

of export producers would be increased and the degree of adjustment required in all prices, wages, incomes, and fixed charges would be greater. The higher the money value of the national income the lower is the loss and the less the magnitude of the adjustments to be made.

SECTION V.—GENERAL EFFECTS OF THE DEPRESSION ON PUBLIC FINANCE.

30. The depression found New Zealand public finance, like that of other debtor countries, in a condition ill fitted to withstand any severe shock. For years past the volume of taxation, expenditure, and debt, both State and local, had been expanding, until by 1929 they had reached levels which imposed severe burdens even in times of abundant prosperity. The following tables summarize the changes since 1914 :—

Post-war
Movement in
Public Finance.

TABLE 3.—TAXATION AND RATES.

Year ended March,	State.			Local Body.		
	Total.	Per Head.			Total.	Per Head.
	£ m.	£	s.	d.	£ m.	£ s. d.
1914	5.9	5	5	2	2.3	1 18 10
1929	17.8	12	4	3	6.3	4 6 11
1930	19.5	13	3	7	6.5	4 8 7
1931	18.9	12	12	1	..	..

TABLE 4.—PUBLIC DEBTS.

Year ended March,	State.			Local Body.		
	Total.	Per Head.			Total.	Per Head.
	£ m.	£	s.	d.	£ m.	£ s. d.
1914	99.7	87	10	2	23.8	20 17 3
1929	264.2	179	12	10	69.3	47 2 4
1930	267.4	179	12	5	71.2	47 16 8
1931	276.0	182	13	10	..	..

31. Allowing for a duplication of £7 m. lent to local bodies by State Departments, the total debt in 1931 was not less than £340 m. and the debt per head at least £220 State and local-body taxation combined amounted to over £25 m., or nearly £16 per head, being probably one-sixth of the total national income. This heavy burden of taxation and rates was a factor in maintaining costs at levels that hampered industry. High costs were a direct cause of unemployment, which, in turn, demanded even higher public expenditure, and consequently higher taxation and rates. A further weakness lay in the fact that a high proportion of the expenditure consisted of fixed charges, while on the revenue side the greater part of the income was very sensitive to changes in the taxpayers' prosperity, and was likely to decline heavily in time of depression.

Increases in Debt,
Expenditure, and
Taxation.

32. Out of total expenditure from the Consolidated Fund of £24.7 m. in 1930-31, £11 m. was for debt service, and a further £6 m. was included in permanent appropriations, which left the amount subject to annual vote, and therefore more readily reducible, approximately £7.5 m. Of the revenue, 43 per cent. was from Customs, which depended on imports. But imports normally expand and decline following upon similar changes in exports and in public borrowing abroad. The depression of prices has meant not only a drastic reduction in exports and imports, but also a reduction of public borrowing abroad, which has further decreased imports. Moreover, the decline tends to be heavy in semi-luxury items on which taxation is highest, so that the yield of Customs while duties are unchanged may decline even more than imports. The remainder of the taxes—income-tax (21 per cent.), death duties (9.5 per cent.), land-tax, totalizator-taxes, &c.—were directly or indirectly dependent largely on the profits of industry and endeavour, and the bulk of them were graduated. Since depression hits profits first, the decline in revenue from such taxes is likely to be much steeper and heavier than the decline in national income. Interest-earning assets, too, were represented largely by advances to farmers and others and by capital invested in transport, &c. All these sources have suffered heavily, and a decline in this revenue is inevitable.

Analysis of
Expenditure and
Revenue.

33. As the result of falling export prices, reduced overseas borrowing, and the consequent depression, the Dominion's national income has been reduced, between 1928-29 and 1931-32 by round about 27 per cent. But the decrease in taxable capacity

Revenue and
National Income