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CHAPTER II.

PUBLIC FINANCE (1859-1884).

Importance of Sound Finance.—A Great Colony Starts upon a Bank Overdraft.—First Year's Revenue.—Land Sales as Revenue.—Deficits in First Decade.—Transfer of Loan Moneys to Revenue to Balance Accounts.—Heavy Public Works Expenditure.—Crisis of 1866.—Inconvertible Paper Currency Proposals.—Flotation of Treasury Bills.—Higher Customs Duties.—Wiping Out a Deficit by Issue of Debentures.—Transfer of Surplus to Surplus Revenue Account to Recoup Loan Fund.—Incidental Protection.—Railway Land Reserves.—Proceeds Used as Ordinary Revenue.—Three-million Loan.—Condition of Affairs at Close of First Quarter-Century.—Phenomenal Progress; Prospects Bright.

Sound finance is the sheet anchor of any Government, whether despotic or democratic. Without a prudent guiding hand at the Treasury the ship of State might as well be rudderless. In the fifty years of Queensland history financial mistakes have been made, from which much public loss as well as individual suffering has resulted. If those mistakes, or some of them, are laid bare in this book, the object is not to reflect upon Governments or individual Ministers, but to treasure the lessons thus taught for future use.

Queensland began its career with a bank overdraft, for with "7½d. in the Treasury" on the date of the Queen's proclamation of the colony it was necessary to provide funds in anticipation of revenue collections. But at the outset borrowing was indulged in on a modest scale. For 1860 the revenue was £178,589, and the deficit only £1,514. For the second year there was a revenue surplus of £2,442 over the expenditure of £235,796. But there had been during the period an outlay of £63,210 on loan account. Besides this, of the total revenue for the two-year period—including the twenty-one days of 1859—the cash receipts from land sales, which strict political economists hold to be capital, were £114,803, equal to 27 per cent. of the total revenue. It may be assumed that the loan expenditure was entirely for permanent or reproductive works; but only 73 per cent. of the money spent for the service of the year was strictly revenue, the remainder arising from land sales. Yet as New South Wales practice had lent sanction to the use of land sales receipts as revenue, the Treasurer (Mr. R. R. Mackenzie) may be admitted to have managed well, since at the outset the estimates of revenue and expenditure were both wholly conjectural. Mr. Mackenzie's successors were less fortunate; for during
the first decade, although the annual revenue had quadrupled, there were only two years with surpluses.

There was another scarcely defensible transaction during the first ten years' term. In 1864 the Treasurer, finding he would otherwise have a relatively heavy deficit, balanced his budget by transferring from Loan Fund to Revenue the total expenditure incurred upon migration since the foundation of the colony. In that year the loan outlay was £401,421, including the transfer to revenue, an increase of £337,950 in a single year. Thus the loan expenditure was at the rate of about £5 10s. per head of the population as ascertained by the census of the year. The deficit of 1864 seems less excusable because the revenue had increased by over 25 per cent. for the year. The incident illustrates the danger of suddenly increasing loan expenditure, which produces industrial and commercial activity, but at once adds to the cost of public administration in various ways. Loan money spent on the same scale per capita in Queensland to-day as in 1864 would mean a total sum of about £3,000,000 a year, whereas, even with the numerous railways lately started, the loan disbursements for 1908-9 did not quite reach 1¼ millions. Another consideration is that up to 1865 none of the loan works had become reproductive, and the 21¼ miles of railway then open for traffic did not earn working expenses. Further, the Government had been borrowing at 6 per cent. interest, which meant that the 1¼ millions of loan indebtedness at the end of 1865 imposed a burden upon the taxpayers of about £75,000 a year, or not far from £1 per head of the population.

In 1866, the time of the great crisis, the revenue expenditure increased by £241,600, creating a deficit of £200,653 for the year. The loan expenditure for the year was £965,346, bringing the total debt up to £2,214,123, equal to over £23 per head of the population. The total expenditure for the year, including loan, reached nearly £17 per head. It is not surprising that a mere handful of people, plunging into expenditure for the moment the very foundations of authority; and had not Mr. Herbert's services been available on the eve of his departure for England the consequences might have been grave indeed. But he consented to take office without portfolio for a few days with several other members, and, by getting authority from Parliament to issue inconvertible legal tender notes, because it gave countenance to the economic fallacy that any Government can make money to an indefinable amount with the aid of the printing press. The resignation of Ministers because their advice had been refused by the Governor shook the consequences of good standing, and under ordinary conditions its contract would have amply secured the position of the Treasury. Its failure could not have been foreseen; but the incident proves the unwisdom of a Government leaning upon any banking institution for heavy advances which can only be made on the assumption that normal deposits are maintained. In Queensland the position was intensified by the proposal of the Macalister Government to issue inconvertible legal tender notes, because it gave encouragement to the economic fallacy that any Government can make money to an indefinable amount with the aid of the printing press. The resignation of Ministers because their advice had been refused by the Governor shook the consequences of good standing, and under ordinary conditions its contract would have amply secured the position of the Treasury. Its failure could not have been foreseen; but the incident proves the unwisdom of a Government leaning upon any banking institution for heavy advances which can only be made on the assumption that normal deposits are maintained. In Queensland the position was intensified by the proposal of the Macalister Government to issue inconvertible legal tender notes, because it gave encouragement to the economic fallacy that any Government can make money to an indefinable amount with the aid of the printing press.

On the establishment of Queensland a Customs tariff imposing light revenue duties was inherited from New South Wales. Under it spirits bore a duty of only 7s. per gallon. In 1865 the Treasurer, Mr. (afterwards Sir) Joshua Peter Bell, introduced a bill to raise the spirit duties by 3s. per gallon, and the duty on other intoxicants in proportion. The bill passed the
second reading without debate, for it must have been felt that with the rapidly increasing interest charge further taxation ought years before to have been imposed. After the crisis of 1866 had subsided, further increased duties for temporary purposes were passed, as were also stamp duties, so that the revenue for the following year, despite the depression, showed the important increment of about £120,000. Happily the Crocodile goldfield, near Rockhampton, was discovered towards the close of 1866, and the Gympie goldfield during the next succeeding year. Hence for the remainder of the decade revenue, despite prolonged stagnation in business, steadily, if not rapidly, increased.

In 1869 authority had been obtained from Parliament to liquidate the accumulated deficits by the issue of Treasury bills for the sum of £350,000, the increased duties of Customs imposed for temporary purposes in 1866 being at the same time continued for twelve months. In January, 1872, the Treasurer (Mr. Bell) referred in committee of the Assembly to the accumulated deficit, stating that the Treasury bills which had temporarily provided for it were falling due, and that there was no hope of paying the amount out of revenue. He therefore announced the intention of the Government to retire the bills and fund the debt by issuing long-dated debentures. That having been done, the effect was to produce a surplus for the year 1872 of £487,333. This indicated that had the Government exhibited a little more confidence the whole amount of the deficit might have been paid off out of revenue; for in the next year, shortly before the Palmer Government went out of office, a further surplus of £158,874 was realised. This sum, with the excess surplus of £137,333 for the preceding year, totalled £296,207, leaving only £53,793 short of the entire amount of the Treasury bills. In the next year there would have been a surplus, but the Macalister Ministry, which assumed office early in January, 1874—Mr. William Hemmant being Treasurer—carried £240,000 to a surplus revenue account, and ended the year with a revenue deficit of £200,762. While the revenue of that year only increased by £40,913, the expenditure, in addition to the surplus revenue item, increased by £160,550. The Macalister Ministry could not keep down expenditure, and in 1875-6—the end of the financial year having been changed from December to June—with a revenue slightly exceeding 1¼ millions, they had a further deficit of £51,663. The same party continued in power for a further two years under the leadership successively of Mr. George Thorn and Mr. John Douglas. Revenue continued fairly elastic, and the deficit period was followed by two years showing small surpluses.
Early in 1879 the McLlwraith Ministry assumed office, at a time when, as the Premier himself admitted in his Budget speech of 1880, the colony was "emerging from a state of depression induced by three bad seasons of an extraordinary character," so that the year 1878-9 closed with the considerable deficit of £216,808. This was partly due, however, to the operation of the Western Railway Act and the Railway Reserves Act, by which the most saleable land in the colony had been included in railway reserves, and the proceeds of sales, instead of as previously going into consolidated revenue, were placed to the credit of a special fund. Mr. (afterwards Sir Thomas) McLlwraith while in opposition had predicted that this course would produce a revenue deficit; consequently on attaining office he induced Parliament to sanction the transfer of all these sums, totalling £382,346, to consolidated revenue. Mr. McLlwraith argued that it would be impossible to construct a tithe of the railways needed in different parts of the colony out of the proceeds of land sales, and that it would be sufficient if the interest on railways, until they became fully reproductive, were defrayed from that source. Parliament accepted that view, and forthwith authorised a loan of 3 millions for a comprehensive schedule of railways proposed by the Government in 1879-80. Between August, 1879, and May, 1883, loans amounting to £5,553,000 were floated and a further sum of £1,233,000 was authorised, but not placed on the market. During the McLlwraith Administration of 1879-83 the revenue increased from rather less than 1½ millions to £2½ millions. The period was characterised by two deficits and three surpluses, showing accumulated surpluses of £272,412, without taking into account the sum of £382,346 transferred to revenue. During these years the colony was prosperous, the fair seasons, large loan expenditure, the establishment of the British-India service via Torres Strait, and the free introduction of immigrants, all combining to push the country along the path of progress; but prosperity had compelled a pro rata increase of expenditure.

At the end of the quarter-century in 1884 the public debt was £16,570,850, on which the interest charge was £701,565. Of this amount £9,417,318 expended on railways was earning £2 18s. per cent. The length of lines open for traffic totalled 1,207 miles. The population was 309,913. About £2,350,000 had been spent on immigration, of which nearly a third of a million had come from revenue, £1,778,000 from loan, and the rest from "special receipts"—partly contributions from immigrants. The year's imports were of the declared value of £6,381,976, and the exports £4,673,864. Joint stock bank assets exceeded 11 millions, liabilities
were nearly 7¾ millions, deposits exceeded 6 millions, and savings bank deposits were over 1 million. Of cattle there were 4¼ millions, of sheep less than 9½ millions, while horses numbered 253,116. There were 6,979 miles of telegraph line constructed. There were over 7 million acres of land alienated, which had produced over 4¾ millions sterling of revenue. The value of minerals won for the year was £1,325,624. There were 528 schools with 60,701 scholars, 5,185 subscribers to public libraries, and 60,257 volumes. Comparing these figures with those of 1860 it will be seen that, despite droughts, floods, and financial crises, the progress attained had been phenomenal.

Thus in a financial aspect the first quarter-century closed glowingly, despite a severe Western drought in 1883. There had been rapid and apparently solid progression, and the disasters of 1866, which seemed at the time to threaten the solvency of Government and people alike, had become an unpleasant memory—a catastrophe very unlikely to recur for various reasons, among them being that the railways were beginning greatly to facilitate transport, as well as to show considerable net earnings; while instead of the Government borrowing at 6 per cent., as formerly, money in abundance could be got at 3½ per cent. Moreover, mortgage loans and bank overdrafts bore a greatly reduced rate of interest.