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CHAPTER VI.

PUBLIC FINANCE (1903-1909).

The Morgan-Kidston Ministry.—Economy in Revenue Expenditure.—Great Reduction in Loan Outlay.—Equilibrium Established at the Treasury.—Retrenchment and Taxation.—Improvement of Finances.—A Record Surplus for Queensland.—Land Sales Proceeds Act.—Abstention from Borrowing.—First Loan Floated since 1903.—Sound Position of Queensland.—Value of State Securities.—Reproductiveness of Railways Built out of Loan Money.—Public Estate Improvement Fund.—How Recourse to Money Market has been Avoided.

On the 15th September, 1903, the Speaker's resignation was announced, and on the 17th Mr. (now Sir) Arthur Morgan announced the formation of a new Ministry with himself as Premier, his colleagues including the leader (the late Mr. W. H. Browne) and another prominent member of the Labour party (Mr. W. Kidston). The new Ministry came in expressly to restore the financial equilibrium, the Treasurer being Mr. Kidston. Retrenchment became the order of the day, although the Estimates of the late Government were adopted, having regard to the fact that the first quarter of the financial year had practically expired. The pruning-knife was applied with vigour, and loan expenditure rapidly lessened, although existing railway contracts had of course to be completed.

On 30th June following, revenue showed an increase of £69,000, while expenditure had been reduced by £110,000, the financial year ending with a deficit of only £12,424. Loan expenditure had been brought down to £603,805, a reduction of no less than £418,600 compared with the previous year. In the middle of the session of 1904 the Premier advised a dissolution, which was granted, and after the general election the Ministry returned in such strength as to warrant Parliament in treating their policy, especially the financial part of it, as practically a mandate from the constituencies.

In 1904-5 the revenue being within £41 of the amount of the preceding year, while the expenditure was about £26,000 less, a surplus, the first for five years, was recorded for the nominal sum of £13,995. Seeing that loan expenditure had been reduced to less than a quarter of a million, that
general retrenchment had been carried out, and that a recovery of trade and industry was not yet clearly apparent, the result must be deemed highly satisfactory; also, the Treasurer refused, after his first year of office, to continue the practice of charging to loan fund the amount spent by the Commonwealth Government on new works and buildings. The amount was not large, but even the £20,000 to £30,000 per annum so expended would, if transferred to loan, have improved the appearance of the State revenue account.

In 1904 the obnoxious but necessary Special Retrenchment Act was re-enacted for the nine months of the financial year still remaining, the rate of deduction being diminished by one-half, while provision was made that any surplus revenue for the financial year should be paid to the public servants. The year closed with a surplus of £13,995, which was at once distributed pro rata among the retrenched officers. The continuation of the Act was not popular among public servants, but it was deemed necessary in the interests of the wider community; and, as the net result was that a public officer only lost 7s. 6d. for every £1 deducted from his salary during the two previous years, it can hardly be considered unfair, having regard to the losses sustained by the general public during the same period. Another unpopular measure was the Income Tax Amending Act, which exempted from taxation incomes of £100 and under, but in regard to the larger incomes somewhat increased the taxation then levied. In 1906 a further Income Tax Amending Act was passed, adding to the taxation in some cases, but raising the exemption to £160 and granting an exemption of £120 on incomes between £160 and £200. In 1907 another amendment of the Act increased the exemption to £200 on all incomes, and reduced certain imposts, which had the effect of relinquishing revenue to the extent of £40,000 to £50,000 for the year. But times had then improved, and the Treasurer could afford this grateful relief to the poorer classes of the community.

Early in 1906, owing to the death of Sir Hugh Nelson, Mr. Morgan retired from the Ministry, Mr. Kidston becoming Chief Secretary in his stead, while still retaining the Treasurership. Mr. Morgan then accepted the Presidency of the Legislative Council. In the year 1905-6 the revenue had become buoyant, the increase for the year being £258,124. The expenditure had also increased by over one-half that amount, the year closing with the surplus of £127,811. Loan outlay also showed an increase, totalling nearly £300,000. In 1906-7 there was a revenue jump of £454,389, with an increase in expenditure of £186,085, the record Queensland surplus of £396,115 being realised. (a) For 1907-8 the revenue increase was £180,486, while the expenditure increase was £461,299, and the surplus only £115,302. Loan outlay also advanced to £1,033,676. Including the Commonwealth collections the total revenue for 1907-8 approached 3½ millions, or nearly 1 million in excess of the most fruitful year before federation.

In November, 1906, a brief but important Act was passed providing that all moneys received in payment for auction sales of town, suburban, and country lands, or of such lands if subsequently purchased by selection, should hereafter be paid into the Loan Fund Account. But proceeds of the land sold under the Special Sales of Land Act of 1901 were not included, those moneys having been already appropriated to the repayment of sums borrowed upon certain Treasury bills issued in aid of revenue in former years. It is the policy of the Kidston Government, however, not to alienate lands under the Special Sales Act; therefore the deficits of former years which had been liquidated with the proceeds of Treasury bills, and practically formed a floating debt, are being gradually compensated for by the transfer of annual surpluses to the Public Debt Reduction Fund, the total amount of stock thus cancelled having on 30th June, 1908, reached the respectable amount of £942,641 since the inception of the fund.

One of the wise determinations of Mr. Kidston as Treasurer was to keep off the London money market for several years at least after the rebuff received by his predecessor in 1903. Consequently he abstained from making any attempt to float a loan till March, 1909, when £2,000,000 worth of 3½ per cent. stock was disposed of. The net proceeds were equal to £494 9s. 6½d. per cent., a price about equivalent to that obtained by New South Wales a little earlier in the year. This, although dearer money than was obtained by issues of Queensland stock in the closing decade of the last century, compares not unfavourably with the prices obtained earlier in the financial year for other gilt-edged securities on the London market.

The net average rate of interest payable on the public debt of Queensland on 30th June, 1908, was £3 14s. 1d. per cent., but this rather high rate arose from the fact that more than a moiety of the total debt was incurred many years ago, when all Australian stocks bore 4 per cent. interest. The lowest average rate now paid by any Australian State is £3 8s. 9d. by Western Australia, most of whose stock was issued during the closing decade of the 19th century, and bears from 3½ to 3¾ per cent.

(a) The so-called surplus of £487,333 in 1872 was obtained by the transfer of £350,000 from loan fund to revenue.
Speaking generally, Queensland stands well on the London money market at present, as, according to the "Commonwealth Year Book" quotations from the "Economist" newspaper, the "middle price" of her 3½ per cents. quoted on 'Change on the 25th September of last year was £100, a figure only equalled at the time by Victoria among the Australian States; and in December following £99, which was on a par with New South Wales stock on the same date, and only 10s. per cent. below the quotation for Victorian stock. These prices, however, for comparative purposes seem to need slight adjustment on account of the interest respectively due at date of quotation.

Having regard to the fact that the public debt of Queensland is higher than that of any other Australian State per head of the population, the policy of abstention from further borrowing from 1903 until 1909 has been vindicated in a most gratifying manner. A pregnant fact is that more than one-half the entire public debt has been invested in railways which in 1908-9 returned £883,610 (a) in net earnings, all available for the payment of interest on capital, or equal to about £3 7s. 6d. per cent. per annum, which meant that our railway system was almost self-supporting, besides being the source of a large indirect gain to the Treasury by providing facilities for transport over 3,498 miles of line. It is no exaggeration to assert that directly and indirectly the railways assist the Treasury to the amount of the annual interest charge on the entire public debt of the State. Instead of the railways being a burden upon the taxpayer, as in former years, they have undoubtedly now become the backbone of the public credit. Seven years ago the interest charge on railway capital falling on the taxpayer amounted to £513,128. To-day, as shown by official figures, there is practically no such burden, and the existing state of the investment not only forms a complete justification for the railway policy of the past, but also for the vigorous way in which the construction of new lines is being pushed forward. With a continuance of good management it is apparent that the time is within measurable distance when the Railway Commissioner will, unless rates be reduced, hand to the State Treasurer a large annual surplus which will be available for lightening the public burdens.

Among other minor financial reforms for which the Morgan and Kidston Governments have earned credit is the creation of the Public Estate Improvement Trust Account, to which is charged the cost of roads,

(a) These net earnings are Treasury cash figures. They differ somewhat from the departmental figures, which do not deal with cash, but with book receipts and expenditure.
water supply, and other improvements made to Crown lands about to be thrown open for settlement, such cost being afterwards added to the selling price of those lands. Up to 30th June, 1908, 1½ million acres of Crown land had thus been made available for selection by a total expenditure of £85,784, the value of which has thus been enhanced, it is estimated, by more than half a million sterling. This amount will ultimately find its way into consolidated revenue. And all this with a debtor balance of the account on 30th June, 1908, of only £58,287. Allowing that the profit is shown in figures yet to be realised, the estimated margin is so large that the result cannot be doubtful.

Loan expenditure on public works, though greatly reduced, was never entirely stopped by the Morgan and Kidston Governments. In 1903 they inherited from their predecessors a loan cash balance of 1¼ millions. By compelling the local bodies to pay up arrears of redemption on local loans, by investing about £603,000 of revenue surpluses in unissued stock, with the help of interest accruing on public loan cash balances, and the annual instalments paid by the Queensland National Bank in liquidation of its extended deposit debt, nearly 3½ millions sterling was spent on loan account during the five years ended 30th June, 1909, without placing on the money market any part of the then unissued balance of the 1902 loan.