

With the exception of £18,900,000 the whole of the increase (£218,750,000) in war debt is due for repayment in New Zealand. External borrowing places on posterity the burden of providing exportable produce to meet annual interest charges and principal repayments. Internal debt, on the other hand, is repayable to the people of New Zealand by the people of New Zealand. The economic effects depend upon who pays the taxes and who receives the interest. The more widely the investments in public loans are spread over the whole community and the greater the degree to which the interest-receiving coincides with the tax-paying public, the less disturbing and the less burdensome is the public indebtedness. In New Zealand, war-loan investments are very widely distributed. By 31st March, 1945, the net investments in National Savings Bonds and Accounts amounted to £31,000,000, and this represents investments by over half a million people. During the war period the amount standing to the credit of Post Office Savings-bank depositors increased by £53,000,000, while the amount in depositors' funds with trustee savings-banks has increased by £9,000,000. Substantial investments were also made by life-insurance companies, whose funds for investment consist of the aggregation of premiums, representing the savings of many thousands of policyholders. It is thus clear that investments in war loans, either directly or indirectly, cover a very wide range of individuals, so that the burden of debt on the community is consequently lightened.

A notable fact concerning these internal borrowing operations is the relatively small reliance upon bank credit. Loans made by banks increase the amount of money in circulation. Previous war Budget Statements have explained the necessity of avoiding as far as possible any increase in the spending-power of the public through expansion of bank advances and investments during a period of shortage of civilian supplies of consumer goods. Since 1943, shortly after the stabilization scheme was introduced, although the Government's war expenditure has been on a very high level, we have avoided creating credit for war purposes through the Reserve Bank, nor have the trading-banks increased their holdings in Government securities. The relatively small expansion of credit which has occurred since the outbreak of war is evidence that the Government, with the strong support of the people, has been successful in financing the wartime expenditure by methods which have kept monetary inflation within very restricted bounds.

The following table illustrates the movement of the public debt over the past ten years.

COMPARISON OF PUBLIC DEBT, 1936-45

| As at 31st<br>March, | Excluding 1939-45 War Debt. |            |         | 1939-45 War Debt. |         | Total. |
|----------------------|-----------------------------|------------|---------|-------------------|---------|--------|
|                      | Domicile.                   |            |         | Domicile.         |         |        |
|                      | New Zealand.                | Australia. | London. | New Zealand.      | London. |        |
|                      | £(m.)                       | £(m.)      | £(m.)   | £(m.)             | £(m.)   | £(m.)  |
| 1936 ..              | 122·2                       | 1·6        | 198·4   | ..                | ..      | 322·2  |
| 1937 ..              | 130·0                       | 0·9        | 195·9   | ..                | ..      | 326·8  |
| 1938 ..              | 132·5                       | 0·9        | 196·0   | ..                | ..      | 329·4  |
| 1939 ..              | 146·2                       | 0·9        | 196·1   | ..                | ..      | 343·2  |
| 1940 ..              | 161·2                       | 0·9        | 197·2   | 3·0               | 0·1     | 362·4  |
| 1941 ..              | 177·2                       | 0·9        | 191·9   | 13·0              | 6·0     | 389·0  |
| 1942 ..              | 189·8                       | 0·9        | 188·7   | 40·9              | 3·5     | 423·8  |
| 1943 ..              | 191·5                       | 0·9        | 185·0   | 113·2             | 12·8    | 503·4  |
| 1944 ..              | 194·9                       | 0·9        | 182·2   | 171·8             | 16·7    | 566·5  |
| 1945 ..              | 203·5                       | 0·9        | 180·0   | 199·8             | 19·0    | 603·2  |

The most interesting story from these figures is that the debt, other than war, domiciled in London has been reduced by £18,249,433 since 31st March, 1936.

I turn now to an examination of the financial problems which we have dealt with in the year under review. In the main, the record of the past year is one of having carried into effect the proposals which were outlined to this House a year ago.

We visualized a balanced Budget for the year, and the final result was a surplus in the Consolidated Fund of £1,215,000. In the Social Security Fund we anticipated a deficit of approximately £1,000,000, which was to be met out of the opening cash balance. The position at the end of the year was better than was expected, and