

118. This leaves a deficit of £2·66 m., which might be reduced to approximately £2·06 m. if the Hoover moratorium is extended. Such a deficit for 1932–33 could in the circumstances of New Zealand be regarded as manageable. With improvements in economic conditions bringing an increase in revenue and a reduction of expenditure on unemployment, this deficit could be steadily eliminated. It must be financed by special measures in the meantime. We consider these in Section XIV.

Deficit.

119. It should be clear that the reduction of the deficit by the amount stated will not be easy. The economies required, the revision of unemployment policy, an interest adjustment, heavy reductions in wages, additional rates on existing taxation, and a new tax are measures that would not be contemplated under normal circumstances. But circumstances are not normal to-day. The Budget position is serious, and cannot be adjusted without immediate and drastic action. At every point this action requires sacrifices from some sections of the people. Any comprehensive proposal to deal with the situation should recognize the importance of spreading the burdens equitably with the least disturbance to the community.

Urgency of the Problem of Balancing.

SECTION XIII.—LOCAL-BODY FINANCE.

120. Up-to-date information upon the financial position of local bodies is not available. It cannot be doubted, however, that the revenue of local bodies will be adversely affected by the depression. There is a considerable lag in the adjustment of capital values upon which rates are levied, and other forms of local-body revenue are also less seriously affected in the early stages of the depression than is Government revenue. But the basis of local-body revenue rests upon the national income directly through income and indirectly through land-values. It is therefore necessary to consider the future of local-body finance in the light of this position.

Basis of Local-body Revenue.

121. For the year ended 31st March, 1930, the revenue and expenditure of local bodies, excluding loans, were as follow :—

Revenue and Expenditure.

TABLE 6.—LOCAL-BODY FINANCE, 1929–30.  
(Figures in £ m.)

Revenue—					
Rates	..	..	..	..	6·01
Licenses, rents, &c.	..	..	..	..	10·31
Government subsidies					0·44
Total	..	..	..	..	16·76
Expenditure—					
Interest	..	..	..	..	3·90
Amortization	..	..	..	..	1·15
Other	..	..	..	..	11·71
Total	..	..	..	..	16·76

It is difficult to separate the expenditure financed by revenue items included above from those financed by loans. It is assumed, however, that expenditure on items other than loan works balanced the revenue.

122. Assuming a general reduction of 20 per cent. in revenue for the year 1932–33, total revenue will reach £13·41 m. We think this is a reasonable assumption. In any case the task of readjustment is such that local-body rates and charges should conform to a general standard of economy. A 20-per-cent. reduction is much less severe than the reduction that has taken place in Government revenue.

123. In the event of a fall of this order in revenue it would be necessary to make adjustments in expenditure. From the above table it is seen that expenditure other than debt charges amounted to £11·71 m. in 1929–30. If we adopt the same standard of economy as was assumed for Government expenditure—namely, 25 per cent.—the savings on this account would be £2·93 m., against a loss in revenue of £3·34 m. To bridge the gap of £0·42 m. it may be necessary to consider an adjustment in respect of interest from two viewpoints—(a) loan conversion, and (b) special stamp duty levied on local-body interest to be applied to assist local bodies.

Adjustable Expenditure.

124. The internal debt of local authorities is held to the extent of £26·4 m. by the public and £18·9 m. by public Departments. The average rate of interest on the public holdings is 5·48 per cent., and on the departmental 5·1 per cent. If we assume that the interest on the local-body debt can be adjusted by 20 per cent. to a minimum of 4 per cent., the total economies would be £0·41 m. Thus, total economies would amount to £3·34 m. But in any plan of interest adjustment it would be necessary for Government Departments holding local-body securities to bring down the interest to their own

Interest Adjustment.