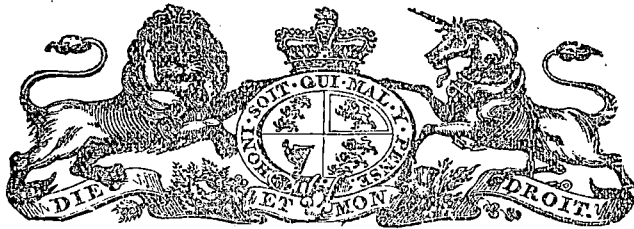1897.

SESSION II.

PARLIAMENT OF TASMANIA.

FEDERAL FINANCE:

MEMORANDA prepared and Statistics collected for the basis of an Address
delivered to Members of Hobart Chamber of Commerce, May 27,
1897, with subsequent Amendments, Additions, and Explanatory,
Text; by Sir Philip Fysh, K.C.M.G.

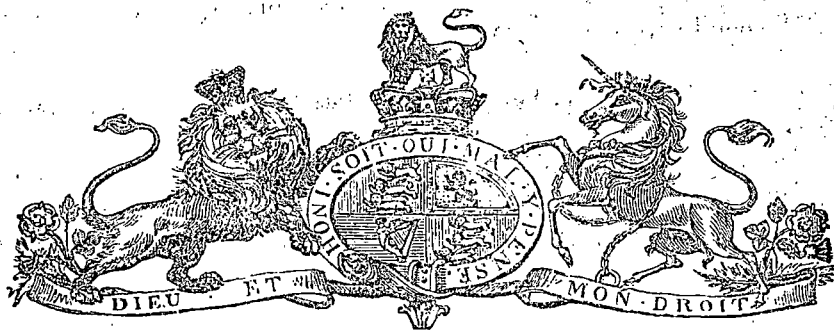Presented to both Houses of Parliament by His Excellency's Command.

FEDERAL FINANCE.

MEMORANDA prepared and Statistics collected for the basis of an Address delivered to Members of Hobart Chamber of Commerce, May 27, 1897, with subsequent amendments, additions, and explanatory text:

BY

SIR PHILIP FYSH, K.C.M.G.

THE Report of the 1891 Finance Committee of the National Federal Convention recommended to pool Customs and Excise and all Expenditure, and distribute surplus *per capita.*

The Results based on Coghlan's figures, p. 39, No. V., would be as follows :—
.On mean of Imports, 1893-4-5.
On mean of mean Population, 1893-4-5, Tasmania 156,129

Tariff of Tasmania, 1894, on basis of Intercolonial Freetrade—
Revenue for five Colonies, Customs and Excise £6,887,189
Expenditure, original Services of Commonwealth £300,000
Transferred Services 1,250,000
1,550,000

£5,337,189

Population, 2,994,276, 5 Colonies—
New South Wales,
Victoria,
South Australia, = 35s. 8d. per head.
Western Australia,
Tasmania,

Surplus returnable to Tasmania on basis mean Population 156,129,—£278,372.

The Convention of 1891 refused to adopt that part of the Report of the Finance Committee; made the keeping of accounts between the State and the Commonwealth permanent; and giving back any surplus on basis of Revenue actually collected, and charging all Expenditure *per capita.*

The first year of Uniform Tariff on that basis gives following results :—

See p. 39, No. V., Coghlan—

Returns to Tasmania in first year	£265,518
But subject to deduction of our share of expenditure on *per capita* basis, see page 3..	64,743
	£200,775

The 1891 Bill and 1897 Bill produce same results for first year, but for that year only, the 1897 Bill making a sliding scale provision for five following years.

The example which Tasmania gives on her actual accounts (her own book-keeping) for same mean of years, 1893-4-5, is as follows :—

	£
Customs and Excise	308,699
But subject to loss by Intercolonial Free Trade, estimated	40,072
	£268,627

And, subject to the more economical actual expenditure of 1896—

	£	
Customs and Excise	6667	
Defence	9552	
Share of new Commonwealth expenditure distributed *per capita*	15,887	
		32,106
		236,521
But taking credit for our present profit on Post and Telegraph, of which there appears every likelihood of continuance	...	15,000
		£251,521

In the above three examples there are discovered—

		£
First, the result to Tasmania of working upon the recommendations of the Financial Experts of 1891, a surplus of	...	278,372
Second. the results to Tasmania of Uniform Tariff after deducting *per capita* share of Commonwealth expenses	...	200,775
Third, the results to Tasmania if Convention had adopted my very serious contention that there is no method other than keeping of Inter-State accounts which will divide a surplus without great sacrifice made by some States..................	...	251,521

Tasmania's example of how the five subsequent years work out under provisions of Clause 92 of Commonwealth Bill, giving to Tasmania annually one-fifth of the difference (namely, 12s. per head—see table, page 8) between the actual Customs and Excise collected per head of Population in Tasmania and that collected per head of Population over the whole Commonwealth, as shown by table, page 10, = £18,735—

1st Year—Customs and Excise as discovered by book-keeping, the mean of years 1893-4-5..................................... 265,518

Less Expenditure per capita 64,743

		£	£	£200,775
1st	„ plus	18,735	= 219,510.	
2nd	„ „	18,735	= 238,245.	
3rd	„ „	18,735	= 256,980.	
4th	„ „	18,735	= 275,715.	
5th	„ „	18,735	= 294,450.	

In this year and thereafter Revenue and Expenditure are both distributed on the per capita basis, and Tasmania shares in all the prosperities or adversities of the more populous and more wealthy Colonies.

RESULT TO TASMANIA OF *PER CAPITA* DISTRIBUTION OF EXPENSES:—

Five Colonies—New South Wales, Victoria, South Australia, Western Australia, and Tasmania—

New Federal Expenditure............................ £300,000 A

For services transferred .... £1,250,000 B

See printed particulars, supplied to Representatives at Convention.

Divided on population of December 31, 1896—

	£
Tasmania's share of A	15,887
Tasmania's share of B	66,195
	£82,082*

Compared with Nett Expenses transferred to Commonwealth, £17,339, made up of following:—   £

Cost of Defence 9552

Cost of Collecting Customs and Excise................. 6667

Interest on Works to be allowed by   £
Commonwealth—

Cost of Works of Defence 150,000

Post, Telegraph, and Customs Offices 110,000

Telegraph Construction—
1789 miles, £80 per mile 143,000

£403,000 3 per cent. = 12,090

Maintenance of Works, Offices, and Constructed Lines .... 1 per cent.   4030

32,339

Less our present surplus on Post and Telegraph Services given over to Commonwealth 15,000

17,339

Loss to Tasmania £64,743

irrespective of £40,000 Intercolonial Freetrade.

The Expenditure of Commonwealth, £1,550,000, is the limitation for three years only, but, thereafter, such greater or lesser sum as the Federal Parliament may vote.

* At pages 8 and 10 the *per capita* expense is stated at £80,821 on a mean of 3 years' population; £82,082 is on population December, 1896.

LOSS TO TASMANIA BY INTERCOLONIAL FREETRADE.

The £40,072 estimated as the loss by free Intercolonial Trade may be estimated to be increased to £50,000 when Queensland sugar is enabled to monopolise the supply, which it would do on a difference between our present duty of £6 per ton, and excise of £3 per ton, if imposed by the Commonwealth.

If an excise of £3 per ton be imposed then the £50,000 loss to Tasmania will be probably reduced to near £30,000. A loss to the Commonwealth revenue of about £700,000 per annum would ultimately result from free sugar consumed in the five States of New South Wales, Victoria, South Australia, West Australia, and Tasmania, an amount which is £450,000 in excess of the loss by uniform and intercolonial freetrade allowed for in these tables.

It may be assumed that there is a need for the Federal Parliament to maintain as nearly as practicable the Customs revenue which will cause the least embarrassment to the States, and that Queensland will be contented with the differential advantage between £5, the present mean of duty on sugar, and an excise of £3 per ton.

The Federal Executive is charged under the Commonwealth Bill, 1897, to maintain for five years such revenue as will produce a divisible surplus among the States of not less than the aggregate amount divided for the first year of the Uniform Tariff.

The great difference between the cost of Tasmanian services and those of the Mainland Colonies, which causes a *per capita* distribution of Commonwealth expenditure to be such a serious loss to Tasmania as £64,743, is seen in following figures:—

Cost of Defence: Mean of 1893, 1894, 1895—

	N.S. Wales.	Victoria.	S. Australia.	W. Australia.	Tasmania.
Per head.	3s. 8d.	3s. 1d.	2s. 2d.	3s.	1s. 6d.

Cost of Collection Customs and Excise—

	N. S. Wales.	Victoria.	S. Australia.	W. Australia.	Tasmania.
Per cent.	£3 6s. 1d.	£3 15s. 9d.	£4 7s. 10d.	£2 4s. 3d.	£2 6s. 0d.

Mr. Henry cautions the public against all figures, yet commits himself to none. He will take Federal Union regardless of cost.

"Timotheus," of the *Argus*, Mr. R. L. Nash, financial editor of *Sydney Daily Telegraph*, and Mr. R. M. Johnston, all accept the statistics of Mr. Coghlan, of Sydney; but Mr. John Henry says Mr. Reid, the Premier of New South Wales, has "bluffed" us with such figures!!

I join those who accept Mr. Coghlan's figures as enabling an approximate reliable calculation to be made.

CAN TASMANIA JOIN THE FEDERATION

on its commencement, gauged by the Financial aspect ?

		£
For the year 1897, Customs and Excise re-estimated at May, 1897		370,000
Surplus Post and Telegraph Office, ditto		15,000
		£385,000

		£	
Subject to actual cost of collection Customs and Excise ...		6634	
Subject to actual cost of Defence		9552	
			16,186
Revenue Customs, Excise, Post and Telegraph— Tasmania separate from Federation	...		£368,814

		£
Z. Tasmania separate from Federation, but subjected to Intercolonial Freetrade		368,814
Less loss by Intercolonial Freetrade		40,072
		£328,742

TASMANIA FEDERATED.

Taking her actual Revenue for first year on book-keeping basis :—

		£
Z. Customs and Excise, without profit on Post and Telegraph		370,000
Less loss Customs through Intercolonial Freetrade		40,072
		329,928
Subject to extra charge of expenditure *per capita* as compared with present expenditure—(see page 3)		64,743
		£265,185

The most reasonable comparison to make is Z with Z, showing a loss of £63,557, but that is on a book-keeping basis, *i.e.*, of Inter-State accounts kept.

If we had no deficiency, which on December 31, 1897, will probably be £330,000, we could afford to federate at once.

But before we federate, that floating debt must be disposed of.

	£
The difference between Annual Customs, Excise, &c. Revenue of Tasmania	£
separate from Federation	368,814
and Tasmania federated	265,185
as shown above, is	103,629 ;

but that difference diminishes annually at the rate of £18,735 in each of five following years.

The Annual Revenue to be made good in Tasmania in each of those five years respectively, is therefore—·

	£
First year	103,629
Second year	84,894
Third year	66,159
Fourth year	47,424
Fifth year	28,689
	£330,795

If such financial embarrassment cannot be met by fresh taxation, there are alternatives. They are—

1. Enter the Federation on a book-keeping basis for 5 years, until population and Revenue further grow, when we can, without further taxation, maintain our present annual surplus of £60,000, until, in 5 years and a half, that deficiency of £330,795 can be liquidated.

2. Stand out of Federation, with the continental tariffs against us;

3. Fund our floating debt, December 31, 1897, of £330,000 and so put that out of the way :

4. Or, what will be more righteous, make terms with the Federation to relieve us of that responsibility, and join on terms of 1897 Bill ;

Precedent for this :—Canada—

	dolls.	
New Brunswick	50,000	annually.
Nova Scotia	60,000	„
Quebec	70,000	„
Ontario	80,000	„

also discriminating further annual payments "in settlement of all present and future demands," by way of recompense to Mineral Wealth and Revenue transferred, and equalisation respecting Debts taken over.

5. There is another alternative which may work equitably if West Australia be relied upon to produce from Customs and Excise the amount per annum for five years stated on page 17, viz.,—£996,313.

In the year immediately preceding the adoption of a Uniform Federal Tariff ascertain the exact amount of Revenue collected from Customs and Excise in each Colony, and, after deducting the net cost of services to be transferred to Federal Government, ascertain the proportion which the balance of such Revenue of each Colony bears to the corresponding aggregate for the Five Colonies. Let the proportions so ascertained determine the proportion of Federal surplus to be returned to each Colony through the five years in lieu of the sliding scale.

The following is an example :—

ILLUSTRATION OF DISTRIBUTION OF FEDERAL SURPLUS BY THE ABOVE METHOD.

Let it be assumed that in the year preceding the adoption of uniform Tariff the Customs and Excise Revenue—less net cost of services transferred—for each State, bore the following percentage proportions of the corresponding aggregate for the five Colonies, viz. :—

New South Wales	29·76 per cent.
Victoria	34·82 per cent.
South Australia	10·82 per cent.
West Australia	17·24 per cent.
Tasmania	7·36 per cent.

If in the first year after adoption of Uniform Tariff it is found that the Federal surplus available for distribution amounted to, say, £4,780,745, then the amount to be received by each State, based upon the above proportion, would be in exact proportion

to its local needs, and to the exact proportion of loss of Revenue sustained by each State by the transfer of its Revenues and functions ; thus,—

	Per cent.		£
New South Wales receives	29·76		= 1,422,701
Victoria	„ 34·82		= 1,664,574
South Australia	„ 10·82		= 517,132
West Australia	„ 17·24	of £4,780,745	= ·824,144
Tasmania	„ 7·36		= ·352,194
Five Colonies	„ 100·00		= 4,780,745

By this method an unnecessary surplus or disastrous loss to any State is avoided. A modification of this alternative method might also be considered, by basing the said proportions upon the relative amounts collected or due to each State during the first year under a uniform Federal Tariff.

6. The sliding scale provided by Clause 92 of Commonwealth Bill is a defective method, inverting the slide, which should be a down grade, into an up grade. A correct and natural method for affording aid by a sliding scale should be on a down grade—(*vide* illustrations, page 20). The money value of both is the same, but instead of Tasmania having to provide £103,629 the first year, and £28,689 the fifth year, these amounts will be inverted, the smaller falling into the first, and the larger into the last year.

Federation on alternatives Nos. 1, 5, and 6 can be recommended.

This table is compiled to supply the information necessarily precedent to making a distribution of the annual surplus to the States of the Commonwealth, and of which distribution examples will be found on the following page :—

TOTAL OF CUSTOMS AND EXCISE DUTIES if Australian Goods, other than Intoxicants and Narcotics, had been admitted free, based upon the Tasmanian Tariff, 1894, for each Colony.   (Estimated on the average Imports of 1893-4-5.)

(COGHLAN, PAGE 39, No. 5.)

COLONY.	POPULATION.	CUSTOMS AND EXCISE REVENUE.		+ ABOVE, or — BELOW } AVERAGE.		ONE-FIFTH SURPLUS OR DEFICIENCY.	DISTRIBUTION OF COMMONWEALTH EXPENDITURE, ON THE BASIS OF POPULATION.
	Mean of Three Years, 1893-4 5.	Amount.	Per head.	Amount.	Per head.		
	No.	£	£ s. d.	£	s. d.	£	£
New South Wales	1,238,011	3,306,728	2 13 5	+ 459,094	+ 7 5	+ 91,819	640,862
Victoria	1,175,676	2,096,230	1 15 8	− 607,432	− 10 4	− 121,486	608,594
South Australia	348,785	804,997	2 6 2	+ 2906	+ 0 2	+ 581	180,550
West Australia	75,675	413,716	5 9 4	+ 239,638	+ 63 4	+ 47,927	39,173
Tasmania	156,129	265,518	1 14 0	− 93,676	− 12 0	− 18,735	80,821
TOTAL FIVE COLONIES...	2,994,276	£6,887,189	2 6 0	—	—	—	1,550,000*
	1	2	3	4	5	6	7

Column 3 discovers the mean per head of Commonwealth of the Customs and Excise Revenue.
   „   4 the amount collected in each State above or below the mean per head of population of the Commonwealth.
   „   6 gives the fifth of surplus or deficiency which each State is to gain or lose annually for five years until all shall share equally in the distribution of such revenue.
   „   7 gives the amount of Commonwealth Expenditure chargeable annually to each State on a *per capita* basis.
* Equivalent to £·5170 per head

8

EXAMPLES

Compiled from Tables on preceding page, showing how aggregate surplus will be ascertained for first year of uniform Tariff, and also showing its distribution in following five years :—

	£
Commonwealth Revenue from Customs and Excise, *vide* Coghlan, page 39, No. V., based on the Tasmanian Tariff of 1894	6,887,189
Charged with all Federal Expenditure before surplus is ascertained	1,550,000

The divisible surplus is therefore .... £5,337,189 for the first year of the Uniform Tariff, and not liable for that year to the operation of the sliding scale, distributed thus—

New South Wales	£2,665,866
Victoria	1,487,636
South Australia	624,447
Western Australia	374,543
Tasmania	184,697
	£5,337,189

New South Wales, South Australia, and West Australia furnish examples of States wherein Customs and Excise is collected above the average of the Commonwealth.

New South Wales.

	£
Customs and Excise Revenue	3,306,728
Less proportion of Federal Expenditure..	640,862
	2,665,866
Deduct one-fifth of the amount yielded in N. S. Wales in excess of the Customs and Excise of the whole Commonwealth	91,819

The surplus to credit of N. S. Wales for the first year after uniform Tariff is therefore £2,574,047

South Australia.

	£
Customs and Excise Revenue	804,997
Less proportion of Federal Expenditure..	180,550
	624,447
Deduct one-fifth of the amount yielded in South Australia in excess of the Customs and Excise of the whole Commonwealth	581

The surplus to credit of South Australia for the first year after uniform Tariff is therefore £623,866

West Australia.

	£
Customs and Excise Revenue...	413,716
Less proportion of Federal Expenditure	39,173
	374,543
Deduct one-fifth of the amount yielded in West Australia in excess of the Customs and Excise of the whole Commonwealth	47,927

The surplus to credit of West Australia for the first year after uniform Tariff is therefore £326,616

Victoria and Tasmania are examples of States wherein Customs and Excise is collected below the average of the Commonwealth.

Victoria.	£	Tasmania.	£
Customs and Excise Revenue	2,096,230	Customs and Excise Revenue	265,518
Less proportion of Federal Expenditure..	608,594	Less proportion of Federal Expenditure..	80,821
	1,487,636		184,697
Add one-fifth of the amount yielded in Victoria in excess of the Customs and Excise of the whole Commonwealth	121,486	Add one-fifth of the amount yielded in Tasmania in excess of the Customs and Excise of the whole Commonwealth	18,735
The surplus to credit of Victoria for the first year after uniform Tariff is therefore	£1,609,122	The surplus to credit of Tasmania for the first year after uniform Tariff is therefore	£203,432

TABLE showing Five Years' Distribution of the Aggregate Surplus on sliding scale to bring out the proportion of Revenue each will receive year by year, subject to provisions of Clause 92 of "Commonwealth Bill."

	1st Year.	2nd Year.	3rd Year.	4th Year.	5th Year.
	£	£	£	£	£
NEW SOUTH WALES Deduct £91,819 in each year.	2,574,047	2,482,228	2,390,409	2,298,590	2,206,771
VICTORIA Add £121,486 in each year.	1,609,122	1,730,608	1,852,094	1,973,580	2,095,066
SOUTH AUSTRALIA Deduct £581 in each year.	623,866	623,285	622,704	622,123	621,542
WEST AUSTRALIA Deduct £47,927 in each year.	326,616	278,689	230,762	182,835	134,908
TASMANIA Add £18,735 in each year.	203,432	222,167	240,902	259,637	278,372
	5,337,083	5,336,977	5,336,871	5,336,765	5,336,659
DIFFERENCE	106*	212*	318*	424*	530*
	5,337,189	5,337,189	5,337,189	5,337,189	5,337,189

* Owing to details of population not being exactly given in Mr. Coghlan's Tables, the population was estimated on the capita tax as shown by him. As the fractional parts of pence per head were eliminated, the exact population could not be determined, and hence there is involved a slight difference in the Grand Total, as compared with the details of each Colony.

It will be seen by a comparison of the divisible surplus of—

> New South Wales for the first year of uniform Tariff,
> page 9 .... £2,665,866
> And that of Victoria...................................... £1,487,636

with the divisible surplus on page 10 after 5 years' operation of the sliding scale, that Victoria overtakes New South Wales to the amount of £1,066,525, a result in favour of Victoria which may be largely discounted—and the same is equally applicable to all the other States—by the operation of the uniform tariff regulating trade between the Colonies, where there will no longer be ports of preference nor the great disparity which exists between the value of manufactured goods which are preferred in the free ports and of raw material, of which the imports to protected ports are mostly composed.

The excessive protectionist Tariff of Victoria prohibited imports, with the result that the—

> Average Imports for Home Consumption for the three
> years, 1893-4-5, was, for Victoria...................... £7,027,408
> While the moderate Dibbs' Tariff of that period resulted
> in the larger Imports of New South Wales for the
> same period of £11,186,187

The difference between the consuming power of States whose populations are engaged in similar agricultural, pastoral, mining, and manufacturing pursuits is not so important as the difference of surpluses for New South Wales and Victoria discloses, unless indeed the condition of the working classes in New South Wales can be proved to be so much superior to the same in Victoria; and if that be so, then trade, regulated by uniformity of tariff, will in all probability speedily remedy the great disparity which is disclosed by these figures. If that be a reasonable conclusion the fiscal aspect of Federation is most promising to Victoria, and her surplus *per capita* will be levelled up to that of New South Wales by the ordinary course of trade, without any such serious sacrifice of revenue to the latter State as the foregoing figures represent. That conclusion animated the Representatives at the Convention, and the determination that artificial barriers to trade must necessarily be removed as a condition precedent to Federation ; and the belief in such conclusion lent weight to the purpose of the Representatives to cut the Gordian knot, equitably if possible, but arbitrarily if necessary. The latter has been done.

To the table on page 10, showing distribution of aggregate surplus, the following explanation appears necessary :—

Clause 92, Sub-section 5, does not fully express the intention of the sliding scale adjustment which was originated by the Hon. Premier and Treasurer of New South Wales.

The surplus ascertained by the first year of Uniform Tariff is to be annually divided on the principle set forth in this clause, which is, that after ascertaining the mean of Revenue collected in the Commonwealth, all States contributing more than the mean shall in each of the five succeeding years be reduced by one-fifth of that excess, and in like manner all States contributing less shall be raised by one-fifth of their deficiency.

Example on page 8 shows New South Wales to contribute to the first year's Uniform Tariff seven shillings and five pence per head more than the forty-six shillings which is the Commonwealth mean, and Tasmania is shown to contribute twelve shillings less than the mean.

To make clear the intention that the excess contributed by some States, and the deficiency discovered in other States shall, during the five years be adjusted so that at

the end of the fifth year all shall alike, by the five annual distributions, reach the same *per capita* Revenue, the Sub-section 5, in my opinion, must be read thus—

> $\frac{1}{5}$th for the first year, $\frac{2}{5}$ths the second, $\frac{3}{5}$ths the third, $\frac{4}{5}$ths the fourth, $\frac{5}{5}$ths the fifth year.

The word "four" in that Sub-section 5 is a mistake, as it would only distribute four-fifths, and "four" is inconsistent with the context. I urged this on the attention of the Treasurers at the Convention, but any necessary amendment was left for final Convention.

The surplus ascertained in the first year's operation of Uniform Tariff is as given, page 10, £5,337,189.

No other method of distributing that surplus by addition or subtraction of $\frac{1}{5}$th annually of the difference between the mean and the separate State Revenues will conform to the provision of Clause 93, that after five years "Each State shall be deemed to contribute to the Revenue an equal sum per head of its population."

TABLE SHOWING THE EFFECT OF *PER CAPITA* DISTRIBUTION OF EXPENDITURE

of the Commonwealth, with the Gains or Losses of each State on the basis of its actual Expenditure on the mean of the three years 1893–4–5.

ESTIMATED COST AND INTEREST ON WORKS PROPOSED TO BE TRANSFERRED.

	New South Wales.	Victoria.	South Australia.	West Australia.	Tasmania.	Five Colonies.
Estimated Cost of Works and Buildings transferred—	£	£	£	£	£	£
Defences	1,743,579	1,800,000	241,166	20,900	150,000	3,954,645
Customs and Post and Telegraph Offices ⎱ Telegraph Construction ⎰	1,714,462	1,285,000	1,232,501	800,000 ⎱	110,000 ⎱ 143,000 ⎰	5,285,963
Total Cost	3,458,041	3,085,000	1,473,667	820,900	403,000	9,240,608
Interest to be received on above Works at 3 per cent.	103,741	92,550	44,210	24,627	12,090	277,218
Maintenance on ditto ditto at 1 per cent.	34,580	30,850	14,737	8209	4030	92,406
Total Interest and Maintenance	138,321	123,400	58,947	32,836	16,120	369,624

BALANCE, GAIN OR LOSS, BY DISTRIBUTION OF FEDERAL EXPENDITURE AND TRANSFER OF STATE EXPENDITURES.

	New South Wales.	Victoria.	South Australia.	West Australia.	Tasmania.	Five Colonies.
LOSS BY DISTRIBUTION OF FEDERAL EXPENDITURE ON BASIS OF POPULATION, VIZ.:—						
For Services transferred	517,099	468,183	143,545	54,978	66,195	1,250,000
Existing Profit on Post and Telegraph transferred	—	—	15,556	—	15,000	30,556
Total Loss	517,099	468,183	159,101	54,978	81,195	1,280,556
GAIN BY STATE EXPENDITURE TRANSFERRED, VIZ.:—						
Defence	226,909	182,643	38,182	11,671	9552	468,957
Customs and Excise	75,796	73,673	24,155	13,356	6667	193,647
Interest and Maintenance of Works transferred as above	138,321	123,400	58,947	32,836	16,120	369,624
Existing Loss on working Post and Telegraphs	208,243	52,630	—	9078	—	269,951
Total Gain	649,269	432,346	121,284	66,941	32,339	1,302,179
BALANCE ⎰ Net Loss	—	35,837	37,817	—	48,856*	—
⎱ Net Gain	132,170	—	—	11,963	—	21,623

* Tasmania £48,856
Plus share of £300,000 original Expenditure 15,887
————— £64,743, as on page 3.

NEW SOUTH WALES COMPENSATED.

On page 3 is shown the effect on Tasmania's Finance of the *per capita* distribution of Federal Expenditure.

The table, page 8, showing the *per capita* distribution of Expenditure of the Commonwealth, enables examples to be set out of the operation as it affects each State.

It shows how New South Wales is largely compensated by the transfer of much of her Service Expenditure to other States for the loss she makes by the sliding scale over five years applied to Revenue from Customs and Excise, which is, as stated on page 10—

		£
For the First year		91,819
Second year		183,638
Third year		275,457
Fourth year		367,276
Fifth year		459,095
Being a loss in the five years of		£1,377,285

As a set-off there is the saving to New South Wales by a transfer of existing Expenditure upon services transferred to Commonwealth, which on the mean of years 1893-4-5, as set forth on page 12 £649,269 as against the *per capita* distribution of the £1,250,000 of 517,099

an annual saving for five years of 132,170   =   660,850

thus reducing the loss to £716,525
or £143,305 per annum.

In the case of Victoria, the corresponding figures are—   £

Her gain by the sliding scale for the 1st year	121,486
2nd year	242,972
3rd year	364,458
4th year	485,944
5th year	607,430

A gain in the five years of £1,822,290

Unlike New South Wales, which loses Revenue but gains by *per capita* distribution of Expenses, it will be seen that Victoria gains Revenue by the sliding scale, but loses by the *per capita* distribution of Expenses per annum—
For five years........................... £35,837   =   179,185

Being a total gain in the five years of £1,643,105

In the case of South Australia—   £

Five years' loss of Revenue by the sliding scale is ...   8715
Her loss by the *per capita* distribution of Expenditure per annum for five years, £37,817 ....   =   189,085

Being a loss on the five years of........................   £197,800

In the case of West Australia—

	£
Five years' loss of Revenue by the sliding scale is ...	718,905
Her gain by the *per capita* distribution of Expenditure per annum for five years, £11,963............ =	59,815
Being a loss in the five years of.....................	£659,090

In the case of Tasmania—

	£
Five years' gain of Revenue by the sliding scale is ...	281,025
Her loss by the *per capita* distribution of Expenditure per annum for five years, £48,856................. =	244,280
Being a gain in the five years of.....................	£36,745

The figures produced for each Colony as the loss or gain in the five years do not represent the amounts by which individual States will need to supplement the present revenues. Each is affected by the loss of revenue by Intercolonial Free-trade, and one example, that of Tasmania, will suffice to show the full effect of all changes :—

		£
Loss for five years by Intercolonial Freetrade	£40,072	200,360
Five yearly contributions and share of new expenditure £300,000 .... =£15,889	=	79,435
		£279,795
Less gain in the five years between sliding scale additions of revenue and *per capita* distribution of expenditure	....	36,745
		£243,050

This can be reconciled with the examples given of Tasmania's loss by Federation in five years on page 6, £330,795, by the fact that these calculations are in actual Customs and Excise of 1897, £370,000, while the latter are based on mean of Customs 1893-4-5 = £265,518.

The larger amount, £330,795, and not the smaller, £243,050, is what confronts us now.

All such figures are subject to the influences of freedom of Intercolonial Trade, and whether we may look for a declining or increasing power of our people to consume dutiable goods, and to our Post and Telegraph Department to maintain the surplus Revenue.

SIR GEORGE TURNER'S PROPOSAL

in Finance Committee, which Mr. Henry voted for, I against, to surprise of latter—

		£
Federation to take responsibility for all interest, Five Colonies		5,419,123
And Customs and Excise Revenue from each in satisfaction, mean of 1893-4-5, actual	£5,704,000	
To be reduced by Intercolonial Free-trade	857,000	
		4,847,000

		£572,123
Annual deficiency in Commonwealth Exchequer		
Plus original expenses	£300,000	
Services taken over	1,250,000	
		1,550,000
		£2,122,123

Necessitating the issue of precept or claim on the Five Colonies of £2,122,123 per annum.

In course of time this would be reduced by unification and consolidation of debt at possibly Three per cent.

How would each Colony make up its share?

Tasmania would need new taxing measures for £110,653.

The inequity of proposal—

	INTEREST.	CUSTOMS.	LOSSES.	GAINS.
New South Wales...	£2,158,170	2,295,000	136,830	
Victoria	1,840,789	1,945,000	104,211	
South Australia	931,573	550,000	...	381,573
West Australia	179,431	603,000	423,569	
Tasmania	309,160	311,000	1840	
Test Tasmania by 1897 Customs compared with the mean of 1893-4-5, viz., £311,000	...	350,000	40,840	

Testing New South Wales by its Freetrade tariff, now producing 1¼ millions, Mr. Reid exclaimed—"How can I ask my people to agree to a proposal which forces the Federal Executive to adopt a maximum Tariff, and reverse in New South Wales our Freetrade policy"?

Testing West Australia by her Customs, where a population of 150,000 now yields beyond one million sterling, she could not agree.

The Committee wished to fix upon 1895 Customs Revenue of the Commonwealth as the basis to establish surpluses. Mr. Henry favoured this, but Tasmania could not consent to it.

Comparing 1895 with 1897, as a proof that no one year can safely be taken as a basis—

	1895.	1897.
Customs for Tasmania	£304,000	£350,000

Forced back upon book-keeping between the States, the Committee adopted my proposals,—viz., each State receive of Revenue in proportion to its contribution, and pay the local expenditure. No State could complain; none would make any sacrifice.

The Convention ultimately adopted Mr. Reid's proposal of the sliding scale to equalise the Revenue in five years, shown on page 10.

THE Government Statistician has compiled the following Table from the latest State Accounts published. The result in gains and losses fully confirm the figures previously submitted by me.

P. O. FYSH.
1. 6. 97.

PROBABLE RESULT OF TRANSFER

of the following Functions and Obligations to Federal Government. (Based upon latest figures available.)

STATE LOSS AND GAIN BY—	New South Wales.	Victoria.	South Australia.	West Australia.	Tasmania.	Five Colonies.
Year ended..............	30. 6. 96.	30. 6. 96.	30. 6. 96.	31.12.96.	31.12.97.	
	£	£	£	£	£	
LOSS BY TRANSFER—						
Customs and Excise Revenue	1,928,379	2,030,702	591,312	996,313	370,000	5,916,706
GAIN BY TRANSFER—						
Customs and Excise Expenditure ...	70,139	68,059	25,116	29,077	6634	199,025
Post and Telegraph Expenditure	788,860	507,460	198,541	269,012	61,480	1,825,353
Defence Expenditure.....................	140,009	168,575	25,930	12,790	9552	356,856
Interest and Maintenance of Works transferred Expenditure.............	138,321	123,400	62,337	32,836	16,120	373,014
Quarantine Expenditure	3500	2200	720	500	500	7420
Lights and Beacons Expenditure	13,700	13,000	8149	14,095	...	48,944
	1,154,529	882,694	320,793	358,310	94,286	2,810,612
Less Revenue from Post and Telegraphs	648,851	516,566	246,613	186,141	76,480	1,674,651
Gross Gain ....*	505,678	366,128	74,180	172,169	17,806	1,135,961
BALANCE { STATE Loss ....†	1,422,701	1,664,574	517,132	824,144	352,194	4,780,745
{ STATE GAIN	...	...	...	...	...	...

PROBABLE FEDERAL REVENUE AND SURPLUS.

New Expenditure	...	...	...	...	...	300,000
Net Cost of Services transferred as above*......................	...	...	...	...	...	1,135,961
Necessary Surplus to make good State Losses as above †	...	...	...	...	...	4,780,745
Total Federal Revenue necessary to be raised by a uniform Tariff ...	...	...	...	...	...	6,216,706

LOSS OR GAIN TO THE SEVERAL STATES, ASSUMING THAT *SURPLUS* IS RETURNED ON THE BASIS OF POPULATION.

State Loss by Transfer as above†	1,422,701	1,664,574	517,132	824,144	352,194	4,780,745
Federal Surplus distributed on basis of Population	1,977,695	1,790,612	549,000	210,270	253,168	4,780,745
ULTIMATE STATE { LOSS PER ANNUM	...	...	...	613,874	99,026	712,900
{ GAIN PER ANNUM......	554,994	126,038	31,868	...	...	712,900

ROBT. M. JOHNSTON, *Government Statistician, Tasmania.*
1. 6. 97.

It is noteworthy that two persons working upon different lines, and producing dissimilar tables, arrive so nearly at similar conclusions. Mr. Johnston arrives at £99,026 per annum as an amount necessarily to be found by Tasmania in consequence of Federation. I have, in the difference between First and Third Examples, on page 5, estimated the amount at £103,629.

P. O. FYSH.

DISTRIBUTION OF FEDERAL SURPLUS.

Probable immediate Effect of the adoption of a Uniform Federal Tariff according to provisions of the Adelaide Convention Draft Bill.

(Based upon the latest figures available relating to the Five Colonies.)

	New South Wales.	Victoria.	South Australia.	West Australia.	Tasmania.	Five Colonies.
	£	£	£	£	£	£
1. Net Yearly State Loss of Revenue involved in giving up control of Customs, Excise, and transferring certain Services with their Revenues and Cost......................	1,422,701	1,664,574	517,132	824,144	352,194	4,780,745
2. Net Burden transferred to Federal Government by Transfer of Services........................	505,678	366,128	74,180	172,169	17,806	1,135,961
3. Equitable Burden ditto	469,923	425,471	130,449	49,962	60,156	1,135,961
Ditto { Above Equity	35,755	—	—	122,207	—	}
{ Below Equity	—	59,343	56,269	—	42,350	}
4. Federal Surplus distributed on basis of Population.................	1,977,695	1,790,612	549,000	210,270	253,168	4,780,745
Ultimate State Loss } Gain	554,994	126,038	31,868	—	—	712,900
or Gain { Loss	—	—	—	613,874	99,026	712,900
5. Ultimate distribution of Federal Surplus *if corrected for unequal transfer of Services*	1,941,940	1,849,955	605,269	88,063	295,518	4,780,745
Corrected State Loss or Gain { Gain..	519,239	185,381	88,137	...	...	792,757
{ Loss ..	...	...	...	736,081	56,676	792,757

PERCENTAGE.

1. Net yearly State Loss	29·76	34·82	10·82	17·24	7·36	100
2. Net Burden of Services transferred...	44·51	32·23	6·53	15·16	1·57	100
3. Equitable Burden ditto	41·36	37·45	11·48	4·40	5·31	100
4. Federal Surplus distributed on basis of Population......................	41·36	37·45	11·48	4·40	5·31	100
5. Ditto if corrected for unequal transfer of Service Burdens	40·62	38·69	12·66	1·84	6·19	100

The analysis shown in the preceding tables show the insuperable difficulties involved in any scheme which, as in the proposed Draft Bill, attempts to distribute the necessary Federal Surplus on the basis of population.

Tasmania would require to double nearly her existing heavy Land and Income Tax (an impossibility) to make good loss of income, viz. £99,026, while the loss of West Australia of £613,874 (or, corrected for unequal burden of Service, £736,801) would only leave her £88,063 to carry on local functions, which in the year 1896 required from her an outlay of £824,144. It is a luxury of choice with the other Colonies whether they accumulate their surpluses or abate their direct taxes. Tasmania, on the other hand, cannot increase her already overburdened direct taxes, and, therefore, to her also the Finance proposals are impossible. The only feasible way out of the difficulty is for a limited number of years, say five or six, to return the Federal Surplus on the percentage proportion which each State's loss of income by transfer bears to the aggregate loss—*see* Item 1. This would be the only way to practically overcome the difficulty involved. The sliding scale provided by the Convention is altogether inadequate to adjust differences and losses of this kind ; and, moreover, it assumes that in five years the difference would be so far removed as to render this aid of no further use. The arrangement, too, of diminishing or increasing State surpluses and deficiencies during the five years after the introduction of a uniform tariff is also open to the serious

objection that it inverts the natural order of necessary aid to the Colonies who are in the greatest strait.   It surely must be conceded that if we reckon upon the conditions of Western Australia and Tasmania on the basis of population assuming normal proportion at the end of five years, the need of relief to each Colony ought to *diminish* as we approach the end of the quinquenniad ; and consequently the *maximum of relief* from the sliding scale should begin with the first year and gradually diminish to zero when the term for such a provision ceases—that is, five-fifths for the first year, four-fifths for the second year, three-fifths for the third year, two-fifths for the fourth year, and one-fifth for the fifth year, coming to zero in the sixth and future years.
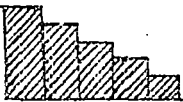
Obviously this is the true natural course, and not that proposed.

The immediate years are those which it may be expected to be most hardly borne, and which should be afforded corresponding relief if the sliding scale is to be of any use.

R. M. JOHNSTON, *Government Statistician, Tasmania.*
3. 6. 97.

ILLUSTRATING DEFECTIVE
INVERSION OF CONVENTION
SLIDING SCALE

Correct and Natural Method for affording
aid by a Sliding scale.

Defective Method of Convention Sliding scale.