

1932.
NEW ZEALAND.

NATIONAL EXPENDITURE COMMISSION

(INTERIM REPORT OF).

Presented to both Houses of the General Assembly by Leave.

COMMISSION

TO INQUIRE AND REPORT AS TO THE POSSIBILITIES OF EFFECTING REDUCTIONS
IN THE NATIONAL EXPENDITURE.

BLEDISLOE, Governor-General.

To all to whom these presents shall come, and to GEORGE SHIRTCLIFFE, Esquire, O.B.E., of Wellington; JAMES BEGG, Esquire, of Dunedin; Colonel JAMES JACOB ESSON, C.M.G., of Wellington; JOHN LESLIE GRIFFIN, Esquire, of Wellington; ALEXANDER MACINTOSH, Esquire, of Wellington: Greeting.

WHEREAS it is desirable in the public interest that the public expenditure should be reviewed, having regard to the general financial position of the Dominion:

Now, therefore, I, Charles, Baron Bledisloe, the Governor-General of the Dominion of New Zealand, in exercise of the powers conferred by the Commissions of Inquiry Act, 1908, and of all other powers and authorities enabling me in this behalf, and acting by and with the consent of the Executive Council of the said Dominion, do hereby constitute and appoint you, the said

GEORGE SHIRTCLIFFE,
JAMES BEGG,
JAMES JACOB ESSON,
JOHN LESLIE GRIFFIN, and
ALEXANDER MACINTOSH,

to be a Commission to review and report on the public expenditure in all its aspects, to indicate the economies that might be effected if particular policies were either adopted, abandoned, or modified, and generally to make recommendations to the Government for effecting forthwith all possible reductions in public expenditure, having regard especially to the present and prospective position of the public revenues:

And with the like advice and consent I do further appoint you

GEORGE SHIRTCLIFFE

to be Chairman of the said Commission:

And for the better enabling you, the said Commission, to carry these presents into effect, you are hereby authorized and empowered to make and conduct any inquiry under these presents at such places as you may deem advisable and at such times as you may deem expedient, with power to adjourn from time to time and from place to place as you think fit, and to call before you and examine on oath or otherwise, as may be allowed by law, such person or persons as you think capable of affording information in the premises; and you are also empowered to call for and examine all such books or records as you deem likely to afford you the fullest information on the subject-matter of the inquiry hereby directed to be made, and to inquire of and concerning the premises by all lawful means whatsoever:

And, using all diligence, you are required to submit an interim report to me under your hands and seals not later than the first day of March, and a final report not later than the first day of May, one thousand nine hundred and thirty-two, of your opinion as to the aforesaid matters:

And you are hereby strictly charged and directed that you shall not at any time publish or otherwise disclose, save to me in pursuance of these presents or by my direction, the contents or purport of any report so made or to be made by you :

And it is hereby declared that these presents shall continue in full force and virtue although the inquiry is not regularly continued from time to time or from place to place by adjournment :

And, lastly, it is hereby further declared that these presents are issued under and subject to the provisions of the Commissions of Inquiry Act, 1908.

Given under the hand of His Excellency the Governor-General of the Dominion of New Zealand, and issued under the Seal of that Dominion, this twenty-seventh day of January, one thousand nine hundred and thirty-two.

GEO. W. FORBES,
Prime Minister.

Approved in Council.

F. D. THOMSON,
Clerk of the Executive Council.

National Expenditure Commission : Extending Period within which Commissioners shall Report.

BLEDISLOE, Governor-General.

To all to whom these presents shall come, and to GEORGE SHIRTCLIFFE, Esquire, O.B.E., of Wellington ; JAMES BEGG, Esquire, of Dunedin ; Colonel JAMES JACOB ESSON, C.M.G., of Wellington ; JOHN LESLIE GRIFFIN, Esquire, of Wellington ; ALEXANDER MACINTOSH, Esquire, of Wellington : Greeting.

WHEREAS by Warrant dated the twenty-seventh day of January, one thousand nine hundred and thirty-two,

GEORGE SHIRTCLIFFE,
JAMES BEGG,
JAMES JACOB ESSON,
JOHN LESLIE GRIFFIN, and
ALEXANDER MACINTOSH

were appointed to be a Commission under the Commissions of Inquiry Act, 1908, for the purposes set out in the said Warrant : And whereas by the said Warrant you were required to submit an interim report to me under your hands and seals of your opinion as to the aforesaid matters not later than the first day of March, one thousand nine hundred and thirty-two : And whereas it is expedient that the said period should be extended as hereinafter provided :

Now, therefore, I, Charles, Baron Bledisloe, the Governor-General of the Dominion of New Zealand, in pursuance of the powers vested in me by the said Act and acting by and with the advice and consent of the Executive Council of the said Dominion, do hereby extend the period within which you shall submit an interim report to me as by the said Commission provided to the eighth day of March, one thousand nine hundred and thirty-two :

And in further pursuance of the powers vested in me by the said Act, and with the like advice and consent, I do hereby confirm the said Commission except as altered by these presents.

Given under the hand of His Excellency the Governor-General of the Dominion of New Zealand, and issued under the Seal of that Dominion, this twenty-ninth day of February, one thousand nine hundred and thirty-two.

GEO. W. FORBES,
Prime Minister.

Approved in Council.

F. D. THOMSON,
Clerk of the Executive Council.

INTERIM REPORT.

To His Excellency the Right Honourable Lord Bledisloe, G.C.M.G., K.B.E., Governor-General and Commander-in-Chief in and over His Majesty's Dominion of New Zealand and its Dependencies.

MAY IT PLEASE YOUR EXCELLENCY,—

The Commission entrusted to us by Your Excellency directed us to inquire into and report on the public expenditure in all its aspects, to indicate economies that might be effected if particular policies were either adopted, abandoned, or modified, and generally to make recommendations to the Government for effecting forthwith all possible reduction in public expenditure, having regard especially to the present and prospective position of the public revenues.

Your Excellency's Commission directed us to furnish an interim report not later than the 1st March, 1932, since extended to the 8th March, 1932.

We commenced our inquiries at Wellington on Wednesday, the 3rd February, 1932, and our work has continued since then.

METHODS EMPLOYED.

1. We received a very large number of applications from individuals and organizations to give evidence, but in view of the wide scope of our inquiry and of the necessity to submit an interim report we deemed it expedient to request those who wished to give evidence to submit same in writing, as it would have been impossible for us to have heard all witnesses in person. We shall, however, in the continuation of our inquiry take such personal evidence as may appear necessary. We have examined Permanent Heads of Government Departments in regard to various State activities under their administration, and after consideration of all available evidence and a careful study of the financial situation we have reviewed the problem of reducing expenditure.

2. We have considered carefully the question of presenting evidence with our report and have decided not to do so. We reached this decision because we believed that we would get a much clearer perspective of the problem and evidence uninfluenced by personal considerations if such evidence were treated as confidential.

3. We are pleased to be able to state that during the course of our investigations we have received valuable assistance from officers of the Public Service whom we have up to the present examined. Returns and information asked for have invariably been supplied promptly.

GENERAL REVIEW OF BUDGETARY POSITION.

4. At the commencement of our inquiry we interviewed the Right Honourable the Prime Minister, who outlined the present national financial position, and our subsequent examination of the present and prospective position of the public revenues has forced us to the conclusion that drastic measures must be adopted to reduce expenditure if the obligations of the Dominion are to be met.

5. It seems necessary to refer to the very serious decline in the national income and to the far-reaching effect of this reduction. The economic problems of New Zealand to-day are but a reflex of world-wide conditions, although in the case of New Zealand the effect is particularly severe, in that prices of primary products have fallen to a greater extent than prices of manufactured goods. The latest statistics available indicate that national production has fallen by approximately 30 per cent. as compared with the value in 1928-29, which may be regarded as the "peak year." In that year the value of production is given as £125,300,000; in 1929-30 a reduction of £7,000,000 occurred; while for 1930-31 production fell to approximately £93,000,000, or a decrease of approximately £27,000,000. It is estimated that for 1931-32 a further fall of £8,000,000 will be disclosed, bringing the value down to approximately £90,000,000. In other words, the Dominion has to accommodate itself to a fall in a period of four years of £35,000,000 in the value of production. This must not be confused with the national income, of which no reliable data is available, but it may be assumed that that income has fallen in approximately the same ratio as the value of production.

6. This fall is necessarily reflected in the State revenues, and it follows that there must be a corresponding reduction in the national expenditure, and that services which the Dominion could afford in more prosperous times must, of necessity, be severely curtailed or even discontinued.

7. The reduction in the value of production has resulted in reduced imports and reduced Customs revenue, and the indications for next financial year point to further substantial reductions. The general decline in business has resulted in a fall in income-tax receipts, and we must anticipate a further drop in the yield from this source next financial year.

8. Similarly, under other headings of general revenue further decreases must be expected.

9. In so far as expenditure is concerned, the State has been called upon to shoulder additional liabilities, mainly in connection with unemployment relief, hospital and charitable institutions, &c.

10. We have in the limited time available carefully considered many aspects of Government expenditure, and have come to the conclusion that there are numerous economies which could be effected and which would go far towards a balanced Budget. We refer particularly to the curtailment or abolition of services which the State has given to the taxpayer in previous years but can no longer be justified under existing conditions.

11. The expenditure of the State may briefly be divided into two categories :—

(a) Permanent charges.

(b) Annual appropriations.

We have found it desirable to consider first of all the question of permanent charges, as by far the greater part of the national expenditure comes under this category. *The permanent charges do not come under the annual review of Parliament.* They are fixed by various Acts of the Legislature, and, although shown in the annual appropriations, cannot be reviewed in Committee of Supply.

12. The appropriations for the year ending 31st March, 1932, total £24,627,561, made up as follows :—

CONSOLIDATED FUND.

Ordinary Revenue Account.

Permanent appropriations—	£
Civil List	28,361
Interest	8,940,675
Sinking Fund	3,202
Repayment of public debt	1,203,298
Reduction of funded debt	236,796
Transfer to Loans Redemption Account	3,000
Administration and management	35,600
Payment on guaranteed loans	7,200
Under special Acts of the Legislature	7,257,756
	17,715,888
	17,715,888
Annual appropriations—	
Vote, Legislative Department	95,677
.. Prime Minister's Department	15,553
.. Treasury Department	33,986
.. National Provident and Friendly Societies Department	4,670
.. Land and Income Tax Department	68,067
.. Stamp Duties Department	92,722
.. Public Buildings	60,712
.. Maintenance and Repairs to Roads	14,950
.. Maintenance of Irrigation Works, &c.	14,250
.. Native Department	67,725
.. Department of External Affairs	8,097
.. Department of Industries and Commerce, Tourist, and Publicity	130,941
.. Department of Justice	137,591
.. Prisons Department	91,369
.. Crown Law Office	5,266
.. Police Department	424,188
.. Pensions Department	162,849
.. Mines Department	21,679
.. Department of Internal Affairs	197,884
.. Audit Department	25,116
.. Public Service Commissioner's Office	5,859
.. Printing and Stationery Department	174,779
.. Mental Hospitals Department	271,840
.. Department of Health	210,005
.. Naval Defence	394,045
.. Defence Department	215,000
.. Customs Department	89,911
.. Marine Department	104,228
.. Department of Labour	48,867
.. Department of Lands and Survey	181,669
.. Valuation Department	40,732
.. Electoral Department	69,218
.. Department of Agriculture	469,280
.. Department of Education	2,906,728
.. Department of Scientific and Industrial Research	51,463
.. Transport Department	4,757
	6,911,673
Total Ordinary Revenue Account	£24,627,561

13. A comparison of the amount provided in this year's appropriations with the actual expenditure for the year ended 31st March, 1914, is interesting. In that year the expenditure under all headings of the permanent and annual appropriations amounted to £11,825,864, but certain items must be deducted in order to get a true comparison with the current year. For instance, Railways and Post and Telegraph expenditure is now chargeable direct to the accounts of those Departments. In 1913-14, out of a total expenditure of £11,825,864, the sum of £4,175,064 was in respect of Railways and Post and Telegraph Departments, leaving the sum of £7,650,800 for other services, as compared with the amount of £24,627,561 appropriated this year for the same services. The increase is £16,976,761, or, in other words, the expenditure has more than trebled since 1914.

14. Out of a total appropriation of £24,627,561 for the current financial year no less than £17,715,888 is under the authority of permanent appropriations not actively controlled by Parliament. Granting that more than half of this expenditure is in respect of interest on and repayment of the public debt, we are of the opinion that considerable economies can be effected in respect of the remaining expenditure. It has not been possible for us to review the whole of the departmental expenditure before submitting this report, but we will deal with certain Departments that offer scope for considerable economy.

15. We propose to deal with each of the permanent appropriations listed above, and to indicate our views as to the possibility, firstly, of effecting economies, and, secondly, of effecting a change in the system, with a view to giving Parliament more effective control over the total expenditure out of the Consolidated Fund.

16. Before passing to detailed consideration of the national expenditure either by way of permanent or annual appropriations we should state that, in our view, the financial position is so serious that every section of the community must make some sacrifice. Our recommendations must involve hardship, but a drastic curtailment of national expenditure is imperative.

CIVIL LIST.

17. The sum of £7,000 is provided in the Civil List for Native purposes. We understand that this amount was originally provided by virtue of the Constitution Act, 1852, but that it is now within the power of the Legislature to amend the provisions of the Civil List Act, 1920. The preservation of this item of £7,000 seems to be somewhat of an anomaly. The amount was no doubt originally intended to ensure that the rights and interests of the Maoris were properly cared for during a period when the colony itself was struggling with adversity.

18. The amount appropriated from the public revenues for the benefit of the Maori people is now many times in excess of the item of £7,000, which has subsisted since 1852, and it appears to us that the repeal of the relative provisions of the Civil List Act, 1920, would not be a breach of either the spirit or the letter of the law. In any case, if it should be found necessary to make any alternative provision for Maori purposes, we consider that this should now be done by means of an annual vote under Native Department. The repeal of Part V of the Civil List Act, 1920, is accordingly recommended, and it should be possible to save the sum of £7,000.

DEBT SERVICES—INTEREST.

DEBT SERVICES—AMORTIZATION.

DEBT SERVICES—AMORTIZATION; REDUCTION OF FUNDED DEBT; DEBT REPAYMENT.

19. We do not suggest that any amendment be made in the law regarding the annual payments in respect of the public debt which are by statute a charge upon the general revenues of the Dominion. It is worthy of note in this connection that the payment of interest and sinking fund on the national debt of Great Britain is also provided for by statute.

DEBT SERVICES—ADMINISTRATION AND MANAGEMENT.

20. There is a net charge of £35,600 under this heading, and there appears to be no reason why this should not be provided by annual appropriation. We recommend accordingly.

DEBT SERVICES—PAYMENT ON GUARANTEED LOANS.

21. These payments are in respect of loans guaranteed by the Government where it is necessary for the Government to pay on the default of the borrower. The guarantees, having been given, cannot be avoided, but at the same time we consider that the amount required to meet this class of expenditure should be subject to annual review by Parliament, and we recommend accordingly.

DEBT SERVICES—OPERATION OF HOOVER MORATORIUM.

22. We understand that the amount required for 1932-33 for interest and principal on funded debt will show a reduction of £150,000 on this year's figures, even if there is no extension of the Hoover moratorium. If a further extension of the Hoover Plan is agreed upon, the net further saving under this heading during 1932-33 will be approximately £600,000, making a total conditional saving of £750,000.

PERMANENT CHARGES UNDER SPECIAL ACTS.

HOSPITAL AND CHARITABLE INSTITUTIONS ACT, 1926.

Subsidies to Hospital Boards, £645,000.

23. The amount required for subsidies to Hospital Boards should be subject to annual review by Parliament, and we recommend that in future the grants be provided under Vote, Department of Health. We wish to make it clear that we have not yet considered the possibility of effecting economies under this heading. This will necessarily involve the consideration of the whole of the expenditure both under this heading and under Vote, Department of Health, and in the time at our disposal we have not been able to deal with the matter. We shall, however, deal with this fully in our final report.

24. We recommend that subsidies on voluntary bequests to Hospital Boards should be discontinued and the statutory provisions in respect thereof repealed. Voluntary bequests are in the nature of "windfalls" and the discontinuance of the subsidies should not affect the efficiency of the Boards. It is worthy of note that since 1914 the following amounts have been paid by way of subsidies on voluntary bequests and donations to Hospital Boards:—

Period.	Subsidies paid on Voluntary Bequests and Donations.					
	£					
1913-14	24,000
1914-15	24,055
1915-16	20,250
1916-17	25,006
1917-18	17,810
1918-19	28,028
1919-20	36,658
1920-21	32,885
1921-22	48,115
1922-23	33,056
1923-24	38,444
1924-25	56,031
1925-26	50,079
1926-27	29,054
1927-28	37,169
1928-29	22,929
1929-30	39,654
1930-31	15,070
1931-32	15,000 (estimated).

The estimated saving is £15,000.

EDUCATION GRANTS AND SUBSIDIES.

25. The amount provided by permanent appropriation under this heading for 1931-32 is £155,534. The whole of this expenditure should be subject to annual review by Parliament, and we recommend accordingly.

26. We also recommend that subsidies on voluntary bequests to educational institutions should be discontinued altogether, and the statutory provisions in respect thereof repealed. This is a further instance where bequests are in the nature of "windfalls" which do not affect the efficient administration of the institutions. The estimated saving would, on the current year's appropriations, be as follows:—

	£
Education Boards	2,000
Technical instruction	750
Secondary schools	1,250
University colleges	2,000
	<hr/>
	£6,000

27. As a matter of interest, the following statement of subsidies on bequests paid since 1914 is incorporated:—

Year,	Education Act, 1908, and Education Act, 1914.			New Zealand University Amendment, Act, 1914.	Total.
	Primary, including District High Schools.	Secondary Schools.	Technical Schools.		
	£	£	£	£	£
1913-14	1,321	336	7,314	..	8,971
1914-15	837	324	5,620	..	6,781
1915-16	1,107	33	5,679	359	7,178
1916-17	3,328	266	4,205	7,031	14,830
1917-18	3,796	648	2,154	5,065	11,663
1918-19	4,618	722	1,673	1,029	8,042
1919-20	8,929	954	6,934	9,867	26,684
1920-21	10,004	518	5,466	4,618	20,606
1921-22	13,710	743	3,990	6,868	25,311
1922-23	13,287	408	4,208	8,846	26,749
1923-24	13,625	3,033	2,561	11,657	30,876
1924-25	21,605	5,166	4,152	19,040	49,963
1925-26	17,927	2,383	2,542	12,698	35,550
1926-27	19,906	7,311	1,559	14,620	43,396
1927-28	23,057	2,017	2,091	17,418	44,583
1928-29	21,210	1,750	2,976	11,700	37,636
1929-30	24,029	3,667	2,610	9,352	39,658
1930-31	14,842	1,745	874	12,248	29,709
Totals	217,138	32,024	66,608	152,416	468,186

SUBSIDY TO JUBILEE INSTITUTE FOR THE BLIND.

28. The Government has in the past given liberal support to this institution, which is, however, in the fortunate position of having considerable reserve funds, on which, together with any donations received from the public, it could exist for the present. The Institute has assets valued at £166,000, of which a considerable amount is in more or less liquid securities, and in view of this the subsidy might meantime be withheld, and we recommend accordingly. The saving at the present time would amount to approximately £2,500.

29. The following is a statement of the subsidies paid in recent years to this institution :—

Period.						Hospital and Charitable Institutions Act, 1923, and 1926. (Jubilee Institute for the Blind, Auckland.) £
1925-26	..	..	..	..	..	10,000
1926-27	..	..	..	..	..	4,933
1927-28	..	..	..	..	..	1,742
1928-29	..	..	..	..	..	1,221
1929-30	..	..	..	..	..	1,390
1930-31	..	..	..	..	..	987
						£20,273

UNIVERSITY BURSARIES.

30. We are of the opinion that University bursaries should be discontinued. In the past they have been the means of stimulating University education, but the cost per head of population for such education has arisen from 7d. in 1914 to 1s. 8d. in 1931, and we feel that it is now impossible for the State to continue to help students as liberally as in the past. We understand that the colleges have been informed that the bursaries will be continued until 31st December, 1932, but recommend that an early notification be given that the bursaries will thereafter be discontinued.

Estimated saving, £9,000.

WORKERS' EXTENSION LECTURES (GRANTS FOR).

31. We also recommend that grants to University colleges for Workers' Extension lectures, £1,800, be discontinued.

Estimated saving, £1,800.

SUBSIDIES AND ALLOWANCES, NATIONAL PROVIDENT FUND.

32. We have carefully considered the position in regard to the operations of the National Provident Fund. We note particularly that those who receive pensions from this fund are nevertheless entitled to receive widows' and old-age pensions under the Pensions Act, 1926, and this appears to us to be quite unwarranted. We are of the opinion that the law should be amended by deleting the exemption for income derived from National Provident Fund benefits, and our recommendation in this respect appears under the heading of "Pensions."

33. We would here draw attention to the fact that the Consolidated Fund at present provides an annual contribution of approximately £95,000 towards the National Provident Fund. Of this amount the sum of over £51,000 is in respect of subsidy on contributions to the fund. Careful consideration should now be given to the possibility of altering the basis of contributions in the direction of making the fund a self-supporting one. With this end in view we strongly recommend that the active canvass for new members should be suspended, and that the collection of subscriptions at present undertaken by active collectors should be abandoned. If contributors will not pay their contributions except as a result of door-to-door canvass, the Government should not be expected to pay commission on collections. In addition to the expense incurred in collection, the Government subsidy is maintained at a high level. Subscribers are definitely getting a handsome Government subsidy on their contributions, and if they do not display sufficient self-interest to keep up their payments, we see no reason why the Government should go to any expense in persuading them to do so.

34. We further recommend that no new contributors should be enrolled on the present basis, as we are of the opinion that contributions in the future should be on a self-supporting basis—in other words, that the Government subsidy on contributions from new members should be withdrawn. This would involve the recasting of the scales of contributions for new entrants and the making of modified contracts in respect of new entrants from local authorities and business firms whose superannuation schemes are arranged through the fund. We hold the view that this class of scheme, particularly, should be self-supporting, and cannot see any justification for the granting of a Government subsidy on the contributions.

35. We understand that at the present time very few new contributors are being enrolled due to the present depression, and that the saving as a result of this recommendation would amount to approximately £500 per annum. The net result is, however, greater than this, in that, if our recommendation is adopted, the growth of the liability on the Consolidated Fund will be stopped. There is no reason, however, why the fund should not be retained with subscriptions on a self-supporting basis, and thus be an encouragement to thrift, as it has been in the past. The fund might be made to form a valuable adjunct to the pensions schemes of the Dominion, and in time, if put on a proper basis, reduce the liability on the State for old-age and widows' pensions.

36. In regard to the question of maternity allowances, we would draw attention to the fact that the amount provided under this heading for 1931-32 is as follows :—

	£
Maternity allowances to contributors, National Provident Fund	7,000
Maternity allowances for friendly societies	36,500
	£43,500

37. We are of the opinion that, in view of the present financial stringency, these allowances should cease and that the relative statutory provisions should be repealed. We would draw attention to the fact that the State at the present time is in other ways considerably assisting in this respect. We refer particularly to the organization of St. Helens Hospitals and the Plunket system throughout the Dominion.

Estimated saving, £43,500.

OTHER GRANTS AND SUBSIDIES.

CONTRIBUTIONS, ETC., TO SUPERANNUATION FUNDS.

38. We recommend that these contributions be provided by way of annual vote. In view of the actuarial unsoundness of the funds, it is impossible to recommend any reduction under this heading.

UNEMPLOYMENT ACT, 1930 : AMENDMENT ACT, 1931.

Subsidy to Unemployment Fund on Basis of One-half of Expenditure out of Fund, £1,100,000.

39. Consideration of this item of public expenditure per medium of the permanent appropriations leads us to consider the principle of the assignment of the proceeds of a particular class of taxation to a special account.

40. We consider that unemployment taxation, like other revenue and taxation, should be paid into the Consolidated Fund, and that Parliament should provide each year such an amount for unemployment expenditure as may be necessary in the light of the general requirements and the financial position of the country, irrespective of the source of taxation from which the funds are to be supplied. We accordingly recommend that the proceeds derived from the unemployment levy and wages-tax should be credited direct to the Consolidated Fund. If this were done the necessity for a permanent appropriation would cease, and the annual appropriation of the total amount required for unemployment relief purposes would become automatic.

41. While there will be no direct saving as a result of this recommendation, the system will be brought into line with recognized principles of sound public finance, and Parliament will be enabled to review the expenditure annually.

PAYMENTS TO RACING CLUBS OF PROPORTION OF TOTALIZATOR TAX, £25,000.

42. We recommend that this expenditure should be subject to annual review and appropriation by Parliament.

CONTRIBUTIONS TOWARDS COST OF SINGAPORE BASE, £100,000.

43. The contribution of the Dominion towards the cost of the Singapore Base is now at the rate of £100,000 per annum. The total contribution was originally fixed at £1,000,000 to be paid in eight annual instalments of £125,000, commencing from the year ended 31st March, 1928, and four annual instalments at this rate have already been paid.

44. Representations were made to His Majesty's Government in Great Britain in 1931 with a view to obtaining a reduction in the annual contribution from New Zealand, particularly in view of the decision that only the work under the Jackson contract (*i.e.*, construction of the graving-dock) and the work necessary to complete the Air Base should be carried out during the next five years.

45. The proposal has been agreed to by His Majesty's Government in Great Britain, and for the next five years New Zealand is to contribute the annual sum of £100,000. At the end of this time New Zealand will have contributed £1,000,000 towards the cost of the Singapore Base.

46. From all the information available it appears that this contribution from the Dominion was based on an estimated cost for the Singapore Base of from £10,000,000 to £12,000,000, but it appears that the present proposal for the completion of the Jackson contract and the Air Base will not involve His Majesty's Government in the expenditure of the amount originally contemplated. Under those conditions, we are of opinion that the contribution from New Zealand might reasonably be reduced proportionately to the present contemplated expenditure on the Base : in other words, if the completion of the Jackson contract and the Air Base is to cost, say, £8,000,000, that New Zealand's contribution for the present should be limited to £666,000. We presume that the sum of £100,000 provided in the 1931-32 Budget will be paid, and if the contribution of New Zealand can, for the present, be limited to £666,000 a saving of £34,000 would accrue during 1932-33. In the following year the saving would be £100,000, as no contribution would then be payable.

47. If, however, it is not desired to make representations to His Majesty's Government for a reduction in New Zealand's total contribution, we suggest that negotiations might be entered into with a view to the contribution from New Zealand being reduced next year to £50,000 and the term for the payment of the balance of £400,000 being extended to eight years—*i.e.*, that the annual cost henceforth be reduced to £50,000. If, as we presume, the expenditure at present contemplated on the Base will not provide for the completion of the original programme, an adjustment of New Zealand's contribution in either of the ways suggested above would appear to be equitable.

Contingent saving, say, £50,000.

MISCELLANEOUS GRANTS AND SUBSIDIES.

Auctioneers' Act, 1928 : Fees to Local Authorities, £10,238.

48. We recommend that the permanent appropriation be repealed, and that the amount required be provided by annual appropriation.

Finance Act, 1925 : General Expenses of N.Z. Institute, £750.

49. In the present state of the finances of the Dominion, we consider that the payment of the grant at the above rate can no longer be justified, and we recommend that the amount be reduced to £400, subject to annual review and appropriation by Parliament.

Annual saving, £350.

Fire Brigades Act, 1926 : Subsidies to Fire Boards, £3,492.

50. We see no reason why the Government subsidies to Fire Boards, if such are continued, should not be provided by annual appropriation, and we recommend accordingly.

51. We have, however, carefully considered the question as to whether subsidies to Fire Boards are warranted under present conditions.

52. We would point out that in those cases where no Fire Board is in existence the fire brigades are maintained by the City and Borough Councils, and no special subsidies are paid to them in respect of fire protection. All such Councils, however, receive subsidies on general rates under the Appropriation Act, 1916, and the amounts of such subsidies are not reduced when Fire Boards come into existence. The revenue of Fire Boards (apart from Government subsidies) is provided by the constituent local authorities, in most cases Borough Councils, and by the insurance companies, in equal proportions, and we are of the opinion that the subsidies paid to the Councils should be sufficient contribution for fire protection afforded to Government property in the districts. We see no justification for the payment of subsidies both to Fire Boards and to Councils, and we recommend that payments to the former be abolished and the relative provisions of the Fire Brigades Act, 1926, repealed.

Estimated saving, £3,492.

Greymouth Harbour Board Amendment Act, 1920 : Subsidy for Interest, &c., £12,000.

Land Act, 1924 : Thirds, &c., to Local Bodies, £11,000.

New Plymouth Harbour Board Endowment Act, 1874 : Fourths to New Plymouth Harbour Board, £2,000.

Police Offences Act, 1927 : Fines to Societies for Prevention of Cruelty to Animals, £70.

53. We consider that the whole of the above expenditure should be subject to annual review and appropriation by Parliament, and we recommend accordingly.

Rotorua Borough Act, 1922 : Payment of portion of Bath Fees, £1,170.

54. We draw attention to the fact that the payment under the Rotorua Borough Act, 1922, ceases during 1931-32, and we recommend that, under no circumstances, should the payment be extended.

Estimated saving, £1,170.

SALARIES AND HONORARIA.

Legislative.

55. We consider, for the sake of uniformity and to conform to the traditional practice of the British Parliament, that honoraria to members of the Legislature, with the exception of the salaries of the Speakers of both Houses and the allowance to the Speaker of the House of Representatives, should be provided by annual appropriation rather than by permanent appropriation. We recommend that, with the above-mentioned exceptions, the honoraria to members of the Legislature, with the present statutory limitation, be included in the annual appropriations, and that the relative provisions of the Civil List Act, 1920, be amended accordingly.

56. We also consider that the salaries of the Clerks and Clerk-Assistants of both Houses should be provided by annual appropriation.

57. Although it is strictly not appropriate to the present item, we would mention that the expenditure under Vote, Legislative Department, in 1913-14 was £43,700, whereas for the year ended 31st March, 1931, the expenditure was approximately £99,000. The increase in the annual cost is really not as great as the figures indicate, due to changes in accounting methods, but this is more fully explained in our comments under the heading "Vote, Legislative Department."

58. Consideration has been given to the possibility of effecting economy by a reduction in the number of members of the House of Representatives, with a view to effecting economy under the heading of "Honoraria to Members," as well as a corresponding reduction in Vote, Legislative Department. We would mention that if the number of members in the British House of Commons bore the same ratio to the population of Great Britain as the membership of the New Zealand House of Representatives does to the population of New Zealand the number of members in the British House of Commons would be well over two thousand, whereas actually the membership is less than one-third of this number.

59. We do not suggest that so drastic a reduction as one based on those figures would be possible in New Zealand, but feel that the membership might well be reduced.

60. In recent years there has been a marked improvement in transport, and members can under present condition travel with greater freedom and rapidity through their electorates than they could some years ago. This leads to the conclusion that in quite a number of cases the size of electorates might be increased. We accordingly recommend the matter for consideration. We are also of the opinion that a reduction in the number of members in the House of Representatives should be followed by reduction in the membership of the Legislative Council.

PENSIONS.

61. We consider that a change should be made in the method of providing each year for the amount required for pensions. In Great Britain the amount required for payment of pensions is voted annually by the Legislature, and we think that the system in New Zealand should be similar. This would ensure that the growing burden of pensions expenditure is subjected to parliamentary review each year.

62. We have definitely arrived at the conclusion that the Dominion can no longer afford over £3,000,000 per annum for pensions.

63. The growth of the expenditure on all classes of pensions since the 31st March, 1915, is set out in the following table. The huge increase in 1920-21 figures is due largely to war pensions, although other classes of pensions have also shown notable increases.

Pensions.	1914-15.	1920-21.	1926-27.	1928-29.	1930-31.	1931-32.
	£	£	£	£	£	£
Old-age	460,396	729,924	979,296	1,059,039	1,158,788	1,250,000
Widows'	31,610	187,100	301,080	312,963	325,998	340,000
Miners' .. ..	..	24,459	41,947	48,102	58,441	65,000
Military	47,607	40,198	19,445	13,673	9,101	7,350
For the blind .. ..	..	..	10,305	13,338	15,796	17,500
Family allowances .. ..	..	..	..	54,815	63,608	76,000
War pensions .. ..	..	1,885,663	1,122,741	1,178,646	1,245,499	1,285,000
Civil Service Act, 1908	29,653	27,503	16,724	12,192	9,250	7,500
Other pensions	5,703	4,794	7,369	7,904	8,556	7,561
Vote pensions	9,880	139,592	173,204	165,912	173,176	164,349
Totals	584,849	3,039,233	2,672,111	2,866,584	3,068,213	3,220,260

64. The cost-of-living statistics show that over the last two or three years there has been a marked fall in the cost of living, and on this ground alone some reduction in the rate of all classes of pensions is justified. We have considered various ways in which the incidence of pensions might be altered, and the following recommendations provide for a fair and reasonable general reduction in all classes of pensions. The reductions recommended are not uniform, but, in our opinion, are such as will result in the least possible hardship.

65. The alterations recommended should effect a saving of £599,925, and this will reduce the total expenditure on pensions for 1932-33 to approximately £2,700,000. From the evidence submitted it is clear that pension claims must increase, and that it will probably not be long before the total expenditure will again reach the huge sum of £3,000,000.

66. Our recommendations in respect of each class of pension are set out hereunder in the order in which they appear in the Permanent Appropriations.

FAMILY ALLOWANCES ACT, 1926, SECTION 18.

Allowances towards Maintenance of Children, £76,000.

67. We recommend that family allowances be terminated, as this is a form of pension that, in our opinion, cannot be justified. The amount provided for this purpose for 1931-32 is £76,000, but, if continued, the amount required for 1932-33 is estimated at £121,000.

68. The discontinuance of the allowances should not, in our opinion, impose an extreme hardship on the recipients. The general taxpayer is contributing large sums annually for the purpose of rendering assistance through charitable institutions and through the Unemployment Board to persons with large families who are affected by present economic conditions.

Estimated saving £121,000.

PENSIONS ACT, 1926.

Miners' Pensions, £62,493.

69. We recommend that the rates be reduced as follow :—

- (1) For an unmarried miner, from 25s. to 22s. 6d. per week.
- (2) For a married miner, from 35s. to 32s. 6d. per week.
- (3) Child, from 10s. to 7s. 6d. per week.
- (4) Widow, from 17s. 6d. to 15s. per week.

We recommend that the maximum pension for married miners be not more than £3 per week.

70. In regard to miners' widows' pensions, we recommend the introduction of property and income qualifications similar to those in the case of other widows' pensions.

Estimated saving, £6,200.

71. At the present time there is a large number of miners' widows, ranging in age from twenty-five to seventy-seven, receiving a pension of 17s. 6d. per week. We can see little reason why miners' widows, so far as pensions are concerned, should be placed on a different plane to other widows, and recommend that on the death of a miner-pensioner the pension to his widow should cease at the end of two years from the date of her husband's death, and that she should thereafter be on the same basis for pensions purposes as other widows. We recommend that the law be amended in this direction and that those miners' widows who have up to the present drawn pensions for two years or more be given six months' notice of the cancellation of the pension. When the law relating to

miners' pensions was first introduced, in 1915, the period for which a widow's pension was granted was fixed at two years. This was amended in 1919 to continue throughout widowhood, and what we recommend is a reversion to the basis which was adopted when the law was first enacted. The estimated saving for 1932-33, if this recommendation is adopted, would be £6,000, rising thereafter to £12,000 per annum.

72. Under section 448 of the Mining Act, 1926, a duty of 6d. per ounce is imposed on gold produced from quartz-mines. This is apparently looked upon as a contribution by the industry towards the cost to the Dominion of miners' pensions. In view of the large amount involved in miners' pensions, the industry should provide a larger proportion of the cost, and this could be achieved if the present duty were increased. An additional duty of 1s. per ounce is estimated to provide £5,000 per annum.

Military Pensions (Maori War), £7,350.

73. We recommend that the rate be reduced from £49 per annum to £39 per annum.
Estimated saving, £1,225.

Widows' Pensions, £340,000.

74. We recommend that the rates be reduced from £1 for the first child and 10s. for each other child to 15s. for the first child and 7s. 6d. for each additional child, with a maximum pension of £3 per week.

75. We recommend also that the present exemption of £78 per annum on account of income from other sources be reduced to £65 per annum, this exemption to be the sole one applicable. At the present time, in addition to the exemption of £78, there are various exemptions, including National Provident Fund benefits, £100 per annum compensation-moneys, any moneys raised by public subscription, and other pensions under the Act.

Estimated saving, £95,000.

Old-age Pensions, £1,250,000.

76. We recommend that the rate be reduced from 17s. 6d. per week to 15s. per week, and that the income exemption be reduced from £52 per annum to £39 per annum, this exemption to be the sole one applicable. At the present time, in addition to the exemption of £52, there are various other exemptions, such as benefits from the National Provident Fund, moneys raised by public subscriptions, &c. We are of the opinion that one exemption of £39 per annum is reasonable.

77. By way of comparison the following table indicating the rates of pensions payable in New Zealand, Australia, and Great Britain is of interest:—

New Zealand: 17s. 6d. per week at the age of sixty-five years for men and sixty for women.

Great Britain: 10s. per week at the age of seventy years.

Australia: 17s. 6d. per week at the age of sixty-five years.

Estimated saving, £200,000.

WAR PENSIONS.

78. We regard war pensions as being in a class apart, and, despite the need for the greatest possible economy, we are unable to recommend that any general reduction be made in pensions to disabled discharged soldiers.

79. We are of the opinion, however, that the continuance of the economic pension is not justified. This pension is payable under the War Pensions Amendment Act, 1923, as supplementary to war pensions payable, as of right, to a member of the New Zealand Expeditionary Forces and to widows and widowed mothers of members of the Forces in respect of disablement up to 40 per cent. disability or death of a member of the Forces. The economic pension also affects the pension payable to wife and children of a soldier, and the effect is that the wife and children may draw the maximum rate of pension despite the fact that the husband may not be totally incapacitated. A reduction in or the discontinuance of the economic pension ought, therefore, to affect the pension payable to the wife and children.

80. The time has arrived when the economic pension should be discontinued, but, recognizing that this may cause hardship to those receiving economic pensions, we do not feel justified in recommending the total abolition of the pension in one year. We recommend, however, that all economic pensions be reduced by one-half during 1932-33, and that in the following year economic pensions be wholly discontinued.

81. We also recommend an amendment of the Act to provide for the pensions payable to the wife and children of a soldier being proportionately reduced on account of the reduction in the economic pension.

Estimated saving, £90,000.

82. Apart from the above, we do not recommend any reduction in pensions payable to disabled soldiers.

83. We consider, however, that all other pensions under the War Pensions Act, 1915, should be reduced. The pensions referred to are those payable to—

Dependants of disabled soldiers:

Widows (without children):

Widows (with children):

Other dependants of deceased soldiers—Parents, other adult dependants, guardians of children.

84. We recommend a reduction of 10 per cent. in these classes of pensions.

Estimated saving, £45,000.

DOUBLE PENSIONS.

85. No fewer than 2,698 persons are at present receiving double pensions and allowances, and ten persons are receiving triple pensions.

86. Of those receiving double pensions, 1,704 receive both old-age and war pensions. We can understand the principle underlying this. We cannot understand, however, why people should receive both war pensions and family allowances, or both old-age and miners' pensions, or widows' and war pensions, or widows' and epidemic pensions.

87. We recommend that the law be amended to provide that only one pension (the larger) be payable, except in the case of old-age and war pensions. We exempt the latter class for the reason that an old-age pensioner may be in receipt of a war pension of from 10s. to 15s. a week as a dependant of a son killed at the war, whereas if the son were still living he could contribute a limited amount to his parents' support without affecting the amount of the old-age pension.

Estimated saving, £30,000.

EPIDEMIC PENSIONS.

88. While considering the general question of pensions under the permanent charges, we have also given consideration to the Pensions Vote on the Consolidated Fund, and we wish at this stage to draw attention to the item on the vote in respect of epidemic pensions, the cost of which is £5,500 per annum. These pensions are payable to widows with children where the breadwinner of the family lost his life in the influenza epidemic of 1918, and are in addition to whatever pensions may be payable under the widows' pensions legislation. Special pensions schemes, such as this, are not justified in view of the liberal provisions existing in the Pensions Act, and we recommend that this pension be abolished.

Estimated saving, £5,500.

REVISION OF PERMANENT WAR PENSIONS.

89. The War Pensions Board has at present the power to review permanent pensions of disabled soldiers, but no general review of all permanent pensions is carried out. We consider that all permanent pensions should be reviewed annually. There are cases, such as the loss of an eye or a limb, where no detailed review is necessary, but there are others, such as where pensioners were suffering from some partial disability which has, over a period of years, disappeared. In such cases there can be no justification for the continuance of the permanent pension. We accordingly suggest that the Pensions Board should review all permanent pensions each year.

GENERAL.

90. Before concluding our remarks on this subject, we would refer again to the ever-growing burden of pensions on the community generally. In recent months the number of applications (particularly for old-age pensions) has increased enormously, due no doubt, to present economic conditions. We are, however, particularly impressed by the fact that only approximately 30 per cent. of those eligible by reason of age to receive old-age pensions are on the books of the Department, so that there is a very large potential liability on the State under this heading.

91. We are led to the conclusion that, if the present system of free pensions is continued, the increasing load on the taxpayer will become unbearable, and that some alternative method that would be self-supporting should be considered.

92. In framing our recommendations for readjustments in the incidence of pensions we have endeavoured to secure equity as between the different classes of pensioners. Our recommendations differ as between the various classes, and it may be thought that some have suffered unduly. We are satisfied that this is not so, and that we have maintained a fair relative standard as between the different classes.

93. In our opening remarks on this subject we may have given the impression that our recommendations are based wholly on the present position of the national finances; but, while this is one of the reasons for our recommendations, it is not the only one. We consider that a general readjustment of money incomes is necessary in order to ensure that the burden of sacrifice is shared by all. Our recommendations in regard to pensions we look upon not merely as a sacrifice by the pensioners to assist towards Budget equilibrium, but also as incidental to a general plan of readjustment over the whole community.

MOTOR TAXATION.

Payment to Main Highways Revenue Fund and Disbursements under Motor Spirits Taxation Act, 1927, £1,760,000.

94. We are of the opinion that the revenue at present credited to the Main Highways Fund should not be paid into a special account, but should form part of the Consolidated Fund. In this connection it is interesting to note that the Road Fund in Great Britain is in practically a similar position to the Highways Funds in this Dominion, and the report of a Committee recently set up by the British Parliament to report on national expenditure stated in connection with the Road Fund as follows:—

“As it is now being administered, this fund has become a liability on the national finances, and in our view drastic action is necessary to remedy the position. First among the steps we recommend is the abolition of the fund and placing expenditure on road grants on the annual votes of Parliament.”

We strongly recommend that the Main Highways Revenue Fund and the Capital Fund be abolished, and that the revenue from motor and allied taxation be credited direct to the Consolidated Fund. This would mean that the expenditure on maintenance and capital would be subject to annual review and appropriation by Parliament.

95. We wish to state particularly that, in our opinion, the future control of highways expenditure should be rigid. The budgetary position demands this, and, just as non-essential schemes and services in other directions must be curtailed or eliminated, so also must non-essential roading projects be postponed until the general financial position improves. We cannot accept the view that motor taxation should be wholly spent on roading schemes, irrespective of the amount of general taxation available for other services. The development of the highways system must, in our view, be strictly limited to what the Dominion can actually afford.

96. We recommend that new construction should cease for the present, and that no new works whatever should be undertaken during the present period of financial depression. If this recommendation is adopted, a large sum should be available for general purposes. We note that for the year ended 31st March, 1931, the sum of £300,000 was transferred from the Highways Revenue Fund to the Construction Fund for use on capital works.

97. We have ascertained that the cost of the renewal of bridges has hitherto in general been charged against capital, and has been met partly from loan-money and partly from the amount transferred from the Revenue Fund. We consider that the replacement cost of worn-out bridges should, as a matter of principle, be met always from revenue, and recommend that no further loan-moneys be used for this class of work.

98. We further recommend that the amount available in the Construction Fund at present should be earmarked to meet commitments in respect of work already commenced or in respect of the reconstruction of such bridges as must be replaced in the near future.

99. In regard to the maintenance of existing highways, a considerable sum could be saved annually if only essential works were undertaken. Possibly the present high standard of maintenance could be lowered without detriment. The existing highways should not be allowed to deteriorate, but ordinary maintenance should be carried on as economically as possible.

100. It is generally recognized that the progressive and rapid improvement in our highways system has been largely responsible for the drift in railway finances, and, while we do not advocate a policy of retrogression in respect of highways, we consider that the present highways system, if reasonably maintained, is sufficient to meet the needs of the transport system of the Dominion for some years to come.

101. It is difficult to estimate what saving can actually be effected, firstly, by the cessation of capital works, and, secondly, by confining attention for the present to only essential maintenance. We believe, however, that if rigid control is exercised the sum of at least £500,000 per annum should be made available from motor-taxation to assist towards Budget equilibrium.

MISCELLANEOUS ADVANCES.

Education Reserves Act, 1928, £200.

102. We recommend that the two items of compensation for improvements should be subject to annual appropriation by Parliament.

Finance Act, 1929, Section 8: Advances to Native Land Settlement Account for Loans to Natives, £8,500.

103. We consider that there is no necessity for a special loans branch for the purpose of making advances to Natives, and that such loans should be dealt with under the ordinary provisions of the State Advances Act, through the State Advances Office. That Office was specially constituted to deal with this class of business and has the organization to control it. If such business were controlled by the State Advances Office the loans would be made from capital under proper supervision and the Consolidated Fund would thus be relieved of an inappropriate charge.

Estimated saving, £8,500.

MISCELLANEOUS.

Appropriation Act, 1925: Maintenance of Overseas War Graves, £15,375.

104. Expenditure under this heading ceases during 1931-32. This will relieve the Consolidated Fund to the extent of £15,375.

Slaughtering and Inspection Act, 1908: Compensation to Owners of Stock condemned, £14,500.

Stock Act, 1908: Compensation for Diseased Stock destroyed, £17,000.

105. The amounts provided under the above headings total £31,500. The first of these items covers compensation to owners of stock slaughtered for food and found on inspection to be diseased. We see no reason why the practice of paying compensation should be continued, and accordingly recommend that the statutory provision for payment be repealed. Vendors of other foods which are condemned or become unfit for consumption have themselves to bear the loss which is generally recognized as a loss incidental to trading, and there does not appear to be any reason why the Government should extend special consideration to one class of the community.

106. The second item is to provide compensation where a living animal is condemned by a Stock Inspector and destroyed. The Act provides for compulsory notification by the owner and a fine for non-compliance. The compensation payable is half the fair market value at the time of inspection. We hold the view that an obviously diseased animal has no market value, and that there should be no compensation where disease is definitely visible.

107. It is, however, necessary to make provision for cases where animals are destroyed and where a post-mortem examination discloses no disease. Such cases do occur, and it is only just that the owner should be protected in such an event.

108. We also consider that it would be reasonable to pay compensation in cases where an Inspector is called in to examine stock and where an apparently healthy animal is found to be diseased and its destruction is ordered.

109. It is difficult to estimate what saving could be effected in respect of stock killed on the farm, but probably a nominal appropriation of, say, £2,000 would suffice. This would show a total saving on the two items of £29,500.

110. We further consider that whatever compensation is provided should be subject to annual appropriation by Parliament.

Public Revenues Act, 1926 (Section 133) : Fire Insurance Fund, £10,000.

111. We recommend that the annual contribution of £10,000 to the Fire Insurance Fund should be suspended for the time being, and that any future contributions be subject to annual appropriation by Parliament.

Estimated saving at present, £10,000.

Hauraki Plains Amendment Act, 1926 : Rates on Unoccupied Crown Lands, £300.

112. We recommend that this expenditure be subject to annual appropriation by Parliament.

Land Act, 1924 : Administration Expenses on National-endowment Land, £5,000.

113. We see no necessity for the appropriation of the sum of £5,000 under this heading. This item has been for the purpose of adjusting the departmental accounts, but such an adjustment should be made without an annual appropriation as there is only a book entry involved.

Native Land Amendment and Native Land Claims Adjustment Acts, 1922 and 1923 : Annual Payment on Account of Arawa District Lakes, £6,000.

114. We are informed that the Arawa Trust Board has offered to forego for three years 8 per cent. of the funds received by the Board as compensation for the relinquishing of local fishing-rights, so that if this offer is accepted there will be a saving for 1932-33 of £480.

We recommend that the amount be subject to annual appropriation.

Native Land Amendment and Native Land Claims Adjustment Act, 1926 : Payment of Annual Sum to Tuwharetoa Trust Board, £3,000.

115. We recommend that this item be also subject to annual appropriation by Parliament.

Native Land Amendment and Native Land Claims Adjustment Act, 1928 : Recoupment of Balance of Loan, Motatau No. 2 Block, £3,610.

116. This is the final payment on this account. Saving for 1932-33, £3,610.

Public Revenues Act, 1926 (Sections 30 and 96) : Claims in respect of Unclaimed Money, £300.

117. We recommend that the amount required under this heading be provided by annual appropriation.

Public Revenues Act, 1926 (Section 151) : Postage-stamps to Members of both Houses, £2,200.

118. We recommend that this privilege be discontinued. In addition to the allowance provided under this item members enjoy franking privileges during the session, and we see no justification for both the supply of stamps and the continuance of franking privileges. In our view one or the other should be discontinued, and we think that there is less reason for a monthly supply of stamps all the year round than for the granting of franking privileges during the session.

119. We recommend the repeal of section 151 of the Public Revenues Act, 1926, which provides for the supply of stamps to the value of £2 per month to members of the House of Representatives and £1 per month to members of the Legislative Council.

Estimated saving, £2,200.

Rangitaiki Land-drainage Act, 1910 : Rates on Unoccupied Crown Lands, £120.

120. We recommend that this should be subject to annual appropriation by Parliament.

Valuation of Land Act, 1925 : Acquisition of Land, £100.

121. We recommend that this should be subject to annual appropriation by Parliament.

GENERAL.

122. The permanent appropriations represent an unduly large portion of the public expenditure. This, we find, is due to the indiscriminate introduction in financial measures of the words "Without further appropriation than this Act," which practically has had the effect of depriving Parliament for all time of the ability to review and control the annual expenditure.

123. We have therefore recommended that many of the permanent appropriations be abolished and that the expenditure be brought under annual review by Parliament. This would lead to more effective control of expenditure and give to Parliament that right to the annual review of the whole of the expenditure of the country which it should assuredly have.

124. In this connection we have noted that the Treasury has also advocated this reform, which would bring the system into line with that in operation in England, and that the Controller and Auditor-General in his report presented to Parliament in 1928 drew attention to the large proportion of the annual expenditure which is exempt from annual appropriation.

125. The Controller and Auditor-General also quoted the practice in England where the expenditure exempt from annual appropriation by Parliament is relatively small and includes only the charges on the national debt, payments to local taxation accounts, King's Civil List, and a number of special salaries, annuities, and pensions. We are strongly of the opinion that it would be in the interests of national finance in this Dominion to dispense with permanent appropriations to a very large extent.

SEPARATE ACCOUNTS.

126. We would here refer to the fact that the Public Account consists of a number of separate funds and accounts in addition to the Consolidated Fund and Public Works Fund. These separate accounts were largely created for the purposes of capital expenditure, and have been established in the past as various developmental schemes and trading activities have been inaugurated.

127. The Treasury urges that the simplification of these accounts would lead not only to economy in administration, but would also enable the Treasury to work on a smaller cash balance in the Bank than is possible at present.

128. We are of opinion that the present system of dealing with these separate accounts in the annual published statement of the Public Accounts of New Zealand is somewhat complicated and should be simplified.

129. Treasury and Audit officials are in accord as to the desirability of simplification. This could largely be effected by abolishing the permanent appropriations within the separate accounts as already recommended with regard to the Consolidated Fund.

130. Further simplification could be effected by abolishing such separate accounts as might no longer be required, and by treating the matter generally on the lines laid down by recognized authorities on governmental accounting.

131. We recommend that legislation be introduced accordingly.

SALARIES AND WAGES.

132. Apart from the permanent charges which we have already dealt with, a very large proportion of the annual expenditure is in the form of salaries and wages, and the only means of bringing about a reduction in this class of expenditure is by dismissals, or by reductions in salaries and wages, or by a combination of both. In this report we propose to deal only with reductions in salaries and wages.

133. The amount payable by the Government in salaries and wages on the 1st April, 1931, was approximately £14,000,000 per annum, but this did not include a large number of relief workers then in the employ of the Public Works Department. These salaries have already been subject to a reduction of 10 per cent. so that the total amount now payable is in the region of £12,500,000 per annum.

134. After reviewing the national expenditure in relation to the present and prospective position of public revenues, we are forced to the conclusion that further reductions are imperative. We have therefore to recommend a general reduction of 10 per cent. in salaries and wages of all public servants as from the 1st April, 1932. This is the minimum we can recommend, and, in addition to the reduction of 10 per cent. already in operation, means a total reduction of 19 per cent. We suggest that the reduction should have the same application as that imposed by the Finance Act, 1931 (No. 1). This would result in a total saving of approximately £1,250,000; but the whole of this saving would not accrue to the Consolidated Fund. We shall refer to the effect on the Consolidated Fund later.

135. We have considered the possibility of recommending reductions on a graduated scale, but feel that a recommendation on these lines would involve many anomalies; moreover, graduation is already substantially provided by income-taxation. The following table illustrates this:—

Salary.				Income-tax.	Approximate Rate per Cent.
£				£ s. d.	
300	..	..	..	2 0 2	$2\frac{1}{3}$
500	..	..	..	12 9 7	$2\frac{1}{2}$
700	..	..	..	38 14 11	$5\frac{1}{2}$
1,000	..	..	..	84 3 4	$8\frac{1}{2}$

136. If the Government decide upon a further reduction in salaries and wages, we believe that the lead will be accepted by the community, and that there will be a consequent fall in the money value of emoluments generally. Reductions in wages will not of themselves achieve a return to prosperity, but, as an important factor tending towards economy and lower costs of production, will help to bring about more stable financial conditions.

137. Turning now to the effect upon the Consolidated Fund, we find that out of a total expenditure on salaries and wages of approximately £12,500,000 per annum, the amount payable from the Consolidated Fund is approximately £5,400,000. Our recommendation of a reduction of 10 per cent. will, if given effect to, result in a direct saving of £540,000 to the Consolidated Fund.

138. There will, however, be indirect gains through the Railway Department and Post and Telegraph Department, as the savings in salaries in those Departments will result in increased returns to the Consolidated Fund for interest and profits. It is safe to assume that the benefit will be equivalent to the actual reduction in salaries, which will be approximately £624,000.

139. There will be some small indeterminate gains from other accounts, but for all practical purposes these need not be considered here.

140. We wish to refer specially to the position of the Public Trust Office, the Government Life Insurance Office, and the State Fire Insurance Office, in so far as reductions in salaries are concerned. The previous reduction of 10 per cent. was taken in those Departments from the funds of the offices as relief to the Consolidated Fund, and, while this may perhaps have been justified as being some return in respect of the guarantee of the Government, either actual or implied, we consider that the Departments should receive the benefit of any further reduction. These Departments are in competition with private institutions and should not be deprived of the advantages enjoyed by their competitors.

FIXED INCOMES.*†

141. We have referred previously to the urgency of the situation confronting the Dominion and have stated that, in our view, the financial position is so serious that every section of the community must make some sacrifice. So far we have considered salaries and wages in relation to the Public Service and pensions, and have recommended reductions in both cases, in the belief that private and local-body employees will suffer similar reductions. Our great difficulty has been to devise some means whereby equality of sacrifice may be obtained.

142. We feel that the recommendations made are in effect necessary readjustments of money incomes, but that such readjustment cannot begin and end at just the classes of income we have mentioned. The Dominion as a whole cannot hope to adhere to the existing level of money incomes irrespective of the value of money, and some general basis of adjustment applicable to all classes of income alike must be found.

143. In our examination of the public expenditure we are confronted first of all with the heavy burden of interest on the public debt. We cannot suggest any basis of adjustment in so far as the overseas portion of the debt is concerned. We do, however, think that those whose incomes are derived from investments in Government internal loans must, of necessity, share in the general sacrifice. In any case, the burden of having to pay the same rate of interest, though the value of money is greater, presses just as hardly on the national Budget as it does on trade and industry, and we believe that some adjustment of the interest burden of the State in so far as it relates to the internal debt must be found.

144. In considering the question of interest we have had to recognize that, while the return to those who lend money must be sufficient to induce them to save and lend, it should not be greater than the debtors are able to bear.

145. We realize that in very many cases the incomes of those affected directly and indirectly by the reductions recommended in the cases of salaries and pensions are subject to fixed charges in the form of interest and rent, and feel that, while money incomes, such as salaries and pensions, are subjected to a reduction, so also should the incomes of the creditors of wage-earners and pensioners be subject to a similar reduction. If this object cannot be achieved, there must, of necessity, be much dissatisfaction with a policy penalizing one or two special classes of the community. If such dissatisfaction is to be avoided, then the sacrifice must be exacted from all.

146. Dealing first with the position in regard to the internal public debt of the Dominion, we submit hereunder a statement showing the amount of loans raised by the Government from internal sources and the rate of interest payable thereon.

Rates of Interest.				Public.	Departmental.	Total.
Per Cent.				£	£	£
3	..	..	..	4,810	..	4,810
3½	..	..	..	4,041	2,593,600	2,597,641
3¾	..	..	..	..	917,500	917,500
4	..	..	..	400,039	34,969,321	35,369,360
4½	..	..	..	30,370,127	6,907,404	37,277,531
5	..	..	..	1,173,600	1,288,030	2,461,630
5¼	..	..	..	2,388,260	1,510,190	3,898,450
5½	..	..	..	5,897,430	3,785,600	9,683,030
5¾	..	..	..	21,476,565	1,298,850	22,775,415
6	..	..	..	29,011	..	29,011
				61,743,883	53,270,495	115,014,378

The annual interest charge on the debt as above is £5,303,356.

147. A considerable sum has been raised in New Zealand by the issue of loans the interest from which is free from income-tax. The interest payable on securities free of income-tax is £1,423,999; and on other securities £3,879,357; making up the total interest charge of £5,303,356.

148. There are two methods whereby assistance towards the budgetary position may be obtained in regard to interest on the internal public debt. These are—(1) by a revenue stamp duty on coupons and interest warrants, and (2) by a voluntary conversion loan.

149. There are advantages and disadvantages in respect of each, and these may be briefly summarized as follow:—

150. (1) *Revenue Stamp Duty on Coupons and Interest Warrants*.—The advantages are—

- (a) That the duty could be put into operation immediately;
- (b) That there would be no costs involved;
- (c) That the duty could be purely of an emergency character and could be lifted wholly or in part as prosperity returns.

151. A general fall in the interest-level is vital to the revival of trade and industry in the Dominion, and the disadvantage of such a charge, particularly on a permanent basis, is that it would fail to bring about this result.

152. The position of national finance is, however, so acute that we suggest the advisability of a charge in the nature of a special emergency stamp duty on the interest on all internal loans bearing interest at 4½ per cent. or over.

* Subject to addendum by Mr. A. Macintosh.

† Subject to reservation by Mr. Begg and Mr. Griffin.

153. We are of opinion that the question of taxation is one outside the order of reference of the Commission, and we do not venture to suggest the rate of stamp duty which should be imposed. It should, however, be a rate commensurate with the sacrifice demanded of other classes of income.

154. Dealing now with the question of a conversion loan, the disadvantages are—

(a) Considerable cost is involved in the process of conversion :

(b) Immediate relief to the Consolidated Fund would not be possible, as probably at least three months would be required to complete negotiations :

(c) It would penalize investors for the whole duration of the loans.

155. The advantage is that conversion would give relief to the Consolidated Fund over a long period and would tend to reduce the general interest-level.

156. We believe that the Government should carefully consider the possibility of making an appeal to investors to convert their securities into loans carrying a reduced rate of interest.

157. In effect, we recommend a combination of stamp duty and conversion, mainly because by this means immediate relief to the Consolidated Fund can be obtained. We suggest, first of all, that the Government should at once call a conference of representatives of the leading financial institutions, the press, and representative brokers, with a view to gauging whether a conversion issue would be likely to meet with success. Nothing would be more fatal to our credit than an unsuccessful conversion scheme, and we could not suggest an immediate appeal unless the probability of success had first been gauged.

158. As a basis for consideration of a conversion scheme, we suggest a general reduction in interest on all internal loans bearing interest at $4\frac{1}{2}$ per cent. or over, of 15 per cent. (that is 3s. in the £1). If such an appeal be made it should be preceded by a full statement of the financial position of the Dominion, and, in particular, of the budgetary position for 1932-33, and we believe that, if properly organized, a successful termination to a conversion scheme might be anticipated. If a conversion scheme be decided upon, advantage should be taken of the occasion to arrange suitable maturity dates, in order to eliminate problems of redemption for some years to come. We suggest also that an option should be given to the holders of tax-free loans to convert into taxable loans at such premium or higher rate of interest as might be considered equitable. The annual gross saving in interest on the basis suggested above is estimated at £564,000.

159. Before passing from this phase of the subject we would refer to the large amount of the Public Debt held by State Departments, principally the Post Office, State Fire Office, Public Trust Office, Government Life Insurance Office, and various Treasury accounts. The amount of the debt so held is £53,270,000. Of this, the Post Office holds £46,046,000, of which, however, £37,911,000 bears interest at 4 per cent. or less. The reduction suggested would, therefore, affect only £8,135,000 of the debt so held. The loss in interest on this amount would be reflected in reduced Post Office profits (subject, however, to any saving which might be effected by a reduction in the rate of interest paid to depositors), and, as Post Office profits are paid into the Consolidated Fund, the reduction would, in effect, be a charge on that fund.

160. Any losses of interest on public debt held by the Public Trust Office, the Government Life Insurance Office, and the State Fire Insurance Office, should be borne by the respective Departments.

161. The amount of the debt held by Treasury accounts is relatively small and need not be separately considered.

162. Dealing now with the question of interest on mortgages, debentures, deposits, dividends from preference shares, &c., our view is that, as the interest charge on securities of this nature does not affect the public expenditure, the matter does not come within our order of reference. We feel, however, we would be failing in our duty were we to make no reference whatever to the matter.

163. Private compositions affecting both principal and interest are being arranged daily, but, in our view, a general change such as is contemplated cannot be left altogether to natural economic forces to bring about, as such a policy may under present conditions be too slow in operation and may not result in an equal all-round adjustment. We feel, therefore, that it would be reasonable to widen the scope of the existing legislation in order to accelerate the private compositions referred to. We do not feel that it is our duty to suggest the nature and form the legislation should take. It should, however, aim at the policy we have advocated from the outset—that is, equality of sacrifice, and a general levelling-down of costs of production. It would be necessary in drafting the legislation to make provision for a special Court of equity to consider applications by mortgagors or mortgagees, and the aim should be to make the process as simple and inexpensive as possible.

164. Mortgagees and others whose incomes are derived from fixed investments cannot hope to escape a comparable and equitable contribution to the general sacrifice which it has been suggested should be imposed on holders of public securities.

165. To permit them to do so would be unjust and give ground for complaint that one class of investor had been penalized, and the State as a borrower would be seriously prejudiced.

166. Cognizance must be taken of the fact that the burden imposed by mortgage charges based on inflated values is impossible. A reduction of interest, necessary as it may be in the meantime, is merely a palliative, and in many cases will prove futile. The all-important question of capital values is involved. A reduction in the rate of interest from, say, 7 to even 4 per cent. is not going to help a borrower who has a mortgage of £10,000 on a property which to-day will not produce sufficient to enable him to pay the reduced rate on £5,000, or even less.

167. Finally, there is one further class of fixed income to which we must refer, and that is the incomes of those who hold local-body securities domiciled in the Dominion. There must be some adjustment in incomes of this nature, and we accordingly suggest the imposition of a special stamp duty in the meantime as a means of relieving the burden of local rates, to be followed later by a Conversion Scheme such as we have outlined in respect of the Internal Public Debt.

PUBLIC SERVICE SUPERANNUATION FUND; TEACHERS' SUPERANNUATION FUND;
RAILWAYS SUPERANNUATION FUND.

168. Owing to the limited time at our disposal we have not been able to go into the very complicated question of superannuation to retired officers of the Public Service. We propose to deal with this subject at an early date, and will embody our findings in our final report.

VOTE, LEGISLATIVE DEPARTMENT.

169. The following is a comparative review of the cost of the Legislative Department, as revealed by the annual appropriations for the years 1914-15 and 1931-32. The summary sets out salaries and wages for each of the two years referred to shown separately from other charges.

	1931-32.			1914-15.		
	Salaries.	Other Charges.	Total.	Salaries.	Other Charges.	Total.
	£	£	£	£	£	£
1. Legislative Council ..	2,143	460	2,603	..	..	1,800*
2. House of Representatives..	12,458	1,020	13,478	9,233	1,100	10,333
3. Law Drafting Office ..	2,507	593	3,100	..	..	..
4. General Assembly Library	3,036	1,600	4,636	2,695	1,150	3,845
5. <i>Hansard</i>	5,695	6,200	11,895	6,040	5,000	11,040
6. Bellamy's	6,463	1,487	7,950	1,627	1,850	3,477
7. General expenses.. ..	4,124	52,798	56,922	2,652	7,610	10,262
	36,426	64,158	100,584			
8. Less credits	99	4,808	4,907			
9 Totals	36,327	59,350	95,677	22,247	16,710	40,757

* Salaries and other charges not allocated.

170. It will be observed (item 9) that the total appropriation for 1931-32 exceeded that for 1914-15 by £54,920. The greatest increase is shown under the heading "General Expenses" (item 7), where the appropriation for 1931-32 exceeds that of 1914-15 by £46,660.

171. It should be explained that in 1914-15 certain items of expenditure were not provided under the Legislative vote, such as printing of statutes, £10,000; railway passes, sleepers, and lounge seats to members and wives, £27,075; and refund to Post Office on members' telegrams, £1,200.

172. Also the Law Drafting Office was not then a section of the Legislative Department, as the work was carried out by a branch of the Solicitor-General's Office.

173. These four items, for which no provision was made in the Legislative vote for 1914-15, total £41,375, and if this is deducted from the excess of £54,920 mentioned above, there is still an excess of £13,545 over 1914-15.

174. The vote comprises seven subdivisions, and the item "Salaries" appears in each.

175. The increase in salaries and wages of permanent, temporary, and sessional staff over 1914-15 totals £14,080. A part of this increase, £2,507, represents salaries for the Law Drafting Office, which brings the increase over 1914-15 down to £11,573, and some allowance must also be made for the increase in salaries under the heading "General Expenses" occasioned through additional cleaning and outside staff necessary in consequence of the larger buildings and grounds now in use. However, after taking these factors into consideration, we find that the salary burden, particularly under the headings "House of Representatives" and "Bellamy's," has increased to a greater degree than has been justified. The opinion was expressed by the Economy Committee in 1921-22, and endorsed by the Economy Committee in 1931, that both Houses are extravagantly staffed, and that the staffing arrangements would be made more efficient and could be put on a less costly basis if placed under similar control to the rest of the Public Service as regards appointments and emoluments. We endorse these views, and recommend that the appointment and control of staff be placed under the Public Service Commissioner, while for duty and discipline during sittings of Parliament, they would remain under present control.

176. From the evidence we have taken we consider that undoubted economies should result. We would place the economies in salaries on a conservative basis at £6,000.

177. We recommend reductions in the remaining items on the vote as set out in the statement hereunder, being convinced that these economies can be effected by closer supervision and control.

	Reduction recommended.	Total.
—		
<i>Subdivision II.—House of Representatives—</i>	£	£
Item, Printing and stationery	100	
„ Telephone services	50	150
<i>Subdivision IV.—General Assembly Library—</i>		
Item, Binding books	100	
„ Grant to Library Fund	150	
„ Newspapers	50	300
<i>Subdivision VI.—Bellamy's—</i>		
Item, Washing linen	100	100
<i>Subdivision VII.—General Expenses—</i>		
Item, Charwomen	200	
„ Fuel, light, power, &c.	1,595	
„ Furniture, &c.	1,000	
„ Postages and telegrams.	200	
„ Uniforms for messengers	50	
„ Upkeep, parliamentary grounds	50	3,095
		£3,645

178. In addition, there are other items to which we draw special attention, and in connection with which some saving should be effected. These are—

SUBDIVISION IV.—GENERAL ASSEMBLY LIBRARY.

179. We are informed that there are approximately eight hundred holders of recess privileges who have access to the General Assembly Library. The granting of privileges must involve some cost, and we see no reason why a small charge should not be made for such privileges. We would recommend that a charge of £1 be made to privilege holders, with a special rate of 5s. to *bona fide* students, of whom a number use the Library. This should provide the sum of £400 in reduction of the general expenses of the Library.

SUBDIVISION V.—“HANSARD.”

Item, Printing of Hansard.

180. The number printed during last year was 7,225 copies, each of twenty-two weekly issues, or a total of 158,950 copies. Each member of Parliament is entitled to seventy-five copies, each member of the Legislative Council to forty copies, and each Minister of the Crown to ninety-five copies of each issue. We recommend that the number of copies printed should be reduced by one-half, and the copies allowed to members of the Legislature reduced to a similar extent. The number of subscribers amounted to only 156 last year, and the proceeds from sales totalled £189 as against the total cost of reporting and printing of nearly £12,000. It is difficult to state what the annual saving will be, but on last year's figures the sum of £1,500 would have been saved.

SUBDIVISION VI.—BELLAMY'S.

181. The total amount of the vote for Bellamy's for 1931-32 is £7,950, but the total cost as shown in the Income and Expenditure Account of the Legislative Department for 1930-31 was £10,355, exclusive of interest. Some of the staff, whose salaries are provided under this subdivision, are employed during the recess on general work in the Parliamentary Buildings, and an allowance of approximately £2,000 should be made on this account. We consider the expenditure in respect of Bellamy's is more than the country should be called upon to pay, as the institution is in the nature of a club. We have not been supplied with a statement of the accounts of Bellamy's, but presume that under the present system of management the amount provided as a charge against the Consolidated Fund each year is necessary to maintain the institution. We recommend that the vote should be reduced by at least 50 per cent., or a saving of approximately £4,000, and that the charges should be revised to provide for a greater part of the cost being met by those who enjoy the privileges of Bellamy's.

SUBDIVISION VII.—GENERAL EXPENSES.

<i>Item—</i>	£
Passages of—	
Members of both Houses	1,450
Members' wives	200
	£1,650

182. This covers the expenditure on steamer passages for members of both Houses and for members' wives. Members of the Legislature are entitled at any time to travel at the public expense between the port most convenient of access to their homes and any other port in New Zealand to enable them to come to and return from Wellington. We recommend that a definite limit be placed on the number of trips allowable to each member, and suggest that a limit of eight return trips should be ample.

183. Members are also entitled to receive tickets entitling them to travel by service motor-car if there is no reasonably convenient railway or steamer service. We recommend a similar limit of eight return trips in this instance.

184. The wives of South Island members (including a relation acting as housekeeper if the member has no wife) are granted six return tickets to and from Wellington. A limit of three return tickets should be ample.

185. Against this item are also chargeable travelling-expenses at the rate of 18s. per day and taxi fares, &c., for members coming to Parliament or returning home after the session. Travelling-allowance is payable for each day or part of a day on which members are travelling to Wellington or returning to their homes. We consider that in view of modern transport facilities, the payment of the allowance should be confined to cases where the period of travelling exceeds twenty-four hours, and that in other cases actual and reasonable expenses only should be paid.

Estimated saving, £500.

Item, Postage and telegrams, £1,700.

186. The expenditure chargeable against this item is in respect of postage on *Hansard* to persons nominated by members, correspondence, &c., of members during the session.

187. The franking privileges mentioned above, which are extended to members during the session, are in addition to the monthly supply of stamps issued to members under the authority of the Public Revenues Act, 1926, and we have already recommended that the latter be discontinued. We consider that with closer supervision this item should be reduced by £200.

Item, Printing of Statutes, Journals, &c., £10,000.

188. This covers the cost of printing of Bills, journals, appendices, Order Papers, &c. We consider that the appendices should be reviewed, as it should be possible to avoid the printing of some of them. We also consider that the number of Bills supplied to members should be limited, and that the supplying of a bound copy of the Appendices should be discontinued.

Estimated saving, £3,000.

Items—

Railway passes and concessions to members and ex-members of the Legislature, families, relations, &c.	£
.. .. .	25,500
Railway sleeping-berths for members of Parliament	1,250
Railway lounge-car seats for members of Parliament	25
Railway sleeping-berths and lounge-car seats for members' wives	175

189. Members of the Legislature and their wives obtain free railway passes over all lines in New Zealand at an annual cost of £92 10s. each. The system of issuing free passes is an unnecessary extravagance and should be abolished. In lieu thereof a warrant system should be introduced entitling members to free railway travel on production of orders signed by themselves. We recommend that members be entitled to free tickets up to a value of not more than £50 in any one year. We can see no reason for the privilege of unlimited free railway travel.

190. In regard to the privilege extended to members' wives, we are definitely of the opinion that unlimited free travel should be abolished. The privilege to members' wives, or, if a member has no wife to some relation acting as housekeeper, should be limited to three return tickets to Wellington each year.

191. Free railway passes are also issued to ex-members who have had ten years' service or have served in three Parliaments. These passes are renewable on application. We recommend that this privilege to ex-members be abolished.

192. Free railway passes are also provided for such ex-members' wives for a period of one year. This privilege should also be abolished.

193. Free railway passes for life have also been issued to the wives of deceased Ministers in certain cases. We recommend that no further passes of this description be issued.

194. Finally, half cost of railway travel to and from Wellington for families of members of the Legislature is provided. The families of the members are entitled to travel to and from Wellington as often as desired at half rates. We recommend that this privilege be abolished.

Total estimated savings, £12,800.

Item, Refund to Post Office, being Difference between Special and Ordinary Rates for Telegrams from Members of the General Assembly.

195. There is a special charge of 6d. for thirty-six words by telegram for members of the General Assembly, who can send unlimited telegrams at this rate. This rate was not varied when telegraph charges were generally increased. A fixed charge of £1,200 on the Legislative Department is made by the Post Office for the difference. We recommend that the charge be increased to 1s. for thirty-six words.

Estimated saving, £600.

Item, Supply of Publications to Members of the Legislature.

196. This covers the cost of statistical publications which members are entitled to receive free of cost from the Statistician's Office. We recommend that members be charged half the usual price for any publications they desire.

Estimated saving, £225.

Item, Travelling Allowances and Expenses.

197. This item is to provide for travelling allowances and expenses of two officers of the Legislature. We recommend that the item be deleted.

Estimated saving, £20.

198. For the sake of clarity and convenience, our recommendations in respect of the Legislative Vote are tabulated hereunder:—

	£
1. Re-organization of staff—Savings in salaries	6,000
2. Miscellaneous savings already tabulated	3,645
3. Charge for recess Library privileges	400
4. <i>Hansard</i> —Reduction in copies	1,500
5. Bellamy's—Reduction in cost to State	4,000
<i>General Expenses.</i>	
6. Passages—Members and wives	500
7. Postage and telegrams	200
8. Printing of statutes	3,000
9. Railway passes and concessions	12,800
10. Refund to Post Office for members' telegrams	600
11. Supply of publications	225
12. Travelling-allowances and expenses	20
	£32,890

VOTE, NAVAL DEFENCE.

199. We have considered the expenditure under this vote, and at the outset would draw attention to the progressive cost of naval defence to New Zealand since the 1st April, 1914, as illustrated by the following statement, from which the payments in respect of the Singapore Base are excluded:—

	£		£
1914-15	65,874	1923-24	285,723
1915-16	26,184	1924-25	283,356
1916-17	31,775	1925-26	441,203
1917-18	42,002	1926-27	527,023
1918-19	31,952	1927-28	486,830
1919-20	20,075	1928-29	463,496
1920-21	48,692	1929-30	437,573
1921-22	303,517	1930-31	418,837
1922-23	211,225	1931-32	390,000*

200. The basis of New Zealand's contribution towards naval defence has been radically altered, in that, in place of the subsidy previously paid to His Majesty's Government in Great Britain, the New Zealand Division of the Royal Navy has now been established.

201. The present agreement with the Admiralty provides for the formation of the New Zealand Division of the Royal Navy and the Government has undertaken—

- (a) To maintain a seagoing squadron of two "D" class cruisers.
 (b) To replace the above cruisers when over age, in 1935 and 1938 respectively, by two "B" class cruisers.

NOTE.—It has now been suggested by the Imperial Government that the replacement cruisers should be "Leander" class instead of "B" class, and this would result in a considerable saving to New Zealand as against the cost of "B" class cruisers, but would exceed the cost of the present "D" class cruisers.

- (c) To enlarge the Calliope Dock and modernize the equipment of the Naval Base.
 (d) To provide personnel, stores and equipment for mine-sweeping craft and anti-submarine craft, &c.

NOTE.—Beyond the personnel of the Royal Navy Volunteer Reserve, practically no provision has yet been made to fulfil this responsibility.

* Estimated.

202. The control of the New Zealand Division is vested in the Naval Board. The rates of pay in the New Zealand Division are in excess of Imperial rates.

203. The percentage of New Zealand cost to Admiralty cost has increased from 0·128 per cent. in 1914-15 to 0·812 per cent. in 1930-31.

204. The following statement will illustrate the variation in expenditure in New Zealand for Naval purposes since 1914-15 :—

Period.	Admiralty Cost.	Cost per Head of Population.	New Zealand Cost.	Cost per Head of Population.	Percentage of New Zealand Cost to Admiralty Cost.
	£	£ s. d.	£	s. d.	
1914-15	51,550,000	1 3 3	65,874	1 2	0·128
1921-22	57,492,000	1 5 11	303,517	4 9	0·527
1922-23	54,064,000*	1 4 4	211,225	3 2	0·391
1924-25	60,005,000*	1 6 9	283,356	4 2	0·472
1927-28	57,139,000*	1 5 2	486,830	6 9	0·852
1930-31	51,605,000*	1 2 6	418,837	5 7	0·812

* Population of Irish Free State excluded in computation.

205. The following additional amounts have also been expended, making the total cost per head in New Zealand as under :—

Period.	H.M.S. "New Zealand": Interest and Sinking Fund.	Singapore Base.	Total Cost per Head.
	£	£	s. d.
1914-15	117,043	..	3 2
1921-22	115,148	..	5 7
1922-23	50,564	..	3 11
1924-25	57,788	..	5 1
1927-28	57,788	125,000	9 4
1930-31	57,788	125,000	8 1

206. The evidence submitted by the Naval Board indicates that a vote of £400,000 is the minimum necessary if the present arrangements are to be adhered to, and we are convinced that this amount must inevitably increase substantially in the future. We believe that under Admiralty control the cost to New Zealand of maintaining the units at present stationed in New Zealand waters would be considerably lessened, but consider that any reduction in the amount of the vote must involve a change in policy. We are of opinion that the present divided control cannot give the best results, and that differentiation in the rates of pay in different Divisions of the Service is anomalous and expensive. We therefore recommend that negotiations be entered into with His Majesty's Government in Great Britain for the Admiralty to resume control of the New Zealand Division of the Royal Navy, without any conditions as to the number of cruisers to be stationed in New Zealand waters, in return for a fixed annual subsidy, the amount of which must be determined by the policy adopted by Parliament.

207. We feel that reversion to Admiralty control would result in considerable economies which do not appear to be possible under the present system.

208. If one cruiser only were maintained in New Zealand waters, and the maintenance of the "Wakakura" suspended, a saving of about £200,000 a year might be effected, but the possibility of making the saving would depend upon the policy arrangement entered into between the New Zealand Government and the Admiralty, as undoubtedly relief to New Zealand finance would be at the expense of the British taxpayer.

VOTE, EDUCATION.

209. We have carefully reviewed all items of education expenditure and have earlier in this report made recommendations for the elimination of certain items which appear under the heading of "Permanent Appropriations," but which are a part of the educational expenditure of the Dominion.

210. We now come to vote, Education, and note that for 1931-32 the gross vote amounts to £3,125,264, less credits-in-aid of £218,536, leaving a net appropriation of £2,906,728.

211. The growth of the cost of education may be gauged from the attached table showing expenditure, excluding capital cost of buildings, in four-yearly periods from 1st April, 1914, up to and including the estimated expenditure for 1931-32.

COMPARATIVE STATEMENT SHOWING EXPENDITURE ON EDUCATION EXCLUSIVE OF CAPITAL EXPENDITURE ON BUILDINGS AND INTEREST ON CAPITAL.

Year ending 31st March,	1914.				1918.				1922.				1926.				1931.				Estimate, 1931-32.
	Expenditure, less Buildings, etc.	Number of Children or Students, etc.	Cost per Pupil.	Cost per Head of Mean Population.	Expenditure, less Buildings, etc.	Number of Children or Students, etc.	Cost per Pupil.	Cost per Head of Mean Population.	Expenditure, less Buildings, etc.	Number of Children or Students, etc.	Cost per Pupil.	Cost per Head of Mean Population.	Expenditure, less Buildings, etc.	Number of Children or Students, etc.	Cost per Pupil.	Cost per Head of Mean Population.	Expenditure, less Buildings, etc.	Number of Children or Students, etc.	Cost per Pupil.	Cost per Head of Mean Population.	
Administration ..	15,939	..	£ s. d. 0 0 3	£ s. d. 0 0 4	17,909	..	£ s. d. 0 0 4	£ s. d. 0 0 7	37,328	..	£ s. d. 0 0 7	£ s. d. 0 0 6	42,284	..	£ s. d. 0 0 7	£ s. d. 0 0 7	42,284	..	£ s. d. 0 0 7	£ s. d. 0 0 7	
Elementary ..	903,483	172,168	5 4 11	0 16 0	1,265,529	188,174	6 14 6	1 1 11	2,215,738	214,714	9 19 7	10 6 5	2,385,190	216,698	10 15 6	11 2 2	2,033,653	..	10 15 6	11 2 2	
Secondary ..	87,557	7,640	11 9 2	0 1 6	141,126	9,770	14 8 11	0 2 5	229,681	12,206	18 16 4	18 9 11	339,229	20,264	19 14 0	0 5 4	379,880	..	19 14 0	0 5 4	
Higher: Universities ..	32,500	2,218	..	0 0 7	50,870	1,902	..	0 0 11	78,363	3,924	..	0 1 3	122,780	4,801	..	0 1 8	78,851	..	..	0 1 8
Manual and technical ..	87,884	15,206	..	0 1 7	93,301	18,400	..	0 1 7	143,428	16,832	..	0 2 3	225,644	19,831	..	0 3 0	219,265	..	..	0 3 0
Training of teachers ..	42,765	439	97 8 3	0 0 9	55,029	451	122 0 4	0 0 11	150,816	904	166 16 8	0 2 4	163,736	1,154	141 17 9	0 2 2	147,740	..	141 17 9	0 2 2	
Native education ..	36,365	4,647	7 16 6	0 0 7	41,857	5,173	7 19 11	0 0 8	70,616	5,822	12 2 7	0 1 1	90,179	7,070	12 15 1	0 1 2	81,990	..	12 15 1	0 1 2	
Physical instruction ..	7,116	..	..	..	*	..	..	..	*	..	..	..	8,875	..	..	0 0 1	7,064	..	..	0 0 1
Education of the blind ..	36	..	..	..	Cr. 25	..	..	..	10,177	..	..	..	1,108	..	..	..	2,805	..	..	..
School for the deaf ..	3,202	103	..	..	3,393	110	..	..	5,843	148	..	..	6,312	121	..	..	5,499	..	..	0 0 1
Schools for feeble-minded ..	3,765	73	..	..	7,364	129	..	..	11,737	201	..	..	12,938	269	..	..	11,456	..	..	0 0 2
Child-welfare ..	42,365	..	..	0 0 9	45,232	..	..	0 0 9	107,485	..	..	0 1 8	132,000	..	..	0 1 2	129,272	..	..	0 1 9
Material and stores ..	..	..	..	..	3,316	..	..	..	Cr. 1,431	..	..	..	Cr. 783	..	..	..	117	..	..	..
Miscellaneous services ..	25,190	..	..	0 0 5	21,538	..	..	0 0 4	50,652	..	..	0 0 9	57,628	..	..	0 1 4	48,981	..	..	0 0 9
	1,288,217	..	..	1 2 11	1,745,939	..	..	1 10 3	3,248,695	..	..	2 5 7	3,597,100	..	..	2 6 8	3,179,183	..	..	2 8 0

* Included in elementary.

212. It will be seen that the cost per head of population under all headings has risen from £1 2s. 11d. in 1914 to £2 8s. in 1931, an increase of over 100 per cent. The cost per pupil or student has also risen very considerably, and notable among the increases is the increase in the cost of primary education. In this case the expenditure has risen from £5 4s. 11d. per pupil in 1914 to £10 15s. 6d. per pupil in 1931. Similarly, there has been a very sharp rise in the cost of the training of teachers—namely, from £97 8s. 3d. per student in 1914 to £141 17s. 9d. per student in 1931.

213. It is clear that there must be a very substantial reduction in educational expenditure, and we recommend the reductions set out hereunder. We feel assured that the system of education as a whole will not suffer unduly if our recommendations are given effect to. It appears that even for normally prosperous times the expenditure on education has been on a lavish scale. Listed hereunder are the economies which we consider should be given effect to, and our reasons, where these are necessary, are set out. In the main we have aimed at a substantial reduction in the total vote, bearing in mind the present and prospective position of the public revenues and the absolute necessity for effecting such economies as are possible consistent with reasonable efficiency in the education system.

TRAINING COLLEGES.

214. It seems clear that during a period of financial depression it is impossible for the State to engage as many new teachers as during normal times. One reason for this is that during such a period there is a reduction in the number of retirements from the Service, more particularly through the non-marriage of female teachers. In addition, also, the teaching staffs are being restricted more closely to the numbers specified in the various regulations, and this lessens the demand for teachers and hence the number of trainees. Even under normal conditions it is doubtful whether the country could possibly absorb the output of four training colleges. All this leads to the conclusion that a considerable saving can be effected by the closing of two of the existing training colleges without loss of efficiency in the Service. We are informed that the training-college buildings at Auckland and Christchurch are in better condition than those at Wellington and Dunedin and are capable of accommodating a considerably larger number of students. If only two training colleges are maintained it would be preferable to close the establishments at Wellington and Dunedin. It is obvious that it will not be necessary to train as many teachers as have been required in the past, and that two training colleges will be ample for many years to come. We therefore recommend the closing of the training colleges at Wellington and Dunedin.

Estimated saving, £7,000.

ALLOWANCES TO TRAINING-COLLEGE STUDENTS.

215. At the present time the following allowances are paid to students in the training colleges—

	Per Annum.			
	£	s.	d.	
Female students ..	72	0	0	} Boarding-allowance of £27 per annum is paid to students living away from home.
Male students ..	76	10	0	

216. The total expenditure on allowances to training-college students is in excess of £105,000 per annum. In Victoria, where approximately the same number of teachers is employed as in New Zealand, the allowances to students amounted in 1930 to approximately £39,000. There are fewer students in training in Victoria and the allowances are much less liberal, being for residential students £20 per annum, plus free board valued at £45, while students boarding away from the colleges receive £72 as compared with a maximum of £103 10s. in New Zealand. Those living at home receive £40 as compared with £76 10s. for male students and £72 for female students in New Zealand.

217. We would here draw attention to the marked increase in the cost per head of trainees in 1931 as compared with 1914. The cost has risen from £97 8s. 3d. to £141 17s. 9d. per student.

218. This expenditure cannot be justified under present conditions, and we recommend that the present allowances be abolished and that training-college bursaries be substituted therefor to the value of £26 per annum together with a boarding-allowance of £26 per annum for students living away from home. We recommend that a limited number of these bursaries be awarded only to the most desirable students, as, for instance, degree students. We further recommend that a system of allowances repayable in instalments at the conclusion of the period of training be instituted. We consider the maximum allowance should be £52 per annum for students who can satisfy the Department that they require assistance during the period of training. The savings that would be effected by this change would, in the first complete year, be in excess of £40,000, and the total savings would eventually amount to approximately £90,000 per annum. We recognize that it would be impossible to bring this system into operation as from the date of the opening of the colleges this year, but we suggest that the change be effected from the beginning of the second term in the current year. The saving for the remainder of 1932-33, would, in this event, be approximately £25,000.

“SCHOOL JOURNAL.”

219. The total cost of printing and distribution of the *School Journal* is approximately £6,500 per annum, excluding editorial and other salaries. The *Journal* is a miscellaneous reader and is provided free to all children in public schools. A charge of one penny per copy for this reader would be quite reasonable, and this would result in a credit of approximately £7,000 per annum, virtually a saving.

220. We recommend that this charge be made, and that it be deducted from the capitation grants of School Committees.

MANUAL-TRAINING CENTRES.

221. Certain manual-training centres (situated mainly in country districts) are being conducted at considerable expense, and pupils are being gathered together from surrounding schools and conveyed to the centres at a high cost, either by rail or road. There are, however, a large number of country school pupils who are at present unable, on account of distance, to receive annual training at these centres and in lieu thereof are given handwork instruction by the ordinary teachers. We consider that the expensive country manual-training centres might well be closed, and recommend accordingly. The effect would be to require the ordinary school staff to provide handwork instruction as is done in the cases of the other country schools referred to. There should be little, if any, loss of efficiency if this were done.

Estimated saving, £5,000.

CONVEYANCE OF SCHOOL-CHILDREN.

222. The State is at present providing free conveyance to pupils of primary, secondary, and technical schools, and this service is costing the Dominion approximately £118,000 per annum. This enormous expenditure is unwarranted, and immediate steps should be taken to reduce the amount to more reasonable proportions. There is little to be said for the State shouldering the burden of conveying children to school unless there is an advantage to be gained, say, by the avoidance of the expense of establishing a new school of at least Grade I.

223. The practice has grown up of making allowances varying from 4d. to 8d. per return trip on account of children under ten who are living two miles from school, and older children who are living three miles from school.

224. Payments are made in many cases to parents where, say, a horse or vehicle is provided by the parents for the conveyance of the children to school, and in other cases road or rail transport is paid for.

225. Free railway tickets are issued under certain restrictions to pupils desiring to attend secondary and technical schools, and also to children desiring to attend private schools.

226. In some instances in lieu of a conveyance allowance the sum of 5s. per week is allowed towards the board of school-children living away from home.

227. We must direct particular attention to the rapidly increasing cost of these services, as we are of the opinion that such an elaborate system of transport is unnecessary and altogether beyond the resources of the country.

228. We recommend—

- (1) That free conveyance to all post-primary schools be discontinued.

The cost under this heading is £15,000 for children attending secondary and technical schools. We consider that parents of children attending secondary and technical schools should meet the transport cost themselves, particularly as post-primary education is free.

- (2) That boarding-allowances be discontinued, and that the pupils be taught through the Department's Correspondence School.

The Correspondence School is particularly well organized, and adequate instruction can be given to country pupils through this medium.

- (3) That the conveyance allowance at present paid for primary-school children be discontinued, except where a conveyance system is instituted for the express purpose of saving the expense of establishing a new school of at least Grade I or reopening an old one.

229. These changes would not affect any consolidation system that has been established, and the consolidation of small schools should certainly be carried out wherever any saving can be effected thereby.

Estimated saving on conveyance of children, £50,000.

CLOSING OF SMALLER PRIMARY SCHOOLS.

230. We have considered the possibility of effecting economies by the closing of the smaller primary schools—that is, Grade O schools. These have an average attendance of from one to eight, and they require the services of one teacher. The average cost of teaching pupils in these schools is £15 per pupil as against £10 15s. 6d. per pupil for all primary schools. Children attending these schools could, without detriment to themselves, receive instruction through the Correspondence School conducted by the Department. The average cost of teaching children in that school is approximately £6 per head, so that a saving of £9 per head would result.

231. The value of the instruction provided by the Correspondence School has been amply demonstrated during the ten years in which it has been in operation, and we are convinced that the pupils would receive adequate training under this system. In Victoria the Economy Committee which recently considered educational expenditure recommended the closing of all schools with a roll of ten or less.

Estimated saving by closing all Grade O schools, £12,600.

OVER-SCALE SALARIES PAID TO TEACHERS.

232. By section 79 (7) of the Education Act, 1914, a teacher's salary is maintained at over-scale rates when the attendance at a school falls. In the case of primary-school teachers the over-scale salary is maintained in some cases indefinitely, and in other cases for five years unless the teacher has been offered a transfer, in which case the period is considerably less. The principle of paying over-scale rates seems to be reasonable provided that payment is not unduly protracted. It should, however, be sufficient to maintain the salary for one year only, as this should afford the teacher an opportunity of securing another position. We recommend that the period be limited to one year, and that those teachers who have drawn over-scale salary for a period of one year or more be notified that the payment will henceforth be discontinued.

Estimated saving, £3,000.

ADMINISTRATIVE EXPENSES.

233. We have considered in detail the administrative cost of the educational system in New Zealand as compared with the cost in the Australian States, and are of the opinion that the system at present in operation in the Dominion is unduly expensive.

234. Under the Board system in operation, the administrative cost per pupil is 9s. 2d., while the cost per pupil in Native schools maintained and administered by the Education Department is only 3s. 6d. per pupil. In the Australian States the cost per pupil is as follows: New South Wales, 5s. 4d.; Victoria, 4s.; Queensland, 4s. 1d.

235. The Australian costs are comparable with the cost of administration of Native schools in New Zealand, and, as the Board system is not in operation in either case, it seems evident that considerable savings could be effected by the abolition of the Boards. In this connection we quote hereunder the remarks of Mr. Frank Tate, C.M.G., in the "Year-book of Education," 1932:—

"Those whose experience is confined to public education managed by local authorities, financed in whole or in part by a State Department which is content to exercise only a general supervision and control, are apt to conclude that administration by a central Department must inevitably be rigid and formal, resulting in mechanical uniformity and loss of freedom, and that local interest in the well-being of the schools will be lost. Nothing could be further from the fact. During the past thirty years I have been privileged to visit and inquire into school systems in every important part of the Empire, and I have found in Australia as much evidence of educational progress, of efficient and sympathetic control, of flexibility of curriculum and methods to suit special conditions, and of keen local interest in school affairs, as may be met with elsewhere. The truth is that we may find deadness and formalism under any system of administration. 'Whate'er is best administered is best.' It is true that if at the head of a centralized system there are men who lack stimulus, driving-power, and vision, the school system may be afflicted with a creeping paralysis; but it is equally true that under vigorous and inspiring leadership loyal and devoted team-work will under centralized administration produce noteworthy results in a comparatively brief time. Progress has not to wait until lay authorities have been convinced of the wisdom and practicability of every project."

236. We are of the opinion that the abnormally high cost in the Dominion is due largely to the complicated system of control at present in existence. We refer to control by Primary Education Boards, Secondary School Boards, and Technical School Boards, as well as by the Department. The Boards have no responsibility for the raising of the money they spend, and practically the whole of the expenditure on education, amounting to over £3,000,000 per annum, passes first of all through the Education Department and then through the Boards, the expenditure being governed by the Education Act or by regulations administered by the Department. Under the present system it is necessary for the Department to oversee all expenditure, and the result is that the present system of administration is one of the most cumbrous and costly that could be devised.

237. The bulk of the expenditure of the Education Boards is in the payment of teachers' salaries, and it would be a simple matter for the Department to arrange payment direct to the teachers, instead of through Education Boards as at present.

238. We consider that the Board system should be abolished, but that School Committees should be retained. There should be no risk of any loss of efficiency in the education system as a result.

239. As a means of maintaining local interest in secondary and technical schools we suggest the formation of School Councils, somewhat akin to parents' associations which have come into being of recent years, and which have proved how successful and effective such voluntary organizations can be in stimulating local interest.

Estimated saving, £50,000.

FUTURE CONTROL OF EDUCATION ADMINISTRATION.

240. Before passing to consideration of other matters affecting education expenditure, we desire to state that, in our opinion, the expenditure of such a large annual sum of money on the all-important national service of education should be governed entirely by principle and policy, and should be removed from the possibility of being influenced by motives of political expediency.

241. In the past there has been lavish expenditure on education which could have been avoided without affecting the efficiency of the system.

242. With a view to providing a more effective measure of control, we recommend a change in the present system by the establishment of a Central Advisory Board, in which the control of education in the Dominion should be vested.

243. We have recommended the abolition of the existing Education Boards, and stated that it should be a simple matter to maintain local interest by means of honorary School Committees or Councils. We feel that local Councils should be able to co-operate with a Central Advisory Board, and that the result should be more economical control of the educational system and at least an equally efficient service.

DEPARTMENTAL STAFF.

244. There has been a considerable reduction already in the cost of the administrative and inspectorial staff of the Department, amounting in all to approximately £17,000. We consider, however, that by withholding the appointment of one Senior Inspector and one Staff Inspector, and also by postponing the appointment of a Native School Inspector, a further saving of £1,150 can be effected.

SCHOOL COMMITTEES' ALLOWANCES.

245. Up to the present the allowances paid to School Committees have not been reduced, and we are of the opinion that it would be reasonable to reduce these allowances by at least 10 per cent. We are informed that a considerable number of School Committees are able to finish up the year with a credit balance, which would indicate that the allowances paid at the present time are liberal. In view of present conditions a reduction of 10 per cent. would be reasonable, and we recommend accordingly.

Estimated saving, £10,000.

CAPITATION ALLOWANCES TO BOARDS ON ACCOUNT OF SECONDARY PUPILS IN DISTRICT HIGH SCHOOLS AND FOR SCIENCE CLASSES IN SECONDARY SCHOOLS.

246. The present capitation rate is 7s. 6d. per pupil. We are of the opinion that a flat rate of 4s. should, in view of present conditions, be sufficient, and we recommend a reduction accordingly.

Estimated saving, £3,000.

SPECIAL CAPITATION FOR SCIENCE CLASSES IN PRIMARY SCHOOLS.

247. In view of present conditions, the special capitation for science classes in primary schools should be discontinued. The effect of this will be that the primary-school teachers must depend on improvised apparatus, and, although the instruction may be somewhat lessened in efficiency through lack of material, other instruction such as plant-study relating to elementary agriculture can be taken more fully, and for this little apparatus and material are required. We recommend that the special capitation be discontinued.

Estimated saving, £6,000.

MATERIAL FOR HANDWORK IN PRIMARY SCHOOLS.

248. Up to the present it has been usual to provide special materials for handwork in primary schools. In view of the necessity for the utmost economy, teachers should be required to use waste material for this work, and we recommend accordingly. We are informed that this has already been done to a much wider extent than formerly, and it appears that the change will be beneficial not only to teachers and pupils, but to the whole community, as it will serve to inculcate habits of thrift.

Estimated saving, £1,000.

FREE BOOKS TO PRIMARY-SCHOOL CHILDREN IN NECESSITOUS CASES.

249. We recommend that the supply of free school-books to pupils be discontinued. There is a tendency for expenditure under this heading to increase; but parents, teachers, and School Committees could assist by gathering used school-books which could be passed on free to the pupils who need them. The books in the primary schools are standardized over the whole Dominion, and we recommend that there be no alteration during the next five years.

Estimated saving, £2,000.

CAPITATION GRANTS TO SECONDARY-SCHOOL BOARDS FOR INCIDENTAL EXPENSES.

250. We recommend that the present capitation allowance of £2 to Secondary School Boards for incidental expenses should be reduced to £1 15s. If this reduction presses heavily upon the Boards, an extra effort should be made in the direction of economy in administration.

Estimated saving, £2,000.

INCIDENTAL ALLOWANCES TO TECHNICAL-SCHOOL BOARDS.

251. Incidental allowances paid to Technical School Boards have proved more than sufficient for the purpose, and many of the Boards have succeeded in accumulating considerable reserves. We are of the opinion that the Boards should be able to effect economies in administration. The allowance is at present 25 per cent. of the salaries paid, and we recommend that it be reduced to 20 per cent.

Estimated saving, £5,000.

NATIVE-SCHOOL SCHOLARSHIPS.

252. We recommend that no further Native-school Scholarships be granted. The ordinary facilities which exist in our primary and secondary schools should meet the need for Native children also.

Estimated saving, £1,750.

MAINTENANCE OF SCHOOL BUILDINGS.

253. We are assured that most of the school buildings at present in use have been kept in very good repair of late years, and that a considerable temporary saving could be effected in maintenance costs. We recommend that the grants for maintenance of the undermentioned buildings be reduced by the amounts stated:—

	£
Institutions under the Child Welfare Act, 1925	1,000
Native schools	1,000
Technical schools	1,750
Public schools	20,000

We consider that the economies recommended under this heading should not result in permanent deterioration of the buildings.

Estimated saving, £23,750.

SPECIAL ALLOWANCES TO TEACHERS.

254. Certain special allowances are paid to teachers and assistants for the performance, in some cases, of special duties. The allowances are as follows:—

- (1) Allowance of £27 additional to salary of second female assistants in large schools: Annual amount involved, £2,600.
- (2) Special allowances to Grade 2 female assistants of secondary departments of district high schools: Annual amount involved, £1,200.
- (3) Special allowances to heads of departments and certain female assistants in secondary and technical schools: Annual amount involved, £2,000.

255. While the teachers to whom the above allowances are paid have in some cases special duties to perform, we are of the opinion that those who are appointed to the higher positions at the higher salaries should be prepared to undertake without special emolument such additional responsibilities as are attached to those positions.

Estimated saving, £5,800.

SALARIES OF FEMALES TEACHERS IN PRIMARY SCHOOLS.

256. It has been established in the Dominion, in so far as secondary and technical school teachers are concerned, that the ratio between the salary of a female teacher and that of a male is approximately 4 : 5. This ratio has been adopted in most countries where there is a differentiation between the salaries of female and male teachers. The ratio has, in fact, been used in England under what is commonly known as the "Burnham" scale for teachers' salaries, and, for the most part, it is used in the scales adopted by the Australian States. It seems an anomaly that the differentiation should exist in the case of secondary and technical school teachers and not in the case of primary-school teachers, and we see no reason why the salaries of primary-school teachers should not be brought into line, and we recommend accordingly.

Estimated saving, £75,000.

MINIMUM AGE OF ADMISSION TO PRIMARY SCHOOLS.

257. We have carefully considered the general question of whether there should be any alteration in the age of admission to primary schools, more particularly in the light of the possibility of effecting a reduction in education costs as a result of an alteration.

258. The expenditure, particularly on salaries, is directly affected by the number of pupils, and this in turn is affected by the age at which children are admitted to the primary schools. We are satisfied that children would not be adversely affected were the age raised from five to six.

259. We would here draw attention to the fact that the same question was considered by the Committee on National Expenditure set up by the British Government in 1922. That Committee reported that the evidence showed that children who had not commenced their school training until six years of age did not show any appreciable difference in their attainments or knowledge on reaching the school-leaving age from those who commenced at an earlier age.

260. A reduction in the numbers of pupils attending the primary schools would be one effective means of reducing the size of classes and also the cost of education, and we recommend the raising of the age of entrance to six years, as was recommended by the Committee on National Expenditure in Great Britain in 1922.

261. The savings that would be effected during next financial year would be as follow:—

	£
Capitation to Boards	2,000
Incidental expenses to School Committees	9,000
	£11,000

There would eventually be further savings due to the reduced number of trainees required.

PROFICIENCY EXAMINATION.

262. We are of the opinion that a fee should be charged for the Proficiency Examination. A fee of 5s. per candidate is at present charged whenever a special examination is held. We recommend that a fee of 2s. 6d. per pupil be charged as a Proficiency Examination fee. Revenue from this source would reduce the cost of this service by approximately £3,000.

OTHER EXAMINATION FEES.

263. We have also considered the general question of fees for other examinations and are of opinion that a further reduction of cost should be obtained by charging fees as follow:—

	Estimated Revenue.
	£
(1) A fee of 5s. for intermediate or senior free-place certificates	1,000
(2) A fee of 10s. for higher-leaving certificates	100
(3) Increase of fees for teachers' certificates from £1 to £1 11s. 6d.	250
(4) Fee for certificates issued to teachers from abroad, £3 3s.	50
	£1,400

We recommend accordingly.

TRAVELLING-EXPENSES OF PHYSICAL INSTRUCTORS.

264. All physical instructors have now been dispensed with, except those needed for the instruction of students in the training colleges. As the training colleges are not open for as long a period as are the schools, the physical instructors at the training colleges would also pay visits to the public schools. The reduced number of instructors enables us to recommend a reduction of £500 in the item.

Estimated saving, £500.

CHILD WELFARE.

265. We have been unable in the time at our disposal to deal yet with this part of the Department's activities.

TARANAKI SCHOLARSHIP ENDOWMENT.

266. The Opaku Reserve, consisting of 10,000 acres, was set aside in 1868 as an endowment for a colonial University. In 1905 the purpose of the endowment was changed, and the income was set aside for what were called "Taranaki Scholarships," tenable at University colleges. These scholarships were to be awarded to Taranaki candidates who succeeded in securing a place in the merit list at the University Entrance Scholarship Examinations. We find, however, that the income from the reserves has been more than sufficient to provide for the scholarships required as there are relatively few post-primary schools in Taranaki. We are of opinion that the Taranaki candidates are placed in a much more favourable position than University candidates in any other part of the Dominion in that these special scholarships are available in addition to the ordinary University scholarships. We consider that there is now no good reason why the revenue from the reserves, and the accumulated income which has not been used in the past, should not be paid to the Consolidated Fund as a set-off to the increasing cost of University education, including scholarships. The accumulated income amounts to approximately £28,000 and the annual income to £2,200, and we recommend that the law be amended to provide for the abolition of the reservation of the land for a particular purpose and for the accumulated funds and future revenue to be paid to the Consolidated Fund.

Immediate benefit to Consolidated Fund, £28,000.

FREE POST-PRIMARY EDUCATION.

267. We have given careful consideration to the extent to which the present system of free post-primary education has developed, and are of opinion that the cost of post-primary education has undoubtedly outgrown the ability of the country to pay.

268. We recognize that free post-primary education offers many advantages, but consider that the tendency has been for the State to assume too great a responsibility in this respect.

269. We believe that every possible opportunity should be afforded our young people who have the capacity and eagerness to absorb secondary education, but consider that they should be carefully selected upon individual merit and with due regard to any potential qualifications that they may possess. The view that all boys and girls should be encouraged to proceed from the primary to the secondary schools as a mere matter of course has prevailed to such an extent that to-day we find that there are many pupils in our secondary schools who have not the ability or aptitude to profit by the free but costly instruction which is being provided for them, and some who perhaps have the ability but are lacking in the desire to do so.

270. We recommend a more rigid system of examination for both junior and senior free places and a weeding-out of those who after a reasonable trial disclose that they are failing to benefit by their post-primary opportunity.

271. At the present time a junior-free-place holder may have free secondary education for two years or, in some cases, for three years, but in no case beyond the year in which he reaches the age of seventeen. If, at the end of his junior-free-place period, the pupil is qualified in the opinion of the Department to benefit by further education, he is awarded a senior free place, which is tenable until the end of the term in which he reaches the age of nineteen.

272. We recommend that the cumulative tenure of junior and senior free places should be reduced by two years, the free place terminating at the end of the year in which the pupil reaches the age of seventeen years. The more promising pupils would still be able to qualify for entrance to the University. The duration of free post-primary education would depend on the age at which the pupil qualifies to commence it, in other words, the younger he was at the age of qualifying the longer would the period be. We do not suggest any alteration in the period for the junior free place, and under our recommendation it would still be necessary for the pupil to qualify for a senior free place at the end of the second year, but if the restriction of age were imposed, as recommended, the effect would be not only to lessen the number of pupils holding free places, but to decrease the average length of the period during which such free places were held.

273. It is difficult to estimate the savings that would result if our recommendations were given effect to. There will be little definite saving for 1932-33, but, as far as can be judged, the savings should eventually approximate £30,000.

274. There is another avenue of economy, or rather a reduction in cost to the State, which we consider should be explored. We refer to certain classes in technical schools for which fees are charged, such as accountancy and trade classes. In both the fees are low, and it would not be unreasonable to increase them. We recommend an increase of 33½ per cent., and estimate that this would benefit the Consolidated Fund to the extent of £3,000.

SPECIAL CAPITATION FOR SEWING IN PRIMARY SCHOOLS.

275. At present the sum of £3,000 is expended by way of capitation to enable instruction in sewing to be given by part-time teachers in single-teacher country schools under the control of male teachers. This special capitation should be discontinued, and the necessary instruction given in the home, and we recommend accordingly.

Estimated saving, £3,000.

AGRICULTURAL INSTRUCTION.

276. We have reviewed the question of agricultural instruction and have come to the conclusion that little, if any, harm would result from the discontinuance of this class of instruction. There are twenty-two agricultural instructors and the salaries, travelling-expenses, and incidentals cost approximately £11,000 per annum. We recommend that three months' notice of intention to discontinue the instruction be given. The teachers have been largely responsible for the formation of what are known as "agricultural clubs." These have been formed in collaboration with the Instructors and Inspectors in the Agricultural Department, and the clubs should be able to function notwithstanding the fact that the agricultural instructors are dispensed with. All teachers passing through the training colleges receive instruction in elementary agriculture, and with the assistance of Inspectors of the Agriculture Department may be expected to carry on this special subject without assistance for the time being.

Estimated saving, £11,000.

MANUAL-TRAINING INSTRUCTION.

277. Instruction in woodwork and cookery is at present given to Forms I and II, corresponding to Standards V and VI. We are of opinion that in so far as Form I—*i.e.*, Standard V—is concerned the instruction might be discontinued, and this would save the salaries of a number of teachers and their travelling-expenses. We estimate that the grants to Boards for salaries, travelling-expenses, and incidentals would be reduced by £13,000. We have already recommended the closing-down of expensive manual-training centres, and the present recommendation is in addition to the saving which we estimate can be effected by the closing of those centres. We consider that the pupils of Form I can ultimately obtain instruction in handwork and cookery when they reach Form II, and later still when they commence their post-primary education.

Estimated saving, £13,000.

278. The economies suggested above are listed hereunder for the sake of clarity and convenience:—

	£
Closing of training colleges at Wellington and Dunedin	7,000
Allowances to training-college students (eventually reaching £90,000 per annum)	25,000
<i>School Journal</i>	7,000
Manual-training schools	5,000
Conveyance of school-children	50,000
Closing of smaller primary schools	12,600
Over-scale salaries paid to teachers	3,000
Administrative expenses: Abolition of Education Boards, &c.	50,000
Departmental staff	1,150
School Committees' allowances	10,000
Capitation allowances to Boards on account of secondary pupils in district high schools and for science classes in secondary schools	3,000
Special capitation for science classes in primary schools	6,000
Material for handwork in primary schools	1,000
Free books to primary-school children in necessitous cases	2,000
Capitation grants to Secondary-school Boards for incidental expenses	2,000
Incidental allowances to Technical-school Boards	5,000
Native-school scholarships	1,750
Maintenance of school-buildings	23,750
Special allowances to teachers	5,800
Salaries of female teachers in primary schools	75,000
Minimum age of admission to primary schools, raising of	11,000
Proficiency Examination, fees chargeable for	3,000
Other examinations, fees chargeable for	1,400
Travelling-expenses of physical instructors	500
Taranaki Scholarship Endowment, abolition of: Immediate benefit to Consolidated Fund	28,000
Free post-primary education (ultimate saving, £33,000)	3,000
Special capitation for sewing in primary schools	3,000
Agricultural instruction	11,000
Manual-training instruction	13,000
	£369,950

279. We have dealt at considerable length with the question of expenditure on education, but have had perforce to confine ourselves to those items of expenditure that appear to afford the greatest scope for economy.

280. We propose to examine in more detail the expenditure of the Education Department, and may have further recommendations to make in connection therewith in our final report. In the meantime we are convinced that the savings enumerated above can be effected without greatly impairing the efficiency of the system. The expenditure both per head of population and per pupil has grown at an alarming rate, and, if unchecked, will certainly continue to increase. As previously stated, however, the economies we have recommended, together with economies already brought into operation by the Government, will effect a very real saving when it is most needed, and at the same time will not place any undue obstacles in the way of the children of the Dominion receiving adequate education.

281. The following statement shows the effect of our recommendations on the budgetary position for 1932-33 :—

	Estimated saving. £	Total. £
Permanent appropriations—		
Civil List Act, 1920—Native purposes	7,000	
Debt services—Operation of Hoover moratorium	150,000	
Hospital and Charitable Institutions Act, 1926—Subsidies on voluntary bequests	15,000	
Education grants and subsidies—Subsidies on voluntary bequests	6,000	
Subsidy, Jubilee Institute for the Blind	2,500	
University bursaries	9,000	
Workers' extension lectures	1,800	
Subsidies and allowances, National Provident Fund—	£	
Subsidies on contributions	500	
Maternity allowances to contributors	7,000	
Maternity allowances for friendly societies	36,500	
	—————	44,000
Finance Act, 1925—General expenses, New Zealand Institute	350	
Fire Brigades Act, 1926—Subsidies	3,492	
Rotorua Borough Act, 1922—Payment portion bath fees	1,170	
Pensions—		
Family Allowances Act, 1926	121,000	
Pensions Act, 1926—		
Miners' pensions	6,200	
Miners' widows' pensions	6,000	
Military pensions (Maori War)	1,225	
Widows' pensions	95,000	
Old-age pensions	200,000	
War pensions—		
Economic	90,000	
Dependants' pensions	45,000	
Double pensions	30,000	
Epidemic pensions (Pensions Vote)	5,500	
	—————	599,925
Motor-taxation	500,000	
Finance Act, 1929—Advances to Native Land Settlement Account for loans to Natives	8,500	
Appropriation Act, 1925—Maintenance of overseas war graves	15,375	
Slaughtering and Inspection Act, 1908, and Stock Act, 1908—Compensation for diseased stock	29,500	
Public Revenues Act, 1926—Fire Insurance Fund	10,000	
Native Land Amendment and Native Land Claims Adjustment Act, 1928	3,610	
Public Revenues Act, 1926—Postage-stamps to members of both Houses	2,200	
	—————	1,409,422
Salaries and wages—		
Direct saving to Consolidated Fund	540,000	
Indirect saving through Railways and Post and Telegraph Department	624,000	
	—————	1,164,000
Annual appropriations—		
Legislative Department	32,890	
Education	369,950	
	—————	402,840
		—————
		£2,976,262

282. There are further contingent savings which may affect the position during 1932-33. These are—

	£
Contributions towards cost of Singapore Base	50,000
Pensions Act, 1926—Increase in duty on gold produced from quartz-mines	5,000
Naval defence	200,000
	—————
	£255,000

283. Further savings would not become wholly operative until 1933-34, and these are listed hereunder :—

	Estimated saving. £	Total. £
Pensions Act, 1926—		
Miners' widows' pensions (additional)	6,000	
War pensions (economic)	90,000	
	—————	96,000
Vote, Education—		
Allowances to Training College students	65,000	
Free post-primary education	30,000	
	—————	95,000
		—————
		£191,000
		—————

In the foregoing no account has been taken of—

- (a) The possible savings through the imposition of revenue-stamp duty on interest on the internal public debt :
- (b) The issue of a voluntary conversion loan at a lower rate of interest :
- (c) The abolition of the permanent appropriation for subsidy to the Unemployment Fund.

BUDGETARY CONTROL.

284. We feel that a more rigid system of control of public expenditure must be maintained. We cannot help being impressed with the continued increase in the cost of government under practically all headings. In our view, one reason to which this increase may be ascribed is the system which has been in vogue in the past of apparently first of all estimating the expenditure and then providing revenue to meet it. The various Departments must be told just how much money has been allocated to each, and to frame their proposals for expenditure accordingly. We believe it is only by strictly adhering to such a system that continued increases in the public expenditure and corresponding increases in taxation can be avoided.

CONCLUSION.

285. In the time at our disposal it has been quite impossible for us to examine in detail the whole of the public expenditure, but we have dealt with certain Departments which seemed to offer scope for considerable economies. In order to become effective, many of our recommendations, both as regards permanent charges and annual votes, will involve legislation. We shall, in the continuation of our inquiry, further review, if necessary, those Departments we have so far dealt with, and additional economies may be recommended later in regard to those Departments. We do not wish to give the impression that we have dealt finally with any class of expenditure.

286. In submitting these recommendations for reductions of expenditure we have proceeded on three general principles, which may be summarized here :—

- (1) The rise in the value of money in recent years makes a revision of money obligations both reasonable and necessary.
- (2) The existing position of the public finances makes it necessary for the State, no less than the individual, to consider seriously what it can afford, and not merely what is desirable. From this standpoint much expenditure is unwarrantable which in normal times might be permissible.
- (3) The trade and industry of the Dominion can be restored only by the strictest regard to economy.

287. We have endeavoured to frame our recommendations in accordance with these principles.

288. These were the principles adopted by the Committee on National Expenditure in Great Britain in 1931, and we cannot do better than quote hereunder an extract from the report of that Committee :—

“ Many of them ” [the recommendations] “ are clearly interdependent : even the more drastic will, we think, be accepted as fair if the whole programme be carried into effect. But if a policy of selection be adopted, if economies are only attempted where little opposition is anticipated, if certain classes are called upon in the national interest to suffer serious reduction of emoluments while large unprofitable expenditure goes on unchecked in other fields, resentment and opposition will be aroused and the eventual result in savings will be negligible.”

289. The foregoing aptly expresses our views, and we are convinced that there is no reasonable alternative to the reductions we have recommended.

290. This report we have the honour respectfully to submit for the consideration of Your Excellency, in obedience to the Commission addressed to us.

291. Given under our hands, this eighth day of March, one thousand nine hundred and thirty-two.

G. SHIRTCLIFFE, Chairman.	}	Members.
J. J. ESSON		
A. MACINTOSH*		
JAMES BEGG†		
J. L. GRIFFIN†		

* Subject to addendum by Mr. A. Macintosh.

† Subject to reservation by Mr. Begg and Mr. Griffin.

ADDENDUM BY MR. MACINTOSH.

292. In agreeing to that portion of the report relating to "fixed incomes," I do so for the sole reason that the urgent necessity to obtain relief for the Consolidated Fund demands the sacrifice involved, but on the question of principle I wish, however, to make my position perfectly clear. To assume that, in appending my name to this report, I approve of the principle involved in this particular form of taxation would be entirely wrong. I am decidedly opposed to such a tax—at all events, to the extortionate extent of 20 per cent., or 4s. in the pound, recommended by the Economists Committee. This, if made permanent—a not unlikely event, having regard to various forms of taxation imposed in recent years heralded as "temporary" and still in force—would prove an intolerable burden.

293. In my view, a tax of this description must be regarded as possessing all the elements of confiscation, and is justified only—if the plea of justification can in such case be appropriately urged—by expediency and the exigencies of the situation. A tax of this nature, wrong in principle, would undoubtedly inflict lasting injury on the credit and good name of the Dominion, and would press with undue severity on many people of moderate means who have, in all good faith, invested their hard-earned savings in securities issued by the State, the interest on which constitutes their main—if not their only—source of income. To this burden must be added the loss to be incurred by depreciation of holdings, the inevitable consequence of reduced interest. Under such a staggering double blow the euphonious phrase "equality of sacrifice" is quite out of place.

294. Reference has been made in the main report to an alternative method of replenishing the Treasury—viz., a voluntary conversion loan. This is equally open to objection, for various reasons. The proposal (in effect an effort to compromise with creditors—an act of bankruptcy)—postulates a unanimous response. Failure to reach this important objective must end in abandonment, or in the coercion of a minority or conceivably a majority, as the case may be; consequently grave injury to the public credit would result. The use of the term "voluntary" in this connection and in such circumstances would be merely a pretence.

A. MACINTOSH.

RESERVATION BY MR. BEGG AND MR. GRIFFIN.

FIXED INCOMES.

295. We desire to dissociate ourselves from this portion of the main report. While we are in agreement with much of what has been stated in the report under this heading, and particularly with the stated object of securing some general basis of adjustment applicable to all classes alike, we do not agree with all the conclusions which have been drawn, nor do we think that the proposals set out therein will fully or speedily achieve the object in view.

296. We have, however, thought it preferable to embody our views in a supplementary report rather than to express our agreement or disagreement with the different paragraphs of this section of the interim report.

REDUCTIONS OF INTEREST AND RENT.

297. The portion of the public debt domiciled in New Zealand amounts to £115,014,738, made up as follows:—

Rates of Interest.	Public.	Departmental.	Total.
	£	£	£
3 per cent.	4,810	..	4,810
3 $\frac{1}{8}$	4,041	2,593,600	2,597,641
3 $\frac{3}{4}$ .. .. .	..	917,500	917,500
4	400,039	34,969,321	35,369,360
4 $\frac{1}{2}$	30,370,127	6,907,404	37,277,531
5	1,173,600	1,288,030	2,461,630
5 $\frac{1}{8}$	2,388,260	1,510,190	3,898,450
5 $\frac{1}{4}$	5,897,430	3,785,600	9,683,030
5 $\frac{1}{2}$	21,476,565	1,298,850	22,775,415
6	29,011	..	29,011
	61,743,883	53,270,495	115,014,378

The annual interest charge on the above debt is—	£
On securities free of income-tax	1,423,999
On other securities	3,879,357
Total	<u>£5,303,356</u>

298. We are of opinion that in view of the gravity of the present situation an appeal might well be made to investors to convert their Government securities into loans carrying a reduced rate of interest. The successful completion of a conversion loan would probably take some months, but the

only alternative which would provide immediate relief to the Consolidated Fund appears to be some form of special taxation of income from investments. This might perhaps take the form of a stamp duty on interest from Government securities. We see practical difficulties in the equitable application of such a tax to *all* classes of income from investments.

299. The imposition of special taxation on incomes from investments has, we think, the defect that it would fail to bring about a reduction in the general interest-level. Indeed, the imposition of such additional taxation might have the reverse effect, and would, in any case, retard a general fall. In most industries interest forms a substantial item of cost, and reduced rates would give some relief. Reduced interest-rates would, moreover, be accepted by the community as more in keeping with reduced wages and salaries than would mere increases in taxation. We are also strongly of the opinion that special taxation on income from one particular class of investment would be inequitable and unjust. Its only merit appears to be that in the unlikely event of a return of the price-levels of a few years ago the tax could be removed or reduced; but, as all authorities appear to agree that such levels cannot in any case be expected for many years, the reduced rate is unlikely to become an unjust rate.

300. We therefore recommend that an early opportunity be taken of conferring with representatives of leading financial institutions, brokers, &c., with a view to launching a conversion scheme on the basis of a reduction of interest by 20 per cent., but so that in no case should the rate of interest be reduced below 4 per cent., in the case of loans the income from which is subject to taxation, or below £3 12s. per cent.—*i.e.*, 4½ per cent., less 20 per cent.—in the case of loans the income from which is free from income-tax. We consider, also, that an option should be given to the holders of tax-free loans to convert into taxable loans at a premium or suitably increased rate of interest.

301. If such an appeal be made, and if it be preceded by a full statement of the financial position of the Dominion, and, in particular, of the budgetary position for 1932–33, we consider that a successful result may be anticipated. We would add that, if a conversion scheme be decided upon, advantage should be taken of the occasion to arrange suitable maturity dates in order to eliminate problems of conversions for some years to come.

302. If such a conversion scheme can be brought to a successful conclusion, the annual *gross* saving in interest is estimated at £730,089.

303. There are, however, other aspects of the problem which must be considered, particularly the question of interest on loans from State lending Departments. Any reductions which are brought about in the interest-rate paid by the Government must lead to the consideration of reductions to those who have borrowed from State lending Departments. For the purpose of arriving at an estimate of the probable annual net saving to the Government we have assumed a reduction of 20 per cent., in the rate of interest payable on loans from State lending Departments, with the proviso that in no case shall the resultant rate of interest be lower than 5 per cent. On this basis the loss to the State lending Departments is estimated to be as follows:—

	£
State Advances Office	224,658
Lands and Survey Department	31,732
	<hr/>
	£256,390
	<hr/> <hr/>

304. In addition losses would be incurred by the following Departments:—

Government Life Insurance Office.
State Fire Insurance Office.
Public Trust Office.
Native Trust Office.

305. In our opinion, such losses should be absorbed by these Departments, and should not become a charge against the Consolidated Fund.

306. There are further effects which must also be taken into account. We refer particularly to losses of interest which would be incurred in respect of investments of certain funds. These losses we estimate as follows:—

	£
Public Debt Redemption Fund	50,000
National Provident Fund	18,128
Teachers' Superannuation Fund	9,393
Government Railways Superannuation Fund	10,529
Public Service Superannuation Fund	22,502
	<hr/>
	£110,552
	<hr/> <hr/>

307. The interest earned by the Public Debt Redemption Fund is credited direct to the Consolidated Fund, so that any reduction in the amount must fall directly on that fund, which could obtain no corresponding reduction in the amount of its annual contribution for debt repayment.

308. The estimated loss in connection with investments of the National Provident Fund could not, we think, be absorbed by that fund.

309. In the case of the three superannuation funds, the reports disclose that they are actuarially unsound. Any loss of interest on investments must, therefore, ultimately fall on the Consolidated Fund.

310. Another aspect to which we should draw attention is the large amount of the public debt held by State Departments, principally the Post Office, State Fire Office, Public Trust Office, Government Life Insurance Office, and various Treasury accounts. The amount of the debt so held is £53,270,000. Of this the Post Office holds £46,046,000, of which, however, £37,911,000 bears

interest at 4 per cent. or less. The reduction suggested would, therefore, affect only £8,135,000 of the debt so held. The loss in interest on this amount would be reflected in reduced Post Office profits (subject, however, to any saving which might be effected by a reduction in the rate of interest paid to depositors), and, as Post Office profits are paid into the Consolidated Fund, the reduction would, in effect, be a charge on that fund.

311. We consider that any losses of interest on public debt held by the Public Trust Office, the Government Life Insurance Office, and the State Fire Insurance Office should be absorbed by the respective Departments.

312. The amount of the debt held by Treasury accounts is relatively small, and need not be separately considered.

313. We estimate the net saving to the Consolidated Fund at £308,507, made up as follows:—

	£	£
Gross saving as set out above		730,089
Less losses—		
State Advances Office	224,658	
Lands and Survey Department	31,372	
Public Debt Redemption Fund	50,000	
National Provident Fund	18,128	
Teachers' Superannuation Fund	9,393	
Government Railways Superannuation Fund	10,529	
Public Service Superannuation Fund	22,502	
Post Office	55,000	
	421,582	
Net saving		£308,507

314. Against the above annual saving of £308,507 has to be set the cost of conversion, which would admittedly be considerable, but which should be reduced to a minimum by an appeal to bankers, brokers, and the bondholders themselves. There would also, we think, be some loss, difficult to estimate, in income-tax.

315. It may be open to doubt whether it is strictly within our order of reference to make recommendations regarding reductions in rates of interest not affecting Government expenditure, but our previous recommendations have so great a bearing on this question that we feel we should be failing in our duty were we to omit all reference to the matter. We have in earlier sections of the report been compelled by the urgency of the situation confronting us to recommend reductions in salaries and wages, and we believe that similar reductions will be suffered by private and local-body employees. In many cases the incomes of those affected directly and indirectly by the reductions recommended in the case of salaries, wages, and pensions are subject to fixed charges in the form of interest and rent. Every member of the community must be prepared to accept a share of the burden, and we deem it our duty to suggest that the reductions in salaries, wages, and pensions should be accompanied by reductions in interest and rent charges.

316. Equality of sacrifice must be aimed at as far as possible, and for this reason, if for no other, consideration might be given, concurrently with the consideration of a conversion scheme, to the possibility of effecting by legislation a reduction of, say, 20 per cent. in the rate of interest on mortgages, debentures, deposits, dividends from preference shares, and other classes of securities, including local-body loans domiciled in New Zealand (unless a conversion scheme is arranged in the case of the latter). Provision would require to be made not only for cases of hardship, but also for suitable minimum rates and for making allowances for reductions which have, on account of the existing depression, been effected since, say, the 1st January, 1931. We are aware that adjustments as between mortgagees and mortgagors are being made daily, but feel that a general reduction such as is contemplated cannot safely be left to natural economic forces to bring about. Such a policy would be too slow in operation, and would not result in an equitable all-round adjustment.

317. Finally, we stress our opinion that a reduction in the effective net rate of interest received by investors in Government and local-body securities, whether such reduction be effected by special taxation or otherwise, would be inequitable if unaccompanied by a similar reduction in the case of other investors.

318. We make these suggestions with a due appreciation of the seriousness of further interference with contracts and of the fact that any such interference is invariably followed by a train of anomalies. Changes in the value of money during the past fifteen years have undermined the basis of contracts. The result of these changes is that strict enforcement of the terms of contracts now involves, in many cases, far greater injustice than would be involved in moderate adjustments.

JAMES BEGG.
J. L. GRIFFIN.

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