

RAILWAY IMPROVEMENTS.

The expenditure during the year on works authorized by the Railways Improvement Amendment Act, 1914, and charged to Capital Account, was £62,069, making the total expenditure on the scheme up to the 31st March, 1922, £761,062.

Although the country is at the present time passing through a period of depression, the business that has to be handled is very much greater than that done in 1914. No material improvement has in the meantime been made, and considerable difficulty is daily being experienced at the terminal and subterminal stations in dealing effectively and economically with the traffic now offering. It would be a fatal mistake to postpone the completion of the 1914 scheme until the country again enters on an era of prosperity. Such a postponement would be disastrous to the operations of the Department and the business of the country. Preparation for the increased business with which the railways will inevitably be called upon to deal within a comparatively short time should be made during the period of depression, and the necessary works should be vigorously prosecuted and be completed in readiness to meet the inevitable demand that will arise.

Without taking interest charges into consideration the expenditure for the year on the Whangarei line exceeded the total revenue by £10,670; on the Kaihu line, by £943; on the South Island Main Lines, by £139,494; on the Nelson Section, by £8,311; on the Picton Section, by £2,050; and the Lake Wakatipu service, by £5,320; while the net returns from the Gisborne North Island Main Trunk and Westland Sections fell short of the amounts required to pay interest charges on the capital invested.

Allowing for interest at $3\frac{3}{4}$ per cent. the loss on the Whangarei Section was £43,519; Kaihu Section, £4,703; Gisborne Section, £20,088; North Island Main Trunk, £124,751; South Island Main Trunk, £699,722; Westland, £68,498; Nelson, £25,090; Picton, £27,826; Lake Wakatipu steamers, £6,959; total £1,021,156. Westport was the only section that paid its way.

The year's operations have resulted in a deficiency of £1,021,156, allowing for interest at the policy rate of $3\frac{3}{4}$ per cent. on the capital cost. This result represents the economic effect produced by the war. The causes which have contributed to bring this about are: Decline of traffic resulting from business depression, increased price of coal and other material, together with the advance in wages. The circumstances have, however, been so exceptional that too much importance cannot be attached to the results obtained. The Department should be judged not on the results of a single exceptionally bad year, but on its general achievements, which are governed by a policy which has the effect of setting a limit to the financial results.

In 1896 the Department was directed as a matter of policy to safeguard the revenue until a net return of 3 per cent. had been obtained on the capital cost of the lines, any surplus earnings above that amount being returned to the users of the line annually by making reductions in fares and freights, or in providing additional train services. With the exception that the rate of interest required was increased from 3 per cent. to $3\frac{3}{4}$ per cent. in 1910, the policy has continued, and was reaffirmed in 1913, and, broadly speaking, it has remained unaltered until after the outbreak of the war in 1914. The heavy financial responsibilities to which the war gave rise necessitated special provision being made to obtain additional revenue. A small addition was made to the rates in 1915, and further additions were made in 1917 and 1920 for the same purpose. Broadly, then, the policy has been to regard the railways as adjuncts to the settlement of the country, and to consider the earnings of a large profit of secondary importance when compared with the benefits that would accrue to the State from using the railways in the development of the country. Material reductions in rates and charges followed the inauguration of the Government policy, and continued until war conditions compelled a halt to be called. The reductions, which ranged from 10 to 40 per cent., included all the staple products of the Dominion and other articles in everyday use but too numerous to particularize, and affected the major portion of the rail-borne tonnage. In the aggregate these reductions in rates granted as a matter of policy represented a revenue of over £2,000,000, of which £1,400,000 went to farmers and pastoralists.

Coincident with the inauguration of this policy it was decided to improve the pay and conditions of the Railway staff. The effect of the policy was therefore twofold. On the one hand the earning-power was reduced to a minimum by the lowering of rates; on the other hand the cost of operating was increased by raising wages, reducing the hours of working, and otherwise improving the conditions of the staff. During many years of prosperity production increased, industries flourished, and the trade of the country was stimulated. The steady advance in price of all commodities which continued until 1921 resulted in the expansion of railway traffic to an extent sufficient to meet the increase in expenditure and leave a margin which—except in the years 1914, 1915, 1921, and 1922—was more than sufficient to pay the policy rate of interest on the capital invested.

The falling-off of the traffic in 1921 and 1922, combined with the effect of abnormal prices of all stores, material, and coal purchased during the war period, and the enormous cost resulting from the advance in wages and shortening of hours in 1920 and 1921, has brought about the deficiency in the last two years which the small percentage of increase made in the goods and passenger traffic during the war period has not been sufficient to counterbalance.

Taking the year 1900 as a basis, the revenue in 1907 had increased by 62 per cent. and the expenditure by 72 per cent. By 1914 the revenue had increased by 149 per cent. and the expenditure by 173 per cent. In 1919 the increase in revenue was 207 per cent., and in expenditure 217 per cent. In 1921 the revenue had increased by 324 per cent., and the expenditure by 437 per cent. In 1922 the increase in revenue had dropped to 308 per cent., and the expenditure had advanced to 493 per cent. The increase in the wages expenditure alone for the last two years has amounted to £1,080,589.

Calculating the interest on the capital invested in the railways at the policy rate of 3 per cent. from 1896 to 1909, and at the policy rate of $3\frac{3}{4}$ per cent. from 1910 to 1922 inclusive, the total net