

1942.

NEW ZEALAND.

FINANCIAL STATEMENT.

By the Right Hon. PETER FRASER, Acting Minister of Finance.

MR. SPEAKER,—

We are facing to-day, in common with the other countries of the British Commonwealth of Nations, the most ominous threat in the history of our civilization. Crisis has succeeded crisis throughout this world-wide conflict. On no occasion have the British peoples failed to respond instantly, and as one man, to threats of danger, and by their own undaunted spirit and by their willingness to make supreme efforts no disaster has succeeded in disheartening or overwhelming them. To-day there is danger on every side, but the deterioration of the situation can have but one result—the calling forth of the best and most united exertions of every freedom-loving man and woman. With the successive advances of the Japanese the threat to the security of this country has never been more critical or near, nor have we ever before set ourselves a task of such magnitude as that which is now engaging our attention. Our entire national effort and, indeed, our whole economy must become diverted towards placing New Zealand on a complete war footing. There is no need to stress the fact that this war will not be won by the fighting forces alone. It is in the workshops and in the industrial efforts of our people, in savings and sacrifices in the home—in short, by the wholehearted effort of each and every one of us—that we can hope to survive and emerge triumphant from the dangers that now beset us.

With the extension of the war into the Pacific infinitely greater demands have been placed upon the people of the Dominion. The huge expansion of our armed forces, combined with the diversion of so great a proportion of our productive resources to war purposes in recent months, has so altered the financial outlook that I have deemed it advisable to lay the position before the House at the earliest possible opportunity. I have accordingly taken the unusual course of presenting a Financial Statement now, although neither the complete accounts for last year nor the detailed estimates for this year are yet available. Both will be made available as soon as possible.

I am, however, in a position to inform honourable members that last year closed with a Budget surplus in Consolidated Fund of approximately £1,500,000, due for the most part to the main headings of revenue exceeding the estimates. The expenditure in total was closely in accord with the appropriations, although there were variations in some of the items.

In the case of the Social Security Fund, the revenue slightly exceeded the estimates, while the expenditure was approximately £1,000,000 less than was anticipated, with the result that the balance in the account increased by approximately £1,000,000 during the year.

In so far as the finances of the Consolidated Fund for the present year are concerned it is anticipated that there will be a substantial fall in revenue from Customs, sales tax, and, for obvious reasons, from the petrol tax—a total reduction of £3,000,000 being allowed for. As regards expenditure, the estimates are being compiled on the basis of balancing the Budget within the reduced revenue available. Debt charges, however, will require an increased provision of £1,700,000, but savings in exchange charges (£800,000), highways expenditure (£400,000), and annual votes (£2,000,000) will more than offset this increase even after £700,000 has been allowed for an increased cost-of-living bonus to State employees. Thus on balance the anticipated reduction of £3,000,000 in revenue is, after allowing for the 1941-42 surplus of £1,500,000, offset by net reductions of £1,500,000 in the expenditure.

The Consolidated Fund Budget for this year may be summarized approximately as follows:—

**Consolidated
Fund Budget,
1942-43.**

				REVENUE.	
Taxation—				£	£
Customs	..	..	..	6,700,000	
Beer duty	..	..	..	1,500,000	
Sales tax	..	..	..	3,200,000	
Highways	..	..	..	1,800,000	
Stamp duties	..	..	..	1,600,000	
Land-tax	..	..	..	1,000,000	
Income-tax (including excess profits tax)	..	..	..	16,500,000	
Miscellaneous	..	..	..	210,000	
				<hr/>	32,510,000
Interest recoveries from trading activities, &c.	..	..	..	3,226,000	
Other receipts	..	..	..	2,450,000	
				<hr/>	5,676,000
					<hr/>
					£38,186,000

				EXPENDITURE.	
				£	
Permanent appropriations (including transfer of £1,500,000 to War Expenses Account)	..	..	..	18,200,000	
Annual votes	..	..	..	19,726,000	
				<hr/>	37,926,000
Supplementary Estimates and contingencies	260,000	
				<hr/>	£38,186,000
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**Social Security
Fund:
Estimate for
1942-43.**

**Cost-of-living
bonus.**

For the Social Security Fund the revenue is estimated to be much the same as for last financial year, in total about £14,500,000, including for each year a transfer of £3,600,000 from the Consolidated Fund. Expenditure, on the other hand, is estimated to show an increase of £2,400,000, mainly on account of hospital and medical services and provision for a 5-per-cent. cost-of-living bonus on age, widows', invalids', miners', orphans', and Maori war benefits, and also on war veterans' allowances. An equivalent bonus will be given to economic pensioners. The estimated cost of these bonuses which will date from 1st May, is £550,000 per annum. The balance in the account at 31st March last was approximately £3,000,000, so this additional expenditure can be met out of the present reserves of the account.

**Increased
domestic
allowance.**

As a cost-of-living bonus it is also proposed to increase the domestic allowance payable to wives of all men in the armed forces with one or more children. This allowance at the rate of 1s. a day was granted last year to

wives who, owing to their domestic responsibilities, were unable to take advantage of present opportunities for remunerative employment. The allowance will be increased as from 1st May to 1s. 6d. a day, the increase of 3s. 6d. a week representing approximately 5 per cent. on the income of the wife of a private soldier with two children. In cases where no children are involved the wife's present allowance of £1 1s. per week will be increased by 1s. 9d. per week. The cost will be about £400,000 per annum.

These bonuses, and also that granted to public servants, follow the 5-per-cent. cost-of-living allowance granted by the Court of Arbitration. To offset the reactions from this award on labour costs it has been decided to increase the basic fixed price for next season's wheat by 2d. a bushel. I may add that the Government have under consideration the question of granting a war costs' allowance to the dairy industry to offset the increased labour costs arising out of the war. The Hon. the Minister of Marketing is at present discussing the matter with representatives of the industry and should be in a position to make a statement shortly.

In present circumstances, when the volume of goods for consumption is decreasing, general increases in money incomes confer no lasting benefit on the people and accentuate the already serious problem of avoiding inflation. The Government are already expending an amount in the vicinity of £2,250,000 per annum in subsidies, with the object of assisting the public, and it is proposed to continue the policy of stabilizing wages and prices to the fullest extent possible.

Stabilization of wages and prices of essential commodities.

The national development programme submitted in last year's Budget contemplated the borrowing of £13,000,000, but by reason of the demand for defence works on a large scale, combined with the call-up of men for the armed forces, the programme was curtailed, particularly after Japan entered the war. In consequence, borrowing last year for these purposes amounted to £11,952,000. For this year the policy is to reduce developmental works to a care-and-maintenance basis, with certain justifiable exceptions. In view of the shortage of power it is considered that hydro-electric construction work should proceed as far as is practicable, and £1,100,000 will be provided for this purpose. Then £300,000 is required for linen-flax development, the product being required for war purposes. In preparation for rehabilitation of soldiers it is advisable to carry on as far as possible with land settlement and development work, and it is proposed to allow £900,000 for these purposes.

National development programme for 1942-43.

Work on public buildings is now confined to completing works in an advanced stage of construction. Owing to the call-up of tradesmen for defence works, combined with difficulties in getting material, it has been necessary in the meantime to curtail housing activities, and it is not anticipated that more than £550,000 will be required for this purpose for this year. I may say, however, that the Government is planning for a huge expansion in housing along lines that will permit of rapid construction being undertaken as soon as circumstances permit. This will be a necessary part of the rehabilitation of men serving in the armed forces.

Housing.

Altogether it is estimated that loan-moneys not exceeding £4,500,000 will be required this year for national development and housing. Full details will be shown in the Estimates.

Transactions affecting the public debt resulted in new borrowings totalling £43,719,000. This money was raised for the following purposes:—

Loan programme for 1941-42.

National development works (including electric-supply, roads, State coal-mines, State forests, iron and steel industry)	£
	8,252,000
Housing	3,700,000
War purposes	31,767,000
	<hr/>
	£43,719,000
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The new borrowings were obtained from the following sources:—

	£
Public war loans in New Zealand	10,982,000
Advance subscriptions to future war loans	1,684,000
National Savings Investments	5,086,000
Memorandum of Security Agreement with United Kingdom Government	8,243,600
Voluntary war loans (interest free)	130,000
National Development Loan	5,861,000
Departmental issues and Reserve Bank	11,733,000
	<hr/>
	£43,719,000
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Redemptions totalled £10,585,000, and after allowing for exchange on remittances to London to repay London debt the net increase in the public debt was £35,907,000.

I have dealt more briefly than is usual with the finances for normal activities partly because they are generally being held within existing resources, but mostly because at present everything is completely overshadowed by the necessity for concentrating upon an “all in” war effort. Here in the financial field, as well as in the material, we are faced with problems of a magnitude far exceeding anything this Dominion has hitherto had to contend with.

War
Expenses
Account.

Having regard to the rapidity of the current expansion, the uncertainty as to how much material can be obtained from overseas and when it will arrive, and generally the impracticability of adhering to any fixed programme, honourable members will appreciate the difficulty of compiling accurate estimates of what will be required to finance our war effort. For last financial year the expenditure for all services amounted to approximately £53,000,000. This year, as far as can be seen at present, we will require the enormous amount of £133,000,000, more than double what was spent last year. That is the measure of the problem we have now to consider. The amount required this year alone is substantially more than the whole cost to this Dominion of the last war. A summary of requirements is as follows:—

WAR EXPENSES ACCOUNT, 1942-43.

	EXPENDITURE.	£(m.)	£(m.)	£(m.)
Army		97.0		
Navy		10.0		
Air		19.0		
Civil		7.0		
		<hr/>	133.0	
	REVENUE.			
War taxation (at existing rates) ..		20.0		
Transfer from Consolidated Fund of 1941-42 surplus (£1,500,000) and further £1,500,000 from 1942-43 revenues		3.0		
Miscellaneous		4.0		
		<hr/>	27.0	
	Gross deficit .. ..		..	106.0
Less—				
Amount to be borrowed from the United Kingdom Government under the Memorandum of Security Agreement			46.0	
Expenditure to be financed under Lease-Lend procedure			10.0	
			<hr/>	56.0
	Net deficit			<hr/> <hr/> £50.0

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.

The result of these proposed adjustments will be that direct taxes will reach 18s. in the £1 at £2,500 in the case of unearned income and £3,700 in the case of earned income. Companies at the maximum rate will pay 14s. 0 $\frac{1}{2}$ d. in the £1, as compared with 12s. 0 $\frac{1}{2}$ d. at present. To overcome certain anomalies and difficulties in assessment that would arise on account of this increase in income-tax rates, the basis of assessment is being amended in some respects. Full details of these alterations will be given when the necessary legislation is introduced.

Increase in family allowances.

To alleviate any hardship on the family man with a low income it is proposed to grant a bonus of 2s. per child on the existing family allowance otherwise payable. The result of this would be that a man receiving £5 per week with two dependent children would receive an additional bonus of 4s. and at the same time be subject to an additional tax of 2s. 6d. per week. I may add that in order not to cancel out the cost-of-living bonus payable to those receiving family allowances it is proposed to increase the maximum allowable income from £5 to £5 5s. The extra cost of these proposals is estimated at £370,000 per annum.

Increase in sales tax.

As in the United Kingdom and in Australia, it is proposed to turn to consumptive taxes for portion of the additional revenue required. Firstly, it is proposed to impose an additional 10 per cent. sales tax on certain classes of goods which do not directly enter into the day-to-day living-costs of the people. Consequently, in imposing this additional 10 per cent. sales tax it is proposed that the increase shall not be applied to the items the prices of which the Government have already announced are to be stabilized or to the present extensive list of free items. The additional revenue which it is estimated will be recovered under this heading for the balance of the current year is £3,700,000. Secondly, it is considered that present circumstances justify obtaining additional revenue by means of increased imposts on beer, wines, spirits, and tobacco. An increase of 1s. per gallon will be made in the price of beer, the tax being imposed on a basis which will bring about an estimated reduction in the alcoholic content of 25 per cent. This increase, together with a corresponding increase in the duty on wines and spirits, will, it is estimated, produce an additional £1,000,000 this year.

Increased duty on beer, wines, spirits, and tobacco.

As regards tobacco, an additional 2d. per packet of ten in the price of cigarettes, together with an additional 5d. per oz. on tobacco, should augment the War Expenses Account revenue to the extent of approximately £1,800,000 this year.

As a well-deserved concession to those in the fighting forces the additional tax on tobacco and cigarettes will not apply to supplies purchased from the official canteens.

Loan finance.

These increased taxes will, it is anticipated, yield an additional total of £14,400,000, leaving a balance of £35,600,000 to be obtained from borrowing. The existing National Savings Scheme, together with State departmental funds, will, it is estimated, provide £8,000,000 towards this objective, leaving a total of £27,600,000 to be obtained by means of war loans.

Summarized, it is proposed to meet the deficiency of £50,000,000 as follows:—

Taxation—	£(m.)	£(m.)
Income super-tax increase from 15 per cent. to 33 $\frac{1}{3}$ per cent.	3·0	
National security tax, 6d. in £1	4·9	
Sales tax, 10 per cent.	3·7	
Increased taxes on beer, wines, and spirits	1·0	
Increased taxes on tobacco and cigarettes	1·8	
	—	14·4
 Loans—		
National savings scheme and departmental investments	8·0	
War loans	27·6	
	—	35·6
		<u>£50·0</u>

The prospectus for the first instalment of the war loan—namely, for £15,000,000—will be available on the 4th May and will provide for the issue of 2½-per-cent. short-dated stock maturing on 15th September, 1947, and 3-per-cent. long-dated stock maturing on 15th September, 1952–55. The minimum subscription to the loan for the purchase of stock has been fixed at the low figure of £10, but, in view of the known desire of thousands of people whose ability to subscribe does not reach this figure, plans are under way for a scheme which will enable any one with £1 or upwards to become a direct subscriber to the loan. The terms of the war loans are similar to those of last year's war loans, and I would urge all sections of the community to support these loans to the full extent of their ability. All will agree that our armed forces should be provided with all the arms and equipment that can be obtained and be trained to the highest possible standard of fighting efficiency. This loan is an essential part of the financial programme to meet the requirements of the armed forces and every one is vitally concerned in making it an outstanding success. By doing so they are not only assisting in the war effort, but providing liquid funds for themselves for use in the post-war period.

We are passing through the most difficult period ever experienced in the history of this Dominion. It is not a pleasant duty to impose heavier taxation, but the demands of war leave no alternative.

It is not merely a question of facing up to the demands of the moment, heavy and pressing though they be, but there is the necessity also of taking steps now to avoid for the future a legacy of social disaster and individual misery.

We have before us still fresh in memory—and bitter memory—the world-wide lessons of the last post-war period. Such problems cannot be passed by us for solution to the generation that will survive this war, and it is my bounden duty as trustee of the people to recommend the steps which must be taken if more serious financial difficulties are to be avoided later.

I have laid the financial position of the country freely before this House and before the people, with confidence that every demand which is being made will be fully and willingly met. Every New-Zealander worthy of the name wishes to undertake some direct part in the war effort, but while all cannot bear arms, there is no one who cannot do something useful to assist.

The family and the home are the real sufferers of war. They bear the bitter losses whatever victory the nation may achieve, but those losses would be, inevitably, more bitter and more cruelly poignant in the event of a defeat at the hands of the Japanese, the Nazis, and their other Axis partners.

This is essentially a struggle to protect our families and our homes, the lives of all who are dear to us, our way of life, our country and all it means to us. Above all, we are fighting to retain the most precious privilege of a precious heritage—that of liberty itself—a privilege enjoyed for so long that it is regarded, I am afraid, as a commonplace. The long-drawn-out and bitter struggles by which slaves and bondsmen became free are all too often unknown or forgotten at the present day. Yet this is but a continuation of that age-old conflict which we must not lose.

It behoves every citizen in these times to recall the issues at stake. They affect equally each and every one of us, and the realization of these facts will, I am sure, stir the hearts and stiffen the resolve of every citizen to work and to give of his best without stint or qualification. Thus will we be able to play our part in the titanic struggle in which the British Commonwealth and our Allies are engaged—a struggle that friend and foe alike agree will turn the destiny of mankind for many centuries to come. Here in New Zealand all that we have, even life itself, is not too high a price to pay to keep our shores inviolate and to crush the foul menace which threatens to strip us of everything we hold dear and to engulf our very civilization itself. The financial measures which I have described and the additional war taxation which it is the Government's intention to impose are indeed but an insurance against the grim possibility of invasion of New Zealand itself and the loss of precious lives among our people.

