SESSION I.
1932.
NEW ZEALAND.

FINANCIAL STATEMENT.

Laid upon the Table by Leave of the House.

I HAVE already given honourable members brief particulars of the financial position for last financial year based upon the revenue and expenditure for the first eleven months of the financial year. In order that honourable members may have full information in regard to the national finances, I desire to lay upon the table the following statement of the position. In addition, I have added a short preliminary review of the prospective position for this financial year in so far as it can be estimated on present information, together with an outline of the Government's proposals for dealing with the anticipated situation.

As an appendix to this statement will be found tables showing the revenue and expenditure for the first eleven months of last financial year compared with the Budget estimates for the year. As the year is now closed, it may be asked why it is not feasible to give the definite results for the full twelve months, as is the case in Great Britain. Under the fiscal system of that country, however, the surplus or deficiency can be determined from the bank figures of the receipts into and issues out of the Exchequer to the various departments. In our case the cash in the bank on the 31st March affords no criterion of the position of the Consolidated Fund, as the balance of the Public Account also contains public-works moneys and funds belonging to various other accounts. In New Zealand all expenditure is made through the Treasury. Accordingly, under our present legislation it is necessary to clear all Imprest vouchers received to the 31st March before the separate votes can be charged. In addition, it is the practice to include all receipts into the Public Account at the various branches of the bank throughout the Dominion up to 31st March in the year's accounts. Consequently, it is a matter of two or three weeks before the Treasury can strike a balance and then the accounts must be audited.

Taxation.—With only one more month's receipts to be accounted for, it is evident from the returns for the eleven months that the taxation items as a whole will fall short of the revised Budget estimates by a substantial amount. The final shortage in Customs revenue is estimated at £850,000, and this notwithstanding a reduction of £900,000 in the estimate made in the Supplementary Budget. Beer duty has been affected by the prevailing economic conditions and home brewing, and it will probably be found that this item is short by £10,000.

A shortage of £10,000 is also indicated for film-hire tax. The receipts from stamp and death duties have been behindhand for some months past, and a final shortage of about £200,000 is anticipated. Motor-vehicles—duties and licenses—was the most buoyant item of revenue, and receipts for the year will probably exceed the estimate by £70,000.

Land-tax receipts for the eleven months were £104,000 short of the Budget estimate, and as the date for payment of this tax is long since past, it is not likely that the shortage will have been reduced by more than £20,000 during March.

In regard to income-tax, the figures shown in the table give no indication of the outcome for the year, as the bulk of the tax is usually paid in March. The aggregate of the assessments, however, did not altogether come up to expectations, and, having regard to economic conditions, it is likely that a portion of the amount due will not have been paid by the 31st March. Under these circumstances, it is not expected that the income-tax receipts for the year will exceed £4,400,000. This would mean a Budget shortage of £535,000.

Interest Receipts.—The amount of Railway interest to be paid to the Consolidated Fund is governed by the amount of the net earnings of the railways. The Board has been striving to offset falling revenues with savings in expenditure, but, even so, it is likely that the amount that can be paid will be at least £100,000 short of the Budget estimate. The other interest items will, for the most part, reach the Budget estimate, although interest on the Public Debt Redemption Fund may be a little short owing to the reduction in the interest-rates of the Public Trust Office, with which part of the fund is invested.

Other Receipts.—In regard to "Other receipts" it now appears probable that Post and Telegraph profits will fall short of the estimate by about £160,000. The various departmental receipts and other miscellaneous items have also declined to a greater extent than was anticipated, and when the books are closed these items in the aggregate will probably be £200,000 short of the estimates.

Expenditure.

In regard to this side of the account, it will be observed that the expenditure for the eleven months in total is in accord with the estimate, but many of the items cannot be wholly judged on a proportionate basis.

Debt Charges.—The expenditure on interest for the eleven months is shown as £217,000 ahead of the estimate for the year; but this does not indicate the real position, as substantial recoveries will be made from interest-earning accounts during March. It is now estimated, however, that, owing to it being necessary to make a much more extensive use of Treasury bills than was anticipated, and the higher rates that had to be paid for these bills, the interest expenditure for the year will be approximately £150,000 in excess of the estimate for this item. Under the "Hoover" moratorium the payments on account of the funded debt for this financial year are complete, and there is a saving of £16,000 on this item.

Other Services.—Under "Other services" a considerable unexpended balance is shown in the return, but this is largely due to accounting fluctuations. It is not anticipated that the estimates for these items, apart from motor-taxation, will be exceeded, and there may be a net saving of £20,000 when the transactions for the year are complete. The item for motor-taxation being governed by the revenue received, will, if the estimate of the revenue proves correct, be exceeded by about £70,000.

Annual Votes.—The departmental expenditure throughout the year was kept under close control, and notwithstanding the carefully pruned estimates it is estimated that a net saving of £70,000 will be made on the annual votes for the year.

Exchange.—No allowance was made in the estimates for this item, as it was anticipated at the time that arrangements could be made to finance London requirements without remitting from New Zealand. The financial crisis in London, however, rendered it necessary to start remitting from New Zealand in December last, and as a result the expenditure for last financial year was increased by £370,000 for cost of exchange.

Summary of Position.

To sum up the position for last financial year, it appears likely, on the basis of the eleven months' figures, that the net expenditure as a whole will exceed the estimate by approximately £500,000, due to the increased debt charges and the cost of exchange arising out of the financial emergency.

On the revenue side the final figures will probably disclose a shortage amounting in the aggregate to about £2,000,000, and this notwithstanding shrinkages amounting to £6,060,000 provided for in the main and supplementary

Budgets for the year. The deficit for the year will thus be about £2,500,000, although the exact figure cannot be arrived at until the accounts for the year are completed. As stated in my earlier review of the position, it is regrettable that the outcome is not more encouraging, especially in view of the fact that the taxpayers have borne with equanimity such heavy extra burdens in the effort to produce a balanced Budget.

It should not be overlooked, however, that the deficit is much more than offset by reserves invested in discharged soldiers settlement mortgages. These reserves, which still amount to £10,850,000, came from revenue and can be legitimately called back into revenue. The only difficulty is that these reserves are, at the moment, more or less frozen and are not easily realizable. Authority was taken in section 7 of the Finance Act, 1931 (No. 4), for liquidating the reserves by hypothecation of securities, but as I did not think it expedient to discount repayments of capital by mortgagors to the extent required to balance the Budget, the authority was not exercised during last financial year. However, it may be found feasible to make use of the authority this financial year.

The remaining sections of the Economic Committee's report, being tabled concurrently with this Statement, contain figures bearing on the estimated results for last financial year. It will perhaps be observed that these figures vary slightly from those I have used, but by way of explanation I may say that the information supplied to the Economic Committee was based on the results for the first nine months of the year, whereas the revised estimates I have given are based on later information.

PROSPECTIVE POSITION FOR 1932–33.

So far as it is possible to forecast the position for 1932–33, full information was furnished by the Treasury to the Economic Committee. This information was tabulated and discussed in those parts of the Economists' Report which have not yet been made public. The view of the Government was that this information should be published at the same time as the Government was in a position to lay before the House the measures it proposed to adopt to cope with the situation. Accordingly, the remainder of the Economists' Report dealing with the financial situation is now published concurrently with this Statement. This relieves me from the necessity of repeating facts contained in that appendix, although the figures have been varied slightly in the light of later information. But before discussing the Government's proposals I will set out briefly some remarks about the prospective revenue and expenditure.

During this financial year the position may be materially affected by external factors, such as international action in regard to settlement of reparations and war debts, a rise in world prices, and an improved trading position in our principal market—Great Britain. The Ottawa Conference may also have a bearing on the position. Internally steps that may be taken to assist in restoring economic balance may affect the budgetary position adversely or otherwise. However, it must be recognized that a recovery in public finance will, to a certain extent, lag behind improvement in trade and industry, so that unless recovery is rapid, which is unlikely, it is practically certain that we must face another very difficult financial year. As rapid changes are still a feature of the situation and the finances may possibly be affected in a manner and to an extent that cannot possibly be foreseen at present, the estimates of the probable revenue and expenditure for this financial year are only preliminary and will have to be reviewed later. Nevertheless, the position revealed is such that we cannot afford to wait, but must immediately initiate remedial measures in order to obtain the benefit therefrom over the full period of twelve months.

Revenue.

As indicated in my remarks on the position for last year, the shrinkage in the various items of revenue is still going on, and for this financial year we must count on a yield substantially less even than for last year.

Customs.—During the past year there has been a very heavy falling-off in imports, and, in view of the fall in the value of exports and the necessity of remitting large sums from New Zealand to meet Government commitments in London, it is probable that the falling tendency in imports will continue. As a result a further shrinkage in Customs revenue, estimated in the meantime at £900,000, is to be expected, although the revenue will benefit from the fact that the extra duties imposed last year will this year be operative for a full year.

Income-tax.—In regard to this item, which will be based on the income of last financial year, there is certain to be a much reduced yield, but the extent of the falling-off is very difficult indeed to gauge as there is no definite data on which a reliable estimate can be based. The tentative estimate, however, has been set down at £3,500,000, which is £900,000, or about 20 per cent., less than the yield now anticipated for last financial year.

Land-tax.—Receipts under this heading for last year are estimated at £540,000, and this year it is not likely that receipts will exceed £500,000.

Motor-vehicles: Duties and Licenses.—This was the most buoyant item of revenue last year, but it is considered that this year there will be a falling-off, estimated at £210,000. Under present legislation, however, there will be a corresponding fall in expenditure, so this item does not at present affect the prospective budgetary shortage.

Stamp and Death Duties.—The revenue from stamp duties generally appears more stable at the lower level now reached, although further falls, particularly in racing revenue and amusement-tax, appear likely. Death duties will probably show a further shrinkage on account of the fall in property values. Having regard to all the circumstances, it would not be prudent to set down the receipts from stamp and death duties at more than £2,500,000, which is a decrease of about £290,000 compared with the reduced amount now anticipated to be received for last financial year.

Interest Receipts.—Railway revenue has been falling steadily, but the decline has to a considerable extent been offset by savings in expenditure. To a certain extent it may be possible to continue this procedure, but if services are to be maintained it cannot be carried on indefinitely. The rate of decline in revenue is showing signs of easing off, but even so further decreases are to be expected. On this account it has been deemed advisable in the meantime to allow for a further falling-off of £200,000 in the amount of net earnings payable to the Consolidated Fund. The other interest items are also likely to be adversely affected to a further extent, estimated at £200,000.

Post and Telegraph Profits.—For last financial year this item will fall about £160,000 short of the Budget expectations, notwithstanding efforts to offset declining revenues with economies. During this financial year the prevailing economic conditions are likely to be reflected in smaller revenues in all branches, while, owing to the nature of the business, costs remain fairly rigid. Under these circumstances it does not appear safe to count upon more than £350,000 net profits, which is a comparative reduction of £590,000.

Reserves.—Last year's resources were augmented by using reserves to the extent of £1,490,000. This is practically a non-recurring item, as, apart from hypothecation of securities or other special measures to obtain liquidation, very little in the way of reserves is likely to be available this year. About £200,000 will, however, probably be available from capital repayment of the Discharged Soldiers Settlement Account.

Miscellaneous Items.—The land revenues, fees, departmental receipts, and other miscellaneous items will, it is estimated, all be more or less affected to a further extent by the conditions likely to prevail this financial year. The aggregate further decline in these items has been tentatively set down at £160,000.

Expenditure.

In regard to the expenditure for this financial year, there will be various unavoidable or automatic increases on the present basis of operations.

Debt Services.—In the ordinary course of present arrangements it is estimated that there will be an increase of £500,000 in debt charges. This is due to the large amount of Treasury bills or other forms of internal borrowing that will be necessary to finance the remittances to London, last year's deficit, maturing debt redemptions, &c. Finance on Treasury bills means a higher immediate charge than long-term borrowing, as by discounting the bills interest is paid in advance instead of at the end of half-yearly periods. This estimated increase in debt charges is based on the "Hoover" moratorium on reparations and war debts, ending on the 30th June next, but if it is extended, as is not unlikely, the increase in question will be offset by a further net saving to the Consolidated Fund of approximately £600,000.

Unemployment Subsidies.—A clause in the Unemployment Amendment Bill now before the House abolishes the £1 for £1 subsidy from the Consolidated Fund to the Unemployment Fund. The anticipated financial position outlined in this statement will enable honourable members to appreciate the necessity for this step. Apart from this legislation for easing the position, it would be necessary to provide an additional £350,000 for unemployment subsidies, due to the fact that the present 3d. in the £1 levy on salaries and wages, &c., was not in operation for the whole of last financial year.

Hospital Subsidies.—Under present arrangements, the extent of the unemployment problem would probably render it necessary to give further assistance to Hospital Boards. It will be remembered that an additional £75,000 had to be allocated to the Boards last year, and in the ordinary course it is likely that at least another £55,000, bringing the total of Hospital subsidies as a whole up to £700,000, would have been necessary. The proposal whereby the Unemployment Board will relieve Hospital Boards of the duty of providing for charitable aid arising out of unemployment will incidentally also relieve the Consolidated Fund by enabling hospital subsidies to be reduced.

Pensions.—Another increasing item of expenditure is pensions and family allowances. Owing to the economic stress the latter item is rising fairly rapidly. Old-age and other pensions will also be affected by economic conditions, in addition to which allowance has to be made for the normal expansion largely governed by population. Due to these causes, the expenditure on pensions would, apart from any reductions that may be effected, be increased by at least £100,000.

Subsidies to Local Authorities.—In 1930 legislation was passed making these subsidies a charge on the Highways revenue for one year. Last year the time was extended for another year. Accordingly, unless further legislation is passed, these charges will revert to the Consolidated Fund from the 1st September next, and for the balance of the financial year will involve a charge of approximately £125,000 on that fund.

Exchange.—A further item of increased expenditure is exchange on remittances to London to provide for commitments there. For last year exchange costs will amount to £370,000; and if all requirements for this financial year had to be provided for from New Zealand the exchange cost at 10 per cent. would be £1,200,000. The much-improved financial conditions in London, however, have made it possible to realize on Reserve Fund securities without loss. In addition, arrangements have been completed to raise a loan of £5,000,000 in London. As a result of these operations, remittances from New Zealand will be about £7,000,000 less than was anticipated when the exchange pool was formed. Exchange costs will therefore be £700,000 less than was anticipated. Expenditure on exchange for next financial year is now estimated at £500,000, an increase over the expenditure for last financial year of £130,000.

Other Items.—Against these increases the anticipated reduction in the revenue from motor-vehicles—duties and licenses—will, under present legislation, mean a corresponding reduction of £210,000 in the Consolidated Fund expenditure. In addition, there will be a saving of about £50,000 on various small non-recurring items.

The annual votes and the remainder of the expenditure would in the ordinary course, with the exercise of strict control, be much the same as for last financial year.

Summary of the Prospective Position.

From the foregoing it is clear that unless far-reaching adjustments are made to increase the revenue and decrease expenditure the results for 1932–33 will show a much more serious deficit than for the year just finished. This can be seen from a tabulation of the estimates set forth above as follows:—

			£
Estimated revenue for 1931–32			22,600,000
Deduct forecasted decreases for 1932–33, as follows:—		£	
Customs		900,000	
Income-tax		900,000	
Land-tax		40,000	
Motor-vehicles—Duties and licenses ..		210,000	
Stamp and death duties		290,000	
Railway interest		200,000	
Other interest		200,000	
Post and Telegraph profits ..		590,000	
Reserves		1,290,000	
Other items (net)		160,000	
			4,780,000
Estimated revenue for 1932–33			£17,820,000
			£
Estimated expenditure for 1931–32			25,120,000
But this expenditure would in the ordinary course be increased as follows for 1932–33:—		£	
Debt charges		500,000	
Unemployment subsidies		350,000	
Pensions		100,000	
Subsidies to local authorities ..		125,000	
Hospital subsidies		55,000	
Exchange		130,000	
		1,260,000	
Less savings—	£		
Motor-taxation	210,000		
Other items	50,000		
		260,000	
			1,000,000
Estimated expenditure for 1932–33 ..			£26,120,000

Prospective result for 1932–33—	£
Expenditure	26,120,000
Revenue	17,820,000
Shortage	£8,300,000

Honourable members will, I think, agree that the prospective budgetary position is a very serious one, especially when it is remembered that taxation was greatly increased, reserves heavily drawn upon, and resources generally strained in the effort to balance last year's Budget. To meet a shortage of much the same magnitude this financial year is a much more formidable problem, and, having regard to the limited taxable capacity that remains, the fact must be faced that the bridging of the gap in the finances must be largely accomplished by means of reductions in expenditure. Millions, however, cannot be saved without very drastic economies, involving serious curtailment, or, in some cases, even the abolition of various grants, subsidies, and services which have been undertaken under more prosperous conditions. Many of these services are desirable and beneficial, but if our troubles are not to be accentuated by the finances of the State getting out of hand, our actions must be governed by what we can afford.

The task of cutting down expenditure is onerous and disagreeable, and I would appeal to honourable members and the people generally not to add to the difficulties by opposing each and every economy that is proposed.

REMEDIAL MEASURES.

The problem then arises how is this prospective deficit to be coped with. Before discussing the proposals contained in the Economists' Report for reducing the amount to what they call a manageable deficit of between two and three millions, it will facilitate a comprehension of the position if I state the suggested remedies in broad outline as follows:—

	£	£
Estimated deficit		8,300,000
To be reduced by—		
(1) Savings	4,100,000	
(2) Taxation to yield	2,200,000	
		6,300,000
Remaining deficit		£2,000,000

The details of the proposed taxation will be laid before the House at a later date. In the meantime I may say that the Government proposes to submit to Parliament certain increases in both direct and indirect taxation. The savings proposed arise from the adoption in part of the economies recommended by the report of the National Expenditure Commission. Some economies recommended by that Commission were already in force, some were not agreed to by the Government, and some will not operate during this financial year even if agreed to. A statement will be made later as to which recommendations have been adopted and the reason for the non-adoption of others.

The Commission, of course, has not completed its work, and further recommendations will be contained in its final report. I may say, however, that the £4,100,000 referred to is broadly made up as follows:—

	£
Reduction in salaries, wages, and pensions	1,100,000
Abolition of subsidy on Unemployment Funds	1,450,000
Assistance from Highways Funds	500,000
Subsidies to local bodies to remain a charge on Highways Account	125,000
Reductions in other items	325,000
"Hoover" moratorium (if extended)	600,000
	£4,100,000

Reduction in Fixed Charges.—Both the Economic Committee and the Royal Commission recommended a reduction in fixed charges for interest and rent as well as wages. Although these proposals only partially affect the Budget, I propose to deal with them at this point both as they affect the general position and the Budget.

In paragraph 97 of the Economists' Report it is stated "a reduction of 20 per cent. in fixed money claims would make a substantial contribution towards bridging the gap between costs and prices"; they further indicate that both rent and interest should be reduced on this basis. They also indicate a further reduction in wages of 10 per cent. as being necessary. The Royal Commission on National Expenditure, in paragraph 134 of their report, recommended a general reduction of 10 per cent. in salaries and wages of public servants. They also recommended a reduction of either 15 per cent. or 20 per cent. in the rate of all classes of interest, both private and public.

I will deal first with the question of interest, which is by far the most difficult and intricate. The problem divides itself into two branches—namely, interest on private mortgages, deposits, &c., and interest payable on the public debt held in New Zealand. In my view, different considerations apply to these two classes of obligation.

As to private interest, I have on a previous occasion expressed the view that a flat cut all round would be unnecessary in some cases and insufficient in others. It would make no discrimination between those who had invested wisely and those who had invested unwisely. My view was and is that voluntary private adjustments, aided where necessary by the provisions of the Mortgagors Relief Act, would provide more equitable results for the great variety of cases that exist than any flat-rate reduction could do. However, the Royal Commission on National Expenditure states in paragraph 163 that in their opinion this process is too slow in operation and may not result in an equal all-round adjustment, and some or all of the Commissioners advocate a reduction by legislation of 15 per cent. or 20 per cent. (paragraph 316). The Economists' Report, Part 10, also appears to hold that the reduction should be by legislation. The same view has been urged by many outside representative bodies. Although I am still of opinion that a fixed reduction by legislation is not the best course, I have subordinated my personal view to that of my colleagues, and what appears to be the general view. Accordingly, the Government legislation will provide for a general reduction of interest and rent, but it will be qualified by provisions enabling the mortgagee or lessor to apply to the Court if he can show hardship, and for the mortgagor or lessee to apply to the Court if he can show that the relief is inadequate. The legislation will also allow for concessions already made and for various other special considerations. It must be remembered also that in last year's legislation I imposed special extra income-taxation on receivers of investment-income from interest and rent. The objection raised to that was that while it made this class contribute to the general financial needs of the Dominion it made no concession to the mortgagor or tenant. As, however, it is now proposed to make a heavy reduction in interest and rent, this special taxation will require to be reviewed.

Interest on the Public Debt.—I now turn to the interest on the public debt. The Royal Commission on National Expenditure recommended that assistance might be obtained towards the budgetary position by—(1) Revenue from stamp duty on coupons and interest warrants, and (2) a voluntary conversion loan. They pointed out that the advantages of the revenue stamp duty were—(1) That the duty could be put into operation immediately, (2) that there would be no costs involved, and (3) that the duty could be purely of an emergency character and could be lifted wholly or in part as prosperity returns. As against that, if the charge were made on a permanent basis, it would tend to prevent a general fall in the interest level, which is vital to the revival of trade and industry in the Dominion. They therefore recommended a special emergency stamp duty on the interest on all internal loans bearing interest at $4\frac{1}{2}$ per cent. or over. They did not suggest the rate of stamp duty which should be imposed, as they considered the question of taxation was outside the order of reference.

With regard to a conversion loan they pointed out the disadvantages to be—(1) Considerable cost would be involved in the process of conversion, (2) immediate relief to the Consolidated Fund would not be possible, and (3) it would penalize investors for the whole duration of the loans. In effect they recommended a combination of stamp duty and conversion. They admitted, however, that nothing would be more fatal to our credit than an unsuccessful conversion scheme, and that the prospects of its success should be carefully gauged before it was undertaken. They suggest that the general reduction in interest under a conversion scheme should be 15 per cent., or 3s. in the pound.

Another section of the Commission recommended a conversion reduction of 20 per cent., but so that on loans the interest on which is taxable they should not fall below 4 per cent. and on the tax-free loans a reduction to £3 12s.

The Economic Committee recommended (see paragraphs 108 to 111)—(1) A special stamp duty on interest on the internal debt, or (2) a special income-tax such as was imposed last year, or (3) a voluntary conversion loan whereby the internal debt would be converted into new securities bearing a lower rate of interest. They suggest a reduction by 20 per cent. to a minimum of $3\frac{3}{4}$ per cent.

Reviewing these proposals the Government is of opinion that at this juncture a voluntary conversion loan is not advisable for various reasons:—

In the first place the average rate of interest on the public debt is too low to make it probable that any voluntary conversion scheme would be successful. The tables show that the average rate of interest on the debt held by the public is only $4\frac{7}{8}$ per cent., and on that held by Government Departments about $4\frac{1}{4}$ per cent.

In the next place the proportion of the debt held internally in New Zealand as against the external debt is much lower than was the case in Australia. It would appear that in order to procure a successful conversion it would be necessary to bring down the rates of interest so far below the market rate that it seems inevitable that the conversion would not be in effect voluntary but compulsory. In other words, it would amount to a composition with our creditors. Moreover, although some calculations in the reports of the Economists and the Royal Commission suggest that a net saving to the Budget of £300,000 or more would be made, later figures worked out by the Treasury satisfy me that after making all the necessary concessions to our own mortgagors and taxpayers the saving would be so small as not to warrant all the risk and turmoil of an attempted voluntary conversion. It may be that at some later date the question of a voluntary conversion will require to be reconsidered, but I do not think it is expedient at present.

Finally, as in the case of private interest, it must be remembered that the interest from Government bonds was subjected to a special income-tax last year. It is my experience and observation that many investors, both large and small, readily agree that they must pay whatever taxation the State finds it necessary to impose, but they strongly resent any suggestion of a forced reduction of interest by the Government on its own bonds. In reality they received a 10 per cent. cut last year by virtue of the taxation. I am therefore still of the opinion that the fairest way to call on the holders of Government bonds to pay their share towards the general need is by taxation. I therefore propose to maintain the taxation imposed last year. This will not put them on a level footing with the private mortgagee if he is to suffer a 20 per cent. flat reduction. I propose, therefore, to supplement the taxation on interest from Government bonds by a stamp duty on interest coupons of 10 per cent.

This brings me to the position of the tax-free debentures. Apparently both the Economists and the Royal Commission contemplate that any stamp duty imposed or interest reduction should apply to the tax-free debentures as well as those not tax free. The argument used is that this stamp duty is a special revenue duty framed for an emergency and not forming part of the ordinary system of income-tax. This view is held not only by the Royal Commission and the Economists, but it appears to be considered justifiable by some of the stock exchanges and other organizations dealing in investments. I am unable to acquiesce in this view, and it must therefore be understood that while the recommendation is submitted to the House by the Government on the advice and acquiescence of the authorities I have quoted, it does not express my own personal view.

Interest on Local-body Debt.—This will be dealt with in the same way as interest on the public debt—that is to say, interest on local-body debt will be included in the proposal for a stamp duty of 10 per cent., and the special income-tax imposed last year will remain. Provision will be made in the legislation for payment to local bodies of the proceeds from the duty derived from the interest on their securities, less a deduction of 5 per cent. to cover costs of administration.

Other Interest.—In order to preserve the existing relative position and ensure that the reduction in fixed charges is an all-round one, it is necessary to consider the position of bank rates and deposit rates generally. In so far as bank rates for advances are concerned, the question of a reduction has been discussed with the Associated Banks, and an announcement in regard to the matter will be made by the Chairman of the Associated Banks shortly.

A fairly extensive deposit business is done by trustee and investment companies and building societies, and, in addition, deposits are accepted by mercantile firms. All these institutions and firms are asked to assist in bringing about a general reduction in interest-charges. In order to ensure that individual firms do not obtain an advantage over their competitors by refusing to participate in the proposal, it is proposed to ask Parliament for authority to prescribe the maximum rates of interest that may be offered for deposits by the different classes of business. The power to fix rates in this way will be made wide enough to cover interest on existing deposits. In this connection, I may say that it is recognized that a reduction in mortgage rates will seriously affect the financial position of some institutions unless provision for reductions are made in the rates of interest for existing deposits.

Power will also be taken to fix the maximum rates of interest that may be paid by savings-banks.

Reduction in Wages.—In order to give effect to that part of the Government's programme which contemplates a general reduction of rent, interest, salaries and wages, a comprehensive Bill will be presented to the House at an early date. With regard to a wage reduction, both the Royal Commission and the Economists' Report contemplate a reduction of 10 per cent. The Royal Commission holds the view that a graduated reduction is not advisable, but the Government proposes, however, to graduate the cut as regards the Civil Service, and particulars of this will appear in the legislation. In paragraph 140 the Royal Commission recommend that in so far as the cut affects the Public Trust, the Government Life Insurance Office, and the State Fire Office, these Departments should not be deprived of the benefit of the reduction in wages as was done last year, and the Government acquiesces in this view.

LOAN FINANCE.

London Loan.—As has already been announced, a £5,000,000 loan has been underwritten in London. The loan bears interest at 5 per cent. and was issued at £98 10s. per cent. The stock will mature on the 1st November, 1971, but the Government will have the option of repaying the loan wholly or in part on or after the 1st November, 1956, on giving three months' notice. The return to investors with redemption at par at the maturity date is £5 1s. 9d. per cent. and the cost about £5 5s. 5d. per cent. Having regard to present economic conditions, the underwriting of a loan on these terms is satisfactory.

£4,000,000 of the amount is to be used for funding the Treasury bills outstanding in London which mature in June next, and the remaining £1,000,000 to assist in financing a much reduced programme of capital works.

Capital Works.—The loan will greatly assist in easing the strain on local resources. On this point the Economic Committee stated in paragraph 133 of their report that "If it is practicable to fund these bills on maturity such should be done so as to ease the position in New Zealand." Further, the Committee, while recognizing the necessity for a reduction in loan expenditure, recognized that a complete sudden cessation would only deepen the depression and lead to waste through leaving works in hand uncompleted. These remarks are in line with my own views, and the Government is endeavouring to arrange finance for carrying on capital works on a reduced scale. It is hoped that, including the £1,000,000 from the London loan, arrangements can be made to finance an expenditure of £3,000,000 for public works, land development, forestry, &c. This would mean a reduction of over 50 per cent. compared with the programme for last financial year.

General Finance.—Arrangements have also to be made to deal with loans maturing in New Zealand and Australia. About £5,000,000 held by the public matures during this financial year.

In addition, an extensive use will have to be made locally of Treasury bills to finance remittances to London and general requirements during the financial year.

STATE ADVANCES.

In view of the heavy demands in other directions, I do not see any immediate prospect of providing additional capital for State Advances during this financial year. The matter will not be lost sight of and will be reconsidered if the internal money-market, after providing for other requirements, is favourable. As to the existing resources of the Office, it is estimated that after providing for redemption of loans maturing during the year, not more than £750,000 will be available for reinvestment. From this amount, however, will have to be deducted the amount of interest and principal postponed by order of the Courts under the Mortgagors and Tenants Relief Amendment Act, 1932. Payments in arrears also have a definite bearing on the available resources. To enable the State Advances Board to give further concessions in deserving cases, it is proposed to introduce legislation to permit the Board to rearrange loans to mortgagors and capitalize arrears of interest. The Board will also be empowered in certain cases to allow the ½-per-cent. rebate on prompt payment of current instalments, even though arrears are still outstanding in respect of previous instalments. These further concessions will also tend to reduce the surplus funds available for reinvestment, and, as it is necessary in many cases to provide additional loans to protect existing securities, the Board is conserving its limited resources for this purpose. I think it desirable that the country should know this in order that misapprehension may not arise in respect to fresh applications for loans.

General.

I have made no reference to one question which occupies a large part of the Economists' Report—viz., the exchange problem and the price-level. So far my immediate practical problem has been to make sure of getting funds to meet our London obligations, and all general considerations of advantages and disadvantages of a free exchange or a high exchange had to be subordinated to the more urgent one.

Whatever New Zealand may decide to do when it is clear that the need for the Exchange Pool no longer exists, it is fortunate that the Ottawa Conference will enable the whole problem of the price-level to be approached from an Empire standpoint. All attempts to raise the price-level by international action have so far been unsuccessful, but concerted action on an Empire scale to raise the sterling level of prices of primary products may be possible, and is the only thing that can relieve the burden of the external debt. At the present level of prices New Zealand can either pay her London obligations or buy British manufactures, but she cannot do both, or rather the latter must be severely restricted. It is satisfactory to note that the Canadian Government proposes to make the question a prominent feature on the agenda paper at the Ottawa Conference.

In the meantime, to deal with our internal problems, the Government proposes to submit legislation:—

(*a*) To reduce wages and salaries in the Public Service and to make equivalent reductions in interest and rent.

(*b*) To effect certain economies in expenditure.

(*c*) To raise additional revenue by direct and indirect taxation.

(*d*) To enable the State Advances Department to grant further concessions and adjustments.

(*e*) To provide for the life of this and future parliaments to run for four years instead of three.

So far as balancing the Budget is concerned, the proposals covered by this statement will, if the preliminary estimates of revenue prove to be correct, leave a deficit of £2,000,000. This position will be reviewed in the ordinary session, when it is hoped that the situation will be clearer and the prospects can be more accurately gauged. Further, by that time the Government will have had time to consider the final report of the National Expenditure Commission.

Apart from these considerations, it is recognized that ultimate Budget stability must rest on general economic recovery, and care must be taken not to hinder that recovery by imposing too heavy taxation in an effort to balance the Budget. At the same time, the budgetary position must not be allowed to get out of hand, as such a result would constitute a menace to the whole economic fabric.

If it cannot be avoided without too drastic measures, we can, I think, legitimately off-set any reasonable shortage against the reserves which still remain. The book value of these reserves invested in Discharged Soldier Settlement mortgages is £10,850,000. While this amount will inevitably have to be reduced on account of investment losses, the effective value will be more than ample to cover the deficit for last financial year and the £2,000,000 shortage for this financial year, should it remain at that figure.

Finally, the aim of the Government is to reach Budget equilibrium by 1934.

WM. DOWNIE STEWART,
Minister of Finance.

7th April, 1932.

APPENDIX.

REVENUE, 1931–32.

STATEMENT OF REVENUE RECEIVED TO 29TH FEBRUARY, 1932, COMPARED WITH THE FINAL BUDGET ESTIMATES FOR YEAR 1931–32.

—	Revised Estimate for the Year.	Revenue for the Eleven Months ended 29th February, 1932.	Amount required to reach the Estimate.
	£	£	£
Taxation :—			
Customs	6,750,000	5,386,245	1,363,755
Beer duty	650,000	578,652	71,348
Film-hire tax	50,000	36,316	13,684
Motor-vehicles—Duties, licenses, &c.	1,760,000	1,704,374	55,626
Stamp and death duties	2,990,000	2,621,455	368,545
Land-tax	625,000	520,879	104,121
Income-tax	4,935,000	1,561,131	3,373,869
Total taxation	17,760,000	12,409,052	5,350,948
Interest :—			
On capital liability—			
Working Railways	930,000	499,430	430,570
Postal and Telegraph	535,000	460,000	75,000
On Public Debt Redemption Fund	720,000	588,438	131,562
On other public moneys	745,000	621,510	123,490
	2,930,000	2,169,378	760,622
Other Receipts :—			
Registration and other fees	205,000	160,360	44,640
National-endowment revenue	70,000	58,201	11,799
Territorial revenue	140,000	131,600	8,400
Justice	209,000	113,467	95,533
Marine	95,000	85,526	9,474
Post and Telegraph Department profits	1,090,000	315,616	774,384
Printing and Stationery	190,000	132,090	57,910
Stamp duties	75,000	119	74,881
Tourist and Health Resorts	67,000	44,255	22,745
Miscellaneous	335,000	130,118	204,882
Recoveries on account of expenditure of previous years	10,000	3,544	6,456
From reserves	1,490,000	594,825	895,175
Total other receipts	3,976,000	1,769,721	2,206,279
Total revenue	24,666,000	16,348,151	8,317,849

EXPENDITURE, 1931–32.

STATEMENT OF NET EXPENDITURE, INCLUDING ADVANCES OUTSTANDING, TO 29TH FEBRUARY, 1932, COMPARED WITH THE ESTIMATE FOR THE YEAR 1931–32.

—	Estimate for the Year.	Expenditure for Eleven Months ended 29th February, 1932.	Balance of Estimate unexpended.
	£	£	£
Permanent Appropriations :—			
Under special Acts of the Legislature—			
Civil List	28,361	23,840	4,521
Debt services—			
Interest	8,940,675	9,157,758	217,083*
Amortization of debt—			
Sinking fund	3,202	1,601	1,601
Repayment of funded debt	236,796	220,741	16,055
Repayment of Public Debt Act, 1925 ..	1,203,298	787,080	416,218
Administration and management and other debt services	45,800	56,533	10,733*
Total, debt services	10,429,771	10,223,713	206,058
Other services—			
Hospitals and charitable institutions	645,000	512,709	132,291
Education	155,534	153,277	2,257
Other grants and subsidies	1,464,313	1,164,666	299,647
Salaries and honoraria	93,050	85,285	7,765
Pensions	3,053,404	2,810,864	242,540
Motor-taxation	1,760,000	1,125,622	634,378
Other special Acts	86,455	68,322	18,133
Total other services	7,257,756	5,920,745	1,337,011
Total permanent appropriations ..	17,715,888	16,168,298	1,547,590
Annual Votes—	6,911,673	5,928,085	983,588
Exchange	..	269,450	269,450*
Total expenditure	24,627,561	22,365,833	2,261,728

* Excess.

By Authority: W. A. G. SKINNER, Government Printer, Wellington.—1932.