

*Official History of New Zealand
in the Second World War 1939-45*

Preface

THE
NEW ZEALAND PEOPLE
AT WAR

WAR ECONOMY

by

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WAR ECONOMY

WAR EXPENSES ACCOUNT

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War Expenses Account

In September 1939 the War Expenses Act authorised the initial wartime measures to increase Government revenue, and established the War Expenses Account. In introducing the Bill Mr Nash said:²

'It is worthwhile, however, emphasising that the Bill establishes in itself a major principle, that major principle being the complete isolation of war accounts, both revenue and expenditure. The source of the money and how it is expended will be seen in one account, which ultimately will come before Parliament for analysis, criticism, or approval.'

In speaking on the Bill in the Legislative Council the Hon. W. Perry said:³

'We must all realise that as time goes on much heavier taxes than are contemplated by the Bill will be imposed on the people of this country, and will, I know, be borne by the people for the purpose of prosecuting the war to a successful conclusion.... I observe that power is given to the Minister of Finance to borrow £10,000,000. It has been said that the £10,000,000, or a substantial portion of it, may be borrowed from the Reserve Bank. If that be so, then that inevitably must lead to inflation, a principle with which I, for one, thoroughly disagree. If money is to be borrowed to the extent of £10,000,000 or £50,000,000 for the purpose of prosecuting this war then let it not be borrowed from the Reserve Bank with resultant inflation, but let it be borrowed, if necessary compulsorily, from the people who have it, whether they have it in large amounts or small amounts. I hope that, so far as is humanly possible, this war will be financed as far as New Zealand is concerned out of revenue.'

On pages 253–5 there appears a classification of war expenditure year by year and of the sources of funds for war purposes, as recorded in War Expenses Account.

² NZPD, Vol. 256, p. 363.

³ Ibid., p. 423.

¹ Detailed analysis is not available for early years.

² Expenditure from 29 September 1939 to 31 March 1940.

⁵ Credit.



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NEW ZEALAND WAR EXPENSES ACCOUNT								
EXPENDITURE ¹								
	1939- 40 ²	1940- 41	1941- 42	1942- 43	1943- 44	1944- 45	1945- 46	From inception to 31/3/46
NAVY	£ (000)	£(000)	£(000)	£(000)	£(000)	£(000)	£(000)	£(000)
Pay and allowances		3,688			2,179	2,651	3,527	12,045
Accommodation, clothing and victualling		949			704	432	561	2,646
War and other stores		4,634			2,119	1,239	183	8,175
Lands, buildings and ships		3,167			2,109	714	745	6,735
Other		3,747			1,137	1,603	998	7,485
Total, Navy	902	2,109	4,628	8,546	8,248	6,639	6,014	37,086
ARMY								
Pay and allowances		49,015			30,628	23,137	23,184	125,964
Accommodation, clothing and victualling		15,056			3,922	2,665	2,399	24,042
War and other stores		55,556			34,602	20,358	-7,022 ⁵	103,494
Lands, buildings and fortifications		8,536			1,925	695	308	11,464
Other		13,097			7,010	4,114	5,149	29,370
Total, Army	3,573	17,249	31,539	88,899	78,087	50,969	24,018	294,334
AIR FORCE								
Pay and allowances		8,231			10,988	10,452	9,298	38,969
Accommodation, clothing and victualling		3,184			2,589	2,127	1,596	9,496
War and other stores		13,051			15,352	18,223	15,515	62,141
Lands, aerodromes and other buildings		10,110			3,019	958	485	14,572
Other		11,483			1,806	1,523	5,228	20,040
Total, Air Force	2,596	7,488	11,716	24,259	33,754	33,283	32,122	145,218

CIVIL	£	£(000)	£(000)	£(000)	£(000)	£(000)	£(000)	£(000)
	(000)							
Subsidies to primary producers			838		1,420	2,460	1,498	6,216
Subsidies for stabilisation purposes			935		1,422	2,559	3,033	7,949
Other			17,967		5,018	-129 ⁵	-2,891 ⁵	19,965
Total, Civil	35	278	4,494	14,933	7,860	4,890	1,640	34,130
OTHER								
Rehabilitation			75		544	1,243	2,573	4,435
Reciprocal Aid—Reverse Lend-Lease				6,986	24,453	26,735	22,778	80,952
Gratuities							18,000	18,000
Aeroplane fund	95	68						163
Amortisation of debt	3,648	7,351	241		10,216	6,250	27,500	55,206
Total, Other	3,743	7,419	7,302	35,213	34,228	70,851	158,756	
TOTAL	7,106	30,867⁴	59,796	143,939	163,162	130,009	134,645	669,524
EXPENDITURE ³								

⁵ Credit.

⁵ Credit.

³ Including amortisation payments.

⁴ In some statements of War Expenses Account the total expenditure for 1940–41 is shown as £31·6 million, and for all years up to 31 March 1946 as £670·3 million.

NEW ZEALAND WAR EXPENSES ACCOUNT								
RECEIPTS								
	1939- 40	1940- 41	1941- 42	1942- 43	1943- 44	1944- 45	1945- 46	From inception to 31/3/46
	£ (000)	£(000)	£(000)	£(000)	£(000)	£(000)	£(000)	£(000)
Loans ⁶	3,086	18,152	31,767	78,041	72,755	54,418	37,183	295,402
War Taxation	2,182	15,745	21,937	39,556	45,444	48,733	51,417	225,014
Transfers from Consolidated Fund	2,288		3,226	3,172	11,700	6,200		26,586
Disposal of surplus assets						3,479	11,270	14,749
Miscellaneous receipts	304	488	3,918	28	92	1,442	1,337	7,609
Rehabilitation donations and repayments				7	28	118	368	521
Aeroplane Fund		157	6					163
Fijian Government Contribution			51	118				169
Reciprocal Aid—Lend- Lease				26,813	32,478	24,248	21,030	104,569
Canadian Mutual Aid						297	5,806	6,103
Transfer of profits from Marketing Pool Accounts				218	43	47	69	377
TOTAL	7,860	34,542	60,905	147,953	162,540	138,982	128,480	681,262

⁶ Including £53 million of the monies paid overseas on New Zealand's behalf by the United Kingdom, and progressively repaid.

In the financial year 1938-39 the Government had spent £3 million on defence, but this was more than doubled in the first year of war. Expenditure through War Expenses Account then increased by tremendous leaps to a peak of £163 million in 1943-44.

Because of the inclusion of loan repayments, and for other less important reasons, expenditure through War Expenses Account is not a precise measure of the cost of war. However, it does give a reasonable first general impression of the increasing proportion of the national output which was diverted to war purposes.

Chart 54 shows the proportions of national output used for war purposes.

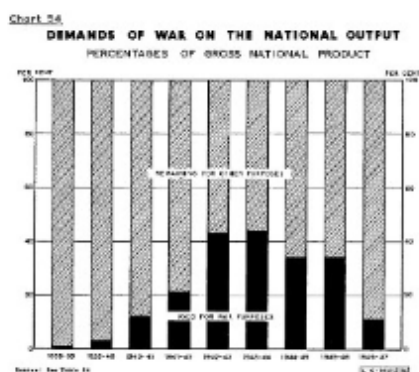


Chart 54
DEMANDS OF WAR ON THE NATIONAL OUTPUT
PERCENTAGES OF GROSS NATIONAL PRODUCT

The mounting pressure on national resources in 1940-41 and 1941-42 shows clearly in this chart, and the jump to well over two-fifths of national output for war purposes in the two most difficult years, 1942-43 and 1943-44.

War Expenses Account gives, also, a general impression of the main items of the cost of war and of the means of raising the necessary revenue. The table which follows excludes loan repayments but otherwise shows, by items, the total of payments through War Expenses Account for the years 1939-40 to 1945-46.

THE COST OF WAR ¹	
Totals up to 31/3/1946	
<i>Navy, Army and Air Force</i>	£(m)
Pay and allowances and gratuities	195
Accommodation, clothing and victualling	36
War and other stores	173
Land, buildings, ships, fortifications, and aerodromes	33
Other	57
<i>Reciprocal Aid</i>	
Reverse Lend-Lease	81
<i>Subsidies</i> ²	
To primary producers and for stabilisation purposes	14
<i>Other Items</i>	
Miscellaneous expenses and rehabilitation	25
	—
	615 ³

The five items under the heading *Navy, Army and Air Force*, totalling £494 million, were obviously genuine costs of war, as was most of the sum of £25 million under miscellaneous expenses and rehabilitation. The £81 million of *Reciprocal Aid* may appear doubtful, because it was required by Lend-Lease aid received from the United States. On the other hand, this £81 million of expenditure by New Zealand represented a diversion of her own resources to war purposes, and must be regarded as a cost of war, even though the assistance received from the United States enabled New Zealand's war effort to be larger and more effective than would otherwise have been possible.

The £14 million cost of subsidies charged to War Expenses Account was not strictly a cost of war to the nation, because it was a transfer payment back from the Government to the private sector of the economy. However, it was a cost incurred by the Government as a result of the war and, unlike the loan repayments which have been excluded from this table, did not reduce the Government's indebtedness. It is therefore included in this first assessment of war costs; but later in this chapter in the national income type of analysis, which is concerned with the provision of goods and services, and their use, the £14 million of subsidy payments is excluded. Incidentally, the £14 million did not cover all subsidy payments. For example, some were charged to the farm produce stabilisation accounts.⁴

¹ A rearrangement of expenditure items in War Expenses Account.

² This item does not include all subsidies paid during the war.

³ A further £55 million was provided from War Expenses Account for amortisation of debt, bringing the total recorded expenditure to £670 million.

⁴ See also Chapter 12.

The years 1939–40 to 1942–43 required rapid, and at times painful, readjustments of national patterns of expenditure. The proportion of the national product required for war rose from 1 per cent in 1938–39 to 44 per cent in 1943–44.¹ Until 1945–46 more than one-third of all goods and services would be required to meet the costs of war.

¹ As recorded in the unadjusted War Expenses Account figures.
