treasury exceed £20,000,000 a year, or more than one-third of the total revenue.

The representatives of the Federal Ministry now recognise that these payments represent so large a part of the total expenditure that, to exempt them from the general reduction, would impose a crushing reduction on the remaining items of expenditure.

It is probable, however, that Mr. Scullin and Mr. Theodore will endeavor to apply a smaller reduction than that proposed by the economists on expenditure on pensions. It is believed that the suggested pension reduction will be opposed by a section of the Federal Labor Party, but delegates at the conference feel confident that this opposition will be tempered by the adoption of the proposal to make a general reduction in interest rates.

### Overseas Trade Moneys

An important matter raised in the investigation into the conversion proposals was the position of overseas trade moneys which, owing to the exchange position, could not be taken out of Australia, and which had, therefore, been temporarily invested in short-term securities. The proposal to convert the whole of the internal debt into a new long-term issue would obviously be unacceptable to the organisations holding these securities as, normally, the money would be withdrawn and sent overseas as soon as the exchange position eased.

The committee of Under Treasurers has therefore been requested to investigate the matter and to submit a recommendation showing how provision could be made to enable the part of the loans represented by such investments to be repaid, when required.

unded, as part of the general conversion scheme, or whether short-dated securities are to be issued; and, further, whether the rate of interest should be 4 per cent. or some higher rate.

The committee suggested that the conference should consider bringing into the general scheme of conversion securities of municipalities and local authorities.

### Conversion Proposals

Subject to the decision of conference on the points referred to, the committee proposed a scheme on the following lines:—

- 1.—All existing securities to be converted into a common stock of 4 per cent., having 40 years currency, with the option to the Government of redemption after ten years. The committee suggested that the earliest date of redemption might be fifteen years.
- 2.—All securities to be subject to the 22½ per cent. reduction in interest yield.
- 3.—Interest on the new securities to be free from the present Commonwealth super tax of 7½ per cent., and from future taxation, but to be subject to other existing taxes.
- 4.—That a flat rate tax of 25 per cent., additional to existing taxes on property income, be imposed, at the source on interest, on Commonwealth and State loans, such additional tax not to apply to the interest on securities converted into the new 4 per cent. loan or to such other securities as may be exempted.
- 5.—The equivalent amount of new stock to be determined by actuarial valuation on the basis of money being worth 4 per cent.
- 6.—Securities which yield more than 4 per cent. after the interest rate has been cut 22½ per cent. to receive a premium in the new bonds equal to the present value of the excess over 4 per cent. from the date of conversion up to the maturity date of the existing stock.
- 7.—Securities which similarly yield less than 4 per cent. to be discounted on a similar basis.

### To Make Sacrifice General

Much of the discussion today was based on the report of the Under Treasurers, but nothing was agreed upon.

So much attaches to most of the recommendations that the discussions may extend for some days before methods of putting them into effect are devised.

Consideration was given to the method of reducing interest charges on Government loans, and deciding how holders who may refuse to make voluntary reductions can be brought into line to make the sacrifice general. This class is not expected to be large, because insurance companies, savings banks and trading banks hold £219,000,000 of the securities, and other very large amounts are held by financial and trading organisations, which, it is thought, will readily agree to join in the conversion.

A legal committee, with the Attorney-General of Western Australia (Mr. Davey) as chairman, is engaged looking into the question of what legislation will be necessary to carry the plan into effect. Some time will be required before it can furnish a report to provide for uniform legislation to be presented to all Parliaments.

### Holders of Tax-Free Loans

The position of holders of tax-free bonds caused a keen argument.

The Federal Treasurer (Mr. Theodore) maintained that all bondholders should be treated alike. He saw no reason why those who held loans issued free of income tax should be made a specially privileged class.

The Prime Minister (Mr. Scullin) and the Premier of New South Wales (Mr. ...)

A. C. Davidson), representing the trading bankers, whose headquarters are in Sydney.

The representatives of the trading banks agreed to place the proposal before the managements of the banks in the respective States.

Mr. Davidson left for Sydney tonight and intends to see the other Sydney bankers to urge the acceptance of the proposal, on the condition that it forms part of the general economy plan outlined before the Premiers' Conference.

A meeting attended by representatives of all the principal banks, whose headquarters are in Melbourne, as well as some of the others which have branches in Victoria, was held today. The proposal for the reduction in interest rates was favorably received, conditionally on the general plan being brought into operation.

## PENSION REDUCTION

### Comparison With Cost of Living

"The reason for the proposed reduction of 20 per cent. in Federal pensions," said the Government Statistician (Mr. Johnston) yesterday, "is probably to be found in the fact that 17/10 today will purchase as much as 21/1 would 18 months ago."

Mr. Johnston, who was quoting from the March quarterly summary of statistics issued by the Commonwealth Bureau of Census and Statistics, pointed out that the weighted average of the retail price index-numbers for the six capital cities for 1929 was 1,044, whereas for the first quarter of this year it was 893. The average retail price of food, groceries, and housing for the third and fourth quarters of 1929 was 21/1, whereas for the first quarter of this year it was 17/10.

Since old-age and invalid pensions were introduced on July 1, 1909, they have been raised from 10/ a week to £1 a week in four instalments. The original Act of 1908 provided that the pension "shall not exceed the rate of £26 per annum in any event, nor shall it be at such a rate as will make the pensioner's income, together with the pension, exceed £52 per annum." In 1916 that section of the Act was amended by substituting £32 10/ for £26, and £58 10/ for £52. The original Act also provided that if a pensioner was in receipt of board or lodging, that should be counted as income to the extent of five shillings a week. This was increased in 1916 to 7/6 a week. In 1919 the pension was raised to £39 per annum, and the maximum amount allowable to £65 per annum. The estimated value of board and lodging was raised to 10/ a week. The pension was again increased in 1923 to £45 10/ per annum, and the maximum allowable to £78 per annum. Finally, in 1925, the pension was increased to £52 per annum, and the maximum amount allowable to £84 10/. The weighted average of retail prices for the capital cities when the last two increases were made was 19/9 in 1923 and 20/ in 1925. For the first quarter of this year it was 17/10.

## SOLDIERS' POSITION

### League Wishes to be Consulted

The president of the Returned Soldiers' League (Lieut.-Col. W. F. J. McCann) stated yesterday that he had set forth the attitude of the league in regard to soldiers' pensions at the meeting of the State Council of that organisation in March last. Briefly, it was that there were many cuts in Government expenditure which should be

tralia this was £7,890,000, excluding interest, so that the cut would be approximately £1,500,000.

Mr. Butler pointed out yesterday that a reduction of 22½ per cent. was proposed in connection with Australian loans over 4 per cent., which should benefit South Australia to the extent of between £300,000 and £400,000. Deducting the Commonwealth's portion of the £26,000,000 reduction in expenditure, about £17,000,000 would be left to be carried by the States. On the usual basis that would mean South Australia's share would be approximately £1,700,000. Allowing for a saving of, say, £400,000 through reduced interest, this State would have to cut expenditure by about £1,300,000.

### Effect on Wages and Salaries

On the Premier's statement, approximately 30 per cent. of South Australia's expenditure is represented by salaries and wages. The total expenditure in 1929-30—the basis the experts are using in their calculations—was £12,176,840. Mr. Butler said of that amount about £4,000,000 would have been absorbed in wages and salaries, and a 20 per cent. reduction would mean £800,000. Another interesting fact was that of the State's debt of £92,000,000, the Government had made loans and advances to institutions and individuals amounting to £23,818,671, which, under the new financial arrangement would have to be cut by 1 per cent. It was provided that such loans should pay the rate of interest which the Government paid, plus a certain amount for administrative expenses.

## RESEMBLES NIEMEYER AGREEMENT

### Labor Factions Nonplussed

Sydney, May 27.

Officials of the two warring Labor factions in New South Wales are nonplussed by the developments at the Premiers' Conference.

The Federal Treasurer (Mr. Theodore) and the Premier (Mr. Lang) were apparently in agreement on the need for reduction of costs and the officials are now not sure whether there is anything left to fight about.

Many consider that the plan adopted is little different from the so-called Niemeyer agreement.

## Queensland Has Already Economised Greatly

Brisbane, May 27.

Although no official statement has been made on the subject, it is generally understood that the economic measures taken by the Queensland Government in the past year or two represent an amount reaching well towards the 20 per cent. cut in expenditure proposed in the plan of the economic experts and adopted by the Premiers in Melbourne.

The Treasurer (Mr. Barnes) stated a few months ago that salaries and wages expenditure in Government services would be reduced by at least £1,500,000 by the end of this financial year. If this forecast proves to be correct, the reduction will be approximately 16 per cent. in wages and salaries alone. In addition, the Government's economies in general expenditure are being carried out, making an actual reduction of much more than 16 per cent.

## Salaries Not Reduced in N.S.W.



### Under Treasurers' Plan

The report of the committee of Under Treasurers on the question of reducing interest rates on Government bonds in Australia was submitted to the conference when the delegates assembled this morning.

The report stated that the debt in Australia, inclusive of Treasury bills, issued in June 30 last, is now about £556,000,000; the annual interest bill is £29,000,000, and the average interest rate £5 4/.

### New Stock at 4 per cent.

The committee outlined the scheme of conversion embodying the following:—

- (1) New stock to be 4 per cent.
- (2) Reduction to be applied to all securities, subject to certain reservation as regards tax-free securities and interminable stock.

Tax-free securities include £45,000,000 held by semi-governmental bodies and £45,000,000 held by the public.

The committee suggested that securities held by semi-governmental bodies,

Lang) supported Mr. Theodore.

It was said that the principal holders of tax-free bonds were those who already had a large income and took up this class of security to keep down the rate of their income taxation.

The Premier of Western Australia (Sir James Mitchell) and the Premier of Victoria (Mr. Hogan) put the case for the bondholders.

Mr. Grant (Tasmania) said he knew of bondholders in his State whose income had been so reduced, through taxation and other causes, that they were comparatively poor.

Mr. Lang remarked that that was the worst of living in Tasmania.

Mr. Grant, taking the remarks seriously, explained that Tasmania was under particular financial disabilities.

Mr. Lang—I meant, because it was the nature of the Ministers in office there.

The argument over the bondholders was at times bitter.

made before soldiers' pensions were interfered with. If a reduction in such payments were ultimately found to be inevitable, the league considered that it should be consulted as to the manner in which the necessary economies should be made. For instance, returned men did not consider that a general, all round cut was the fairest method of effecting the desired 10 or 20 per cent. reduction in the cost of soldiers' pensions. Such a method would cause many anomalies and inflict much hardship, especially in the case of widows and permanently disabled men.

The Attorney-General (Mr. Denny) said yesterday:—"Mr. Lang definitely stated to the Premiers' Conference that the reduction in the wages of railway employes in his State, including the 1/ in the pound unemployment tax, amounted to 36 1-3rd per cent. That was a most notable admission, as was the Commonwealth Statistician's remark to Mr. Lang—"Your wages were reduced, but your salaries were not." This has not happened in South Australia, as the object is to reduce those in higher paid positions."