

amount required to be earned by the railways to meet the interest charges is £24,194,217. The net amount actually earned is £25,862,185, or £1,667,968 in excess of the policy requirement. In addition, reductions made in rates in pursuance of the policy amounted to £2,000,000.

During the eight years, 1st April, 1914, to the close of the year under review, throughout the whole of which war conditions have prevailed, the railways have returned a sum of £579,610 in excess of the amount required to pay working-expenses and interest at the policy rate of $3\frac{1}{2}$ per cent.

Disregarding the policy rate and looking at the position from the point of view of the average interest payable on the public debt for the same period, the total net amount required to be earned to meet interest charges after paying working-expenses is £27,112,442, against the actual total net earnings of £25,862,185. On this basis the deficit in twenty-six years is £1,250,257. The position then is that under the policy on which they are working the railways have returned a profit of £1,667,968, or an average of £64,922 per annum. On the basis of earning interest at the average rate on the public debt they have made a loss of £1,250,257—an average of £47,933 per annum. This figure represents the cost to the community of having the convenience of means of transport by railway, and the question naturally suggests itself as to whether this cost is justified—whether, that is, the economic advantages accruing to the community through the sources of wealth (such as the possibility of greatly increased settlement and development of industry) that have been opened up by the railways constitute a sufficient return for the outlay. One has but to endeavour for a moment to visualize what the state of this country might have been without the railways and the answer becomes obvious.

The railways are at the present time performing many services at less than the actual cost. In many instances exceptionally low rates were granted to assist in establishing industries which are now in a flourishing condition. The need for assistance per medium of unprofitable railway rate is no longer apparent. Included in the list of traffic carried at a loss is roadmaking material for local bodies. The loss to the Department on the actual cost of haulage of this material—used largely for the upkeep of roads to enable motor-lorries to compete with the railways—is over £50,000 a year. The loss in respect to other unremunerative services is £130,000 a year. In assisting the cause of education the concession made in railway rates to school-children amounts to £25,000 per annum. In this connection it may be remarked that on the Nelson Section, which is run at a loss of £25,000 a year, eight car-loads of school-children are conveyed daily by train for a charge of 12s. 6d. per child per quarter. It is found in many cases that the parents of these children travel by motor-bus.

Out of the total expenditure the sum of £5,906,561 represents payments made in New Zealand for the wages of the staff and to merchants, local manufacturers, shipping companies, banks, and others trading within New Zealand, all grouping under the classification of New Zealand commerce and industry. The bulk of the expenditure, therefore, represents money that is circulated within the Dominion.

The difficulties with which the Department has been confronted were not simplified by the fact that the year opened auspiciously from the revenue point of view, the receipts for the first three months being so well maintained as to create a confidence that the estimated revenue of £7,250,000 would be exceeded. The receipts began to decline in July, and continued so to do during the remainder of the year, which ended with a revenue of £6,643,590—£606,410 short of the estimate. On the expenditure side the increase was rapid, largely due to the cost of the forty-four hour week, which did not become general in its application until the 6th March, 1921. At the end of July practically the whole of the revenue had been absorbed in meeting the working-cost. The problem that then presented itself was how to make both ends meet with the least inconvenience to the public, in the face of a languishing traffic and an increasing expenditure. After mature consideration and a careful review of the whole of the surrounding circumstances it was decided to reduce the unremunerative train services for the purpose of economizing. The effect was immediately reflected in the results of operating, and by the end of the year the revenue was in credit to the extent of £405,864, which sum fell short of the interest charges by £1,021,156. A conference was held with the executives of the respective railway societies, to whom the financial position was fully explained. They were requested to give the matter full consideration and, after discussion among themselves, to advise me the direction in which they would be prepared to assist the Department, having due regard to the interests of their members, but bearing in mind the fact that the financial position was such that a reduction in pay or, as an alternative, an alteration of the working-conditions was inevitable. An agreement was reached with the Engine-drivers, Firemen, and Cleaners' Association; the Railway Officers' Institute also made an offer which, unfortunately, could not be availed of owing to the difficulty of equalizing the result to the members affected. The two societies named displayed a commendable desire to meet the position reasonably and rendered ready assistance which was greatly appreciated and duly acknowledged. The Amalgamated Society of Railway Servants intimated that they were not prepared to entertain any proposition having for its object a reduction in wages, or, as an alternative, an alteration in the working-hours. This decision was a matter for regret, and left no option but to apply the provisions of the Salaries Adjustment Act to their members. Rigid economy was also effected wherever practicable, good results being obtained; but until prices are stabilized and the stores and material purchased at war prices have been used up the operating-costs will continue to be higher than in pre-war times.

The figures which have been quoted in regard to wages expenditure speak for themselves as to one reason for the increased cost of operating. The forty-four-hour week has had a most pronounced effect on the expenditure, and it has been established beyond any doubt in this country, as elsewhere, that the working-costs under such a system inevitably become prohibitive. The curtailment of the train services, combined with the operations of the Salaries Adjustment Act, 1921, operative from the 1st January, 1922, had the effect of materially reducing the expenditure; but for these factors the increase for 1922 over the preceding year would have amounted to a much larger sum than £220,226.