

SESSION I, 23RD PARLIAMENT.

1928.

NEW ZEALAND

FINANCIAL STATEMENT.

(Laid on the Table by leave of the House.)

I DESIRE to make a brief statement of the public finances under the following heads of—

- (1) Revenue and expenditure of the Ordinary Revenue Account for seven months of present financial year :
- (2) Public-works expenditure for current year :
- (3) Public debt and loan expenditure :
- (4) Economic and general financial position.

CONSOLIDATED FUND.—ORDINARY REVENUE ACCOUNT.

REVENUE.

From the 1st April to the 31st October, 1928, the revenue collected was £10,352,417, as under :—

| | £ |
|--|-------------|
| Customs | 4,291,309 |
| Beer duty | 325,390 |
| Motor-vehicles—duties, licenses, &c. | 705,509 |
| Stamp and death duties | 1,890,257 |
| Land-tax | 74,775 |
| Income-tax | 425,115 |
| Registration and other fees | 87,793 |
| Marine | 59,105 |
| Interest on public moneys | 327,787 |
| Interest on railway capital liability | 1,122,725 |
| Interest on capital liability, postal and telegraph | 216,000 |
| Interest on the Public Debt Redemption Fund | 410,625 |
| Rents of buildings | 12,381 |
| Tourist and health resorts | 28,140 |
| Miscellaneous | 71,790 |
| | <hr/> |
| | 10,048,701 |
| Territorial revenue | 107,091 |
| Departmental receipts | 190,270 |
| Recoveries on account of expenditure of previous years | 6,355 |
| | <hr/> |
| | £10,352,417 |
| | <hr/> |

EXPENDITURE.

The net expenditure actually charged for the seven months to the 31st October, 1928, was £12,664,379, as under :—

Permanent charges :—

| | £ | £ |
|--|-----------|-----------|
| Civil List | 15,295 | |
| Interest | 5,047,998 | |
| Sinking fund | 1,441 | |
| Reduction of funded debt | 190,486 | |
| Repayment of Public Debt Act, 1925 | 100,000 | |
| Under special Acts | 3,023,448 | |
| | | 8,378,668 |

Annual appropriations :—

| | | |
|--|-----------|--------------------|
| Legislative Departments | 64,495 | |
| Prime Minister's Department | 11,309 | |
| Treasury Department | 22,429 | |
| National Provident and Friendly Societies Department | 12,591 | |
| Land and Income Tax Department | 33,366 | |
| Stamp Duties Department | 56,197 | |
| Public Buildings | 37,036 | |
| Government and other Domains | 2,883 | |
| Maintenance and Repairs to Roads | 39,647 | |
| Maintenance of Irrigation-works | 7,045 | |
| Native Department | 16,181 | |
| Department of External Affairs | 40,782 | |
| Cook Islands | 18,675 | |
| Department of Industries and Commerce | 16,342 | |
| Department of Justice | 79,161 | |
| Prisons Department | 66,525 | |
| Crown Law Office | 3,512 | |
| Police Department | 195,777 | |
| Pensions Department | 94,872 | |
| Mines Department | 23,062 | |
| Department of Internal Affairs | 197,614 | |
| Audit Department | 19,794 | |
| Public Service Commissioner's Office | 3,539 | |
| Printing and Stationery Department | 109,591 | |
| Mental Hospitals Department | 184,922 | |
| Department of Health | 134,457 | |
| Naval Defence | 136,598 | |
| Defence Department | 233,473 | |
| Customs Department | 61,034 | |
| Marine Department | 61,289 | |
| Department of Labour | 33,694 | |
| Department of Lands and Survey | 128,719 | |
| Scenery Preservation | 1,715 | |
| Valuation Department | 30,397 | |
| Electoral Department | 31,967 | |
| Department of Agriculture | 245,515 | |
| Department of Tourist and Health Resorts | 41,200 | |
| Department of Education | 1,751,457 | |
| Department of Scientific and Industrial Research | 23,563 | |
| Services not provided for | 13,286 | |
| | | 4,285,711 |
| | | <u>£12,664,379</u> |

The above figures disclose the usual disparity between revenue and expenditure at this period of a financial year, and there are no indications so far that the estimate of a balanced Budget made earlier in the year will not be realized.

PUBLIC WORKS.

Apart from sundry miscellaneous receipts and payments which largely offset one another, the financial position of the accounts financing the capital works provided for in the public-works estimates for the year, and the ways and means of providing for such expenditure, is as follows:—

EXPENDITURE.

| Account. | Net Expenditure for Seven Months. | Balance available for Remainder of Year. | Expenditure allowed for in Estimates. |
|---|--------------------------------------|--|--|
| Public Works Fund— | £ | £ | £ |
| General Purposes | 1,424,638 | 2,637,260 | 4,061,898 |
| Electric Supply | 656,194 | 603,806 | 1,260,000 |
| Waihou and Ohinemuri Rivers Improvement | 27,811 | 34,189 | 62,000 |
| Education Loans | 189,234 | 254,766 | 444,000 |
| Main Highways Construction Fund | 201,495 | 738,505 | 940,000 |
| Railways Improvement Authorization Act 1914 | 942,043 | 1,057,957 | 2,000,000 |
| Total | £3,441,415 | £5,326,483 | £8,767,898 |

WAYS AND MEANS.

| Account. | Balance carried forward 1st April, 1928. | New Loans raised during Seven Months. | Balance of Loan-money required to finance Expenditure Programme. | Total. | Unexhausted Borrowing Authority as at 1st November, 1928. |
|--|--|---|---|------------|--|
| Public Works Fund— | £ | £ | £ | £ | £ |
| General Purposes | 1,328,803 | 3,000,000 | .. | *4,328,803 | 5,561,050 |
| Electric Supply | 72,700 | 1,170,270 | 74,730 | 1,317,700 | 2,248,720 |
| Waihou and Ohinemuri Rivers Improvement | 12,078 | 60,000 | .. | 72,078 | 30,000 |
| Education Loans | 57,714 | 262,000 | 140,000 | 459,714 | 904,160 |
| Main Highways Construction Fund | 72,751 | 229,700 | 300 | *302,751 | 2,120,300 |
| Railways Improvement Autho- rization Act 1914 | 676,769 | 1,000,000 | 335,000 | 2,011,769 | 3,350,000 |
| Total | £2,220,815 | £5,721,970 | £550,030 | £8,492,815 | £14,214,230 |

*The amount provided for Public Works Fund (General Purposes) includes £200,000 for the statutory transfer to Main Highways Construction Fund, and the additional resources over and above this will be provided out of the Main Highways Revenue Fund.

In addition to these items, provision has been made for further capital for State forests, lands for settlement, and certain swamp-drainage works. As regards State advances, this will be referred to later.

PUBLIC DEBT AND LOAN EXPENDITURE.

At the 31st March, 1925, the public debt amounted to £227,814,647. At the 31st March, 1928, it was £251,396,252, a net increase for the three years of £23,581,605. An analysis of the debt transactions for the period shows net increases under various accounts totalling approximately £29,650,000, but against this there were net reductions under other accounts, mostly war debt, totalling approximately £6,070,000, leaving the net increase in the total debt at £23,580,000, as indicated above.

The £29,650,000 in question was applied to the following purposes:—

| | |
|--|--------------------|
| | £ |
| (a) New capital for State advances | 9,625,000 |
| (b) Railway construction and improvement, hydro- electric supply, telephones, and other pro- ductive works | 13,525,000 |
| (c) Roads, public buildings, schools, and other works | 6,500,000 |
| | <u>£29,650,000</u> |

If we regard this last item of £6,500,000 as non-productive expenditure, it will be seen that it is practically offset by debt-repayment. Thus the net increase in the debt—viz., £23,580,000—is represented by productive assets which either wholly or mainly earn the interest payable on the loan capital invested in them.

So far as public works are concerned, the two heaviest single items—viz., railways improvement and hydro-electric power—cover definite programmes of work in which we have almost passed the peak period, and, so far as can be seen, a falling-off in loan requirements could be looked for from now on.

Moreover, with the increase in the accumulated wealth of the Dominion it should be possible in future to supply more of our own requirements, partly out of increased local borrowing, but, as the years go by, to an increasing extent out of revenue.

Under these circumstances, and with a separate source of finance for farmers, to which I shall refer later, it appeared to me that the plain policy for New Zealand to pursue was to aim at an annual reduction in borrowing until in a short time the increasing debt-repayment resources would enable annual debt repayment to exceed new annual borrowing.

DEBT-REPAYMENT SYSTEM.

What makes this policy effective is the fact that our debt-repayment system provides an increasing amount each year for debt-repayment. This increase is due to the fact that we utilize the interest saved on the debt redeemed each year for further redemptions. In fact, the system operates on the principle of a table mortgage, in that each year an increasing amount of principal is repaid as the interest payable decreases owing to redemptions. Nor does the fact that the resources are applied to annual repayments in any way destroy the sinking-fund basis, because the interest that would be earned by the investment of the annual contributions under an accumulating sinking fund is made good each year by the increased annual contributions provided for under the system. This, however, does not mean any increased cost to the taxpayer, who is saved the interest otherwise payable on the securities redeemed. Moreover, the system, which is similar to that in operation in Great Britain and Australia, saves the costs of constantly renewing loans over a period of sixty or seventy years.

The moneys available for debt-repayment have been largely concentrated on war debt, which is the great burden on the taxpayer. As pointed out in the last Budget, the war debt of now approximately £72,000,000 costs the taxpayer £3,490,000 in interest, as against £2,105,000 for the ordinary debt, which is about two and a half times as large as the war debt.

STATE ADVANCES AND FARMERS' FINANCE.

The heavy payout by the State Advances Office continued during the financial years 1926 and 1927, during which time advances aggregated over £12,000,000. Although the Office continues to pay its way, the capital borrowed for State advances was inflating the public debt, and there were indications that to continue providing large sums for State advances as part of the ordinary loan Budget would adversely affect our credit abroad.

Land-values have now for the most part been reduced to a more economic level, and with the slackening of borrowing on the part of local bodies it was hoped that capital would again flow into the finance of primary industries. To give greater security and a more liquid investment for the private lender, while giving the borrower all the advantages of the State Advances table mortgages, the Rural Advances Act was passed in 1926, as an outcome of the report of the Royal Commission on Rural Credits. This Act provides for the sale of bonds secured on first mortgages of land, and provides an independent source of finance for advances to settlers outside the ordinary loan programme and the public debt. The scheme, which has special financial advantages for borrowers in using bonds to liquidate their loans, is slowly gathering momentum, and given time would, I think, solve the problem of long-term finances for farmers, on the lines that have been found so successful in America, Denmark, and other countries. Up to the present over £1,000,000 in bonds has been applied for.

Following the report of the Royal Commission, the Government in 1927 took the further step in passing the Rural Intermediate Credit Act, to provide a credit system to finance the purchase of stock and improvements. This organization has now been established, and gives every promise of being successful.

It was considered that these two organizations for long-term and intermediate credit, together with the overdraft facilities offered by the banks, should provide for the financial needs of the primary producer.

Though the housing shortage as a national problem is no longer urgent, there is still a strong demand for cheap money to build homes, and in so far as workers are concerned it is in the interests of the Dominion that reasonable demands should be met. It was considered that if the new basis for farmers' finance was successfully inaugurated, the turnover of the existing capital of the State Advances Office would provide ample funds for this purpose.

MATURING LOANS.

Apart from new requirements, it may be added that nearly a third of the public debt will mature during this and the next two financial years. Most of the maturities for this year have already been disposed of, and the remainder are well in hand. An important transaction to be dealt with is the large amount of 4-per cent. consolidated stock which matures in London in November, 1929. This stock arose out of the conversion and consolidation of some of the earliest of our loans. The amount, originally £29,000,000, was too large to be safely left to be dealt with at maturity, and concurrently with the last loan in May, 1928, for new money, an offer to convert up to £5,000,000 of the 1929 stock into 4½-per-cent. stock maturing in 1947 was made. The offer was taken up, the cost to the State working out at £4 18s. 3d. per cent., which must be regarded as satisfactory in view of the ruling rates of interest. Proposals are at present under consideration for dealing with further portions of the 1929 stock.

The gross increase in the public debt for this financial year is estimated at about £7,850,000. Against this, however, debt-repayments to the amount of £2,450,000 will have been effected by 31st March next, so that under present arrangements the net increase in the debt for this financial year will be about £5,400,000. This will compare favourably with the three preceding years, when the net increases were respectively £5,500,000 (1927-28), £7,000,000 (1926-27), and £11,000,000 (1925-26), thus showing a steady reduction annually.

The gross increase of £7,850,000 above mentioned meets the various items in the public-works programme for this year, and includes £600,000 additional new capital for State advances. The moneys are provided by the loan of £5,000,000 raised in London in April last, and the balance is being obtained locally, according to our usual practice.

ECONOMIC AND GENERAL.

It is well known that the public finances of New Zealand are closely affected by the fluctuations in volume and value of our export trade. Depressed export prices produce in the first place a farming depression; this in turn restricts trade and finance; and finally we have falling State revenues, and increased State expenditure on unemployment relief, &c.

During my three-years term of office we passed through two years of pronounced depression. In both 1926 and 1927 the prices of main exports declined sharply and there was an adverse trade balance. The exports for the financial year ended March, 1927, showed a drop in value of £9,000,000 as compared with 1925.

In May, 1927, the banks took steps to curb advances, restrict imports, and increased overdraft rates and rates for deposits. Due to this and the general economic dislocation, there were extensive withdrawals from the Post Office Savings-bank. These withdrawals emphasized the inconvenience of taking large deposits which are of little value to the Post Office. Therefore the opportunity was taken when most of such deposits had gone to reduce the limit on which interest is paid from £5,000 to £2,000. At the same time ample provision was made for the investment of genuine savings through the medium of Post Office certificates.

The rates of income-tax, which had been heavily increased during the war to obtain a maximum amount of revenue, were reduced at various times between 1922 and 1925 on a percentage basis. The result of these changes was that some classes of income were actually paying less tax in 1927 than before the war, and were thus not bearing any share of the war costs or the war pensions.

In accordance with the recommendation of the Taxation Commission of 1924, the rates of income-tax were restored to a proper gradation in 1927. The additional revenue incidental to this correction of the gradations was used as a basis for reductions in Customs duties when the tariff was revised during the same year. It was thus found possible to remove the duty from many articles of household use, and from certain items commonly used in building and farming.

The amazing power of recovery that this Dominion possesses was manifested as soon as the trade balance corrected itself. For the financial year 1927–28 the value of our exports recovered to the 1925 level, and there was a surplus of exports of £10,540,000.

Since then the bank rate has been reduced, prices have risen, money has become plentiful, and everything points to a continual improvement in trade, commerce, and finance. This will reflect itself in the public finances, as was forecasted in the last Budget.

To sum up—

- (1) We have in each year balanced our Budget notwithstanding adverse trade conditions and the constant increase in the cost of social services.
- (2) In each year the net increase in the public debt has been reduced without curtailing the heavy programme of public works.
- (3) If the present policy is pursued we can in a few years carry out a reasonable programme of public works without any increase in the public debt.
- (4) The gradual contraction of loan expenditure and the balancing of the Budget at a time when so many countries show an annual deficit has maintained the financial credit on a high basis, which enables us to obtain loan capital for developmental work on most favourable terms.
- (5) The public finances and credit of New Zealand are on a sound and healthy footing, and the future appears bright.

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Minister of Finance.

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