

This heavy rate of expenditure, representing as it does the diversion of a large proportion of the Dominion's current resources to war purposes, inevitably involves substantial sacrifices by all sections of the community. That sacrifices must be made is an inescapable fact for the obvious reason that less goods and services are available for civilian consumption than was previously the case. Burdens and sacrifices are, in fact, imposed by stark necessity on all our people, and all must inevitably be called upon to forego temporarily some of the comforts and many amenities to which our high and rising standard of living had accustomed us in times of peace. In this respect and in most others we in this Dominion have so far been relatively fortunate.

Diversion of current resources to war purposes.

In New Zealand, since the outbreak of war, the volume of goods available for civilian consumption has been substantially reduced, estimated at over 30 per cent., and while many incomes have been reduced, particularly as the result of war mobilization, these reductions have been more than offset by increases in other directions, such as the employment of women not previously engaged in industry and overtime payments, with the result that during the same period the spending-power of the community has actually increased by over 10 per cent.

Reduction in goods available for civilian consumption contrasted with increased spending-power.

Thus on the one hand we have increased spending-power in the hands of the community, while at the same time less goods and services are available to be purchased. As more men are mobilized, as more industries are transferred to war purposes, and as supplies from overseas tend more and more to be of a warlike nature, it is clear that, apart from essentials, less and less goods will be available for civilian consumption.

This ever-widening gap between supplies and spending-power is a problem which must be faced immediately. Money is useful only for the goods and services which it will buy, and if such goods and services are not available then the surplus spending-power must be withdrawn in one way or another; otherwise we must drift into serious inflation with all its attendant evils and hardships. Moreover, to postpone the required adjustment would only aggravate the position and render necessary more drastic measures later.

Danger of inflation.

As the costs of war, to the extent that they are not met from funds borrowed overseas, must be financed from current income it follows that the most equitable way of reducing the excess spending-power in the hands of the community and at the same time bridging the gap in the War Expenses Account would be by increased taxation. This, however, would involve nearly doubling the present amount derived from all headings of taxation. It is not practicable to do this, as with existing taxation it would mean taking on the average about half of everybody's income, whether it was great or small. That would have a crippling effect on both industry and personal effort and generally produce a chaotic state of affairs. On the other hand, it is in the best interests of the people generally, both now and after the war, to proceed on the principle of pay as we go as far as we can and obtain as much as is reasonably possible from taxation.

Financing of war from taxation as far as possible.

With this in mind, the various headings of State revenues have been carefully reviewed. As it is the most equitable form of taxation, income-tax was considered first. Income-tax rates in New Zealand are by no means low at present, but before having recourse to the lower incomes it was felt that the maximum amount practicable should be obtained from the higher incomes. It is accordingly proposed to increase the present super-tax from 15 per cent. to 33½ per cent. It is estimated that this income-tax adjustment, which will apply to last year's incomes will provide an additional £3,000,000 this year.

Increase in super-tax.

Nearly 70 per cent. of the aggregate private incomes is beyond the effective scope of income-tax, a married man with two dependent children contributing little, if anything, in income-tax unless his income exceeds £400 per annum. In the existing circumstances it is obvious that this large proportion of the national income must be drawn upon, and it may be pointed out that most of the additional spending-power being released goes into the hands of such persons. Accordingly, it is proposed to increase the national security tax by 6d. in the £1 and this amount will be payable on all incomes, including company profits. For the balance of this financial year it is estimated that the additional revenue from this tax will amount to £4,900,000.

Increase in national security tax.