

has been far greater. For taxable capacity consists not of the total income, but of the surplus of income above the bare necessities of production and of living, and this surplus has suffered a reduction much greater than the total income of the country. This is illustrated by the drastic change in the Budgets for 1931–32. With the total Consolidated Fund expenditure under £25 m. in 1930–31, a prospective deficit of £6·8 m. estimated for 1931–32 had to be covered. In the supplementary budget issued in September a further £1·6 m. had to be provided for. Even with the adjustments made to cover these prospective deficits, the expenditure for the year 1931–32 is likely to exceed revenue by a substantial amount. A factor contributing largely to this position is the new expenditure imposed upon the Consolidated Fund for unemployment relief.

Burden of Fixed Charges.

34. A further effect of depression is found in the increased burden of fixed charges on the real income of the community in times of falling prices. It is commonly stated, and is roughly true, that in recent years of high prices the returns from New Zealand wool exports have been sufficient to pay the overseas interest bill twice over. In 1930–31 and 1931–32 the proceeds of a similar volume of wool exports would pay only about half of the interest bill. Expressed more precisely in terms of average exports of all kind, whereas 1,000 units of exports paid for certain amounts due as overseas interest in 1928–29, 1,600 units were required in 1930–31, and 1,630 units were required in 1931–32 to pay the same amounts. The fall in export prices during the past two years has therefore meant an increase of 60 per cent. in the burden of the national debt held abroad, and this extra burden of interest can be reduced only by an upward movement of export prices, or by conversion at lower rates. Similar reasoning can be applied to locally held debt, but the increase in burden is less because internal prices have as yet fallen much less heavily than export prices.

35. Over recent years the burden of interest payments on the taxpayer has been increasing in four separate ways, which are cumulative in their effects. This burden has increased—

- (i) By the rapid increase of debt :
- (ii) By renewals of debt at higher rates of interest not wholly offset by other renewals at lower rates :
- (iii) By the declining interest-earning capacity of public works, due in part to the recent expenditure of heavy sums on new works which fail to meet their interest bill :
- (iv) By the fall in prices, which means that more produce must be sold to meet the interest bill.

Local-body Finance.

36. In local-body finance also problems similar in nature though as yet less in degree, occur when prices fall. Revenue is likely to fall off and to be increasingly difficult to collect. Earning assets find their income decreasing, while their fixed charges remain rigid. The field of reducible expenditure is found to be limited, while the demand for expenditure on social relief increases. Thus, while the ratepayers' capacity is reduced by depression, it is often found difficult to reduce rates, especially where debt is heavy ; and, as prices rise and incomes are reduced, the real burden of rates is increased.

Position of the Taxpayer.

37. In times of depression, when much public attention is directed to public finance, it is apt to be forgotten that the average individual taxpayer faces difficulties similar to those of the taxing authorities. The State, the local body, and the taxpayer alike find themselves obliged to meet fixed charges out of reduced incomes. If the price level and the national income are reduced more than taxation and rates are reduced, then the average taxpayer finds that he has to bear not only the burden and difficulties imposed on him by the general cut in his own income, but also the additional burden imposed by the taxing authority, which takes perhaps a less amount, but still a greater proportion, of that reduced income. This extra burden is well illustrated in New Zealand, where in 1928–29 from an estimated national income of £150 m. the State and local bodies took £24 m. in taxation, or 16 per cent. In 1931–32 the national income is estimated to total £110 m., and the average taxpayers' income has been reduced in proportion—that is, by 26 per cent. But State and local taxation budgeted for sums amounting roughly to £26 m., which is nearly 25 per cent. of the national income. The difficulty found in realizing such Budget estimates suggests that the limit of taxable capacity is very near.

SECTION VI.—THE BUDGET DEFICIT.

The Budgetary Problem.

38. The fall in national income has already made serious inroads on the public revenues. They will be even more serious for 1932–33. On the expenditure side the provision for unemployment and for exchange on the external debt is increasing the total expenditure. This has already become evident and will be more pronounced in 1932–33. This critical situation was brought about by the fall in national income and the necessary increase in expenditure to provide relief.