

liament otherwise provides, credit revenue, debit expenditure, and pay balances to the several States—according to the book-keeping system as prescribed for the period preceding the imposition of uniform duties of Customs. The Braddon clause, however, for a period of ten years, limits the amount of Customs and excise revenue of the States which the Commonwealth may appropriate for its own purposes to one-fourth of the net revenue. At the expiration of that period there is apparently no express provision in the Constitution prohibiting the Federal Government from applying the whole of the revenues collected from Customs and excise in the several States to Federal purposes, without being under any obligation to return any part of such revenue to any of the States. It is true that section 94 of the Commonwealth Act enacts that after five years from the imposition of uniform duties of Customs the Parliament may provide, on such basis as it deems fair, for the monthly payment to the several States of all surplus revenue of the Commonwealth, and the provisions of that section would seem to imply that the Federal Government must not retain any revenue beyond what is sufficient for Federal expenditure; but to that expenditure no limit is set, and whether any surplus available for the several States is to be paid in proportion to the contribution of each State to the Federal revenue, or upon the basis of the population in each State, is apparently left absolutely to the discretion of the Federal Parliament. In the event of Federal requirements absorbing the whole of the Customs and excise revenue contributed by the States, no doubt the Federal Government would be morally bound to take over the full responsibility for the public debts of the States.

Whether or not the provisions of the Braddon clause continue in operation for a longer period than ten years, the serious question remains, How would New Zealand, if a State of the Commonwealth, make up the loss of revenue consequent on her surrender of control over Customs and excise, and her contributions to the financial requirements of the Commonwealth? Plainly, there are only two ways, viz.: (a) Additional direct taxation, or (b) retrenchment in public expenditure. If the latter method became necessary, another serious consideration would be as to how funds for the prosecution of public works, and for developing the natural resources of the State, could be raised, seeing that the principal source of payment of interest on loans (Customs and excise duties) would have passed beyond the control of the State.

The evidence of the State Treasurer of Tasmania shows the difficulties in connection with the public finances of that State which are anticipated under Federation.

Two very serious objections appear to your Commissioners to exist as to the financial provisions of the Commonwealth Act. One is that both the Commonwealth and the States dip into the same purse, and the Federal Government, having supreme control, will dominate the fiscal policy of every State. There is no limit whatever to expenditure by the Federal Government, or to the contributions to the Federal revenue which may be required from the States. It is true that so long as the provisions of the Braddon clause continue in operation only one-fourth of the net revenue of the Commonwealth from duties of Customs and excise can be applied annually by the Commonwealth towards its expenditure; yet it is equally true that the Federal Government has the power of imposing direct taxation throughout the Commonwealth. The other objection is that, owing to the Braddon clause, whenever in any financial year the Federal Government require an additional appropriation from Customs and excise for some specific object, as, for example, the payment of old-age pensions, it must necessarily raise from such duties a revenue equal to four times the amount required, notwithstanding the fact that the States Governments may not require for State revenue the whole of the three-fourths returnable under the Braddon clause.

*Conversion of Loans.*—It has been strongly urged by those who advocate New Zealand joining the Commonwealth that there would be a great annual saving of interest to the several States if the Parliament of the Commonwealth, under the powers conferred by section 105 of the Constitution Act, takes over from the States their public debts as existing at the establishment of the Com-