before the year was out it was realized that this was insufficient, and measures were taken to cope with a total shrinkage of £6,060,000. Even so, the year ended with a deficit of £2,140,000, bringing the aggregate shortage for the year up to the huge amount of £8,200,000, equal to about one-third of a normal year's revenue.

The magnitude of the emergency was not generally realized at the time, but looking back now when the situation that existed can be viewed in a better perspective it will, I think, be generally agreed that the heavy reductions in expenditure and the additional burdens imposed upon taxpayers at a time when they could ill afford them were necessary to keep the financial position from getting out of hand. The experience of some other countries shows how far-reaching and disastrous are the effects of a national budget out of control.

As a result of the stern measures adopted we have regained budgetary stability without a legacy of accumulated debt, which is a point that will doubtless be noted with envy by some of our less fortunate neighbours. It is true that accumulated deficits to the extent of about £1,000,000 remain, but it may be mentioned that these deficits accrued after making provision for the statutory scheme of debt-repayment. As a result, the public debt as at 31st March last was £1,360,000 less than it was at 31st March, 1932.

TREASURY BILLS.

Treasury bills.

As will be seen from the public accounts, Treasury bill transactions during the year were large, but for the most part these transactions consisted of renewals of £19,404,872 of bills issued under the Banks Indemnity (Exchange) Act outstanding as at the 31st March, 1934. New issues of bills under this Act between that date and the 31st July, 1934, when the buying of surplus exchange from the trading banks ceased, amounted to £7,247,750. All of these bills, amounting in the aggregate to £26,652,622 per annum, were redeemed. Notwithstanding the explanations previously made, it would appear that many people do not understand how these redemptions were effected. The amount involved was large, but otherwise there was nothing extraordinary about the transactions. Prior to the establishment of the Reserve Bank the position was that the Treasury bills in New Zealand were covered by liquid assets in London purchased with those Treasury bills; that is to say, the Government took over the surplus sterling in London and for the most part gave Treasury bills to the banks in New Zealand in payment for the same. After the establishment of the Reserve Bank, £20,229,700 of the sterling funds were transferred to New Zealand at the current rate of exchange in exactly the same manner as a private individual owning, say, £1,000 in London, might remit the same to New Zealand and use the local credit of £1,000 plus exchange to pay off a debt. The New Zealand credit received from the £20,229,700 sterling transferred through the Reserve Bank was £25,084,828, and this amount, with other funds then held, was sufficient to pay off all the bills outstanding at the time.

Revenue bills to the amount of £3,452,109 were carried forward from 1933–34, and during last financial year further accommodation was received up to a maximum of £6,917,022, of which £245,000 was obtained from the banks and £6,672,022 from Government accounts and the public. The bills issued had a currency not exceeding three months, and were discounted at rates ranging from 1 per cent. to 3 per cent. in the case of bills taken up by Government accounts and the public, and 5 per cent. in the case of bills issued to the banks.

Bills redeemed.

All such bills were repaid before the year closed; thus no revenue bills were outstanding on the 31st March last.

As a result of all these operations the floating debt, which amounted to £22,856,981 at 31st March, 1934, was extinguished. There is, however, a sum of £3,850,000 outstanding under a deed of hypothecation entered into under an arrangement for liquidating reserves invested in discharged-soldiers-settlement securities. This is held departmentally and in any case is not part of the public debt in the ordinary sense of the term.

Public debt.

PUBLIC DEBT.

While effecting this huge reduction in floating debt, the net increase in the long-term debt during last financial year was kept down to the relatively small amount of £646,202.