

(No. 40.)



PARLIAMENT OF TASMANIA.

CONVERSION AND CONSOLIDATION OF PUBLIC DEBT.

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

Cost of printing-£3.



MEMORANDUM.

Treasury, Hobart, 5th June, 1896.

My mind has long been exercised upon the necessity for innovations and reform of our system of Finance in London.

In February, 1895, you will remember the Federal Council of Australasia carried, at my instance, the following Resolution :---"That this Council desires to represent to the Governments "of Australasia that more economical finance may be secured by jointly, or by some Federal "authority, inviting subscriptions to and undertaking the management of future Loans." I have not followed up the purpose therein expressed, because hoping for an early development of federal government for these Colonies. The time, however, seems now opportune for some movement, and waiting the unification of the debts of all the Colonies as Australasian Federal Consols, which may be more remote than we hope for, may lose the advantages for conversion of our Tasmanian debt which the plethora of capital now offer.

Herewith will be found tables, prepared by the Government Statistician, from which it appears that conversion to three per cent. can be effected upon the market quotations of 27th May, 1896, of Tasmanian Stock at a capital cost of £887,884, and effecting an annual saving of interest between the average face rate of interest now paid of 3.824 per cent. and a conversion rate of 3 per cent., which gives £36,851, and, further, that by providing a Sinking Fund of £8062 the increased nominal debt of £887,884 would, at three per cent. in fifty years, be wiped off, and the transaction give a net immediate annual saving of interest of £28,789.

A table also supplies, as the result of valuations of the capital sums invested at market prices, 27th May, 1896, that $2\frac{3}{2}$ per cent. Imperial Consols at £112 5s. give a nett effective rate of interest to investors of £2 5s. per cent., and that for the seven Australasian Colonies, now paying on faced rates of 3, $3\frac{1}{2}$, and 4 per cent., the valuation, at shortest optional redemption periods, gives a nett effective rate of 2.957. The equivalent immediate saving on Australasian debt of £210,538,117 would amount to £1,015,000.

I have also prepared a statement of charges paid in connection with flotations of Loans, and London management of Australasian Finances, which exposes practices and agreements which could not be more extravagant, and which, if continued, and on the assumption that piecemeal the whole debt of $\pounds 200,000,000$ will be handled during the next thirty years, will be at a loss to the Colonies of $\pounds 298,830$ per annum, the share of Tasmania being, roughly, about $\pounds 12,000$ per annum.

Although the tables were made up on a 3 per cent, conversion, it may be advisable to assimilate the rates with $2\frac{3}{4}$ Imperial Consols. Present conversion may be under less advantageous circumstances prior to than after the formation of an Australasian Commonwealth, under which the entire lands of the Colonies would be associated with the joint and several guarantees of each and all of the Colonies, and the creation of an interminable Stock be of more easy accomplishment, but upon such points very valuable advice can be obtained through Sir Robert Herbert's agency.

There is grave cause for alarm in the present condition of colonial indebtedness, for, notwithstanding the Australasian volume of trade has reached £144,000,000 in a year and may be quoted at £120,000,000 now, or a considerable excess upon the volume of trade of Great Britain when Her Most Gracious Majesty ascended the throne, and further, that the accumulation of private wealth in Australasia gives £309 per head of population against £246 for Great Britain, and that agricultural, mannfacturing, and mining pursuits are but in their infancy in Australasia, these Colonies may be paralysed for a time should European developments cause a crisis contemporaneously with a need by the Colonies to renew even a tenth portion, or £20,000,000, of their Loans. British financiers will also possibly advise that for investment an interminable Stock may be preferred, and, possibly, with the option to Colonies of redemption in fifty years.

The table of costs attending our present methods of Finance in London may serve as a basis upon which to found advice for remedies.

I shall very much prefer that all Australasian Finance be concentrated in one office in London, the Agency of the Australasian Commonwealth, or waiting for that, the Australasian Finance Agency; but this anticipates federal action by the probable agreement of the Australasian Colonies to associate for the purposes herein set forth, as to which agreement no progress has yet been made, but as to which I address you separately for communication with the Honourables the Premiers of other Australasian Colonies.

There is, I trust, ample in this memorandum to enable the fullest enquiry by Sir Robert Herbert, and, as I hope to move in the matter during the coming Session of Parliament, I shall be glad of his prompt reply.

Possibly all the Agents-General may be induced by Sir Robert to meet, and, after discussion, make joint representations to their Governments upon the subject.

If the Colonies be brought into line on such an important item of finance as the debt, it will be a long step towards complete federation.

It will be observed that all calculations are made on the assumption that the stocks can be exchanged at the market value of 27th May, and therefore the cost is placed at a maximum; but, although the figures include a quarter per cent. as a bonus to induce the public to come in, there does not appear on our part any necessity to follow Mr. Goschen's lead in this respect, for, with the premium prices now quoted serious fluctuations of an important nature, if not imminent, must be expected, as such values cannot be regarded as permanently established, and should induce holders to accept converted stock at less than the capital value of existing prices at 3 per cent.

I cannot hope that our bankers will afford to you any assistance, or even valuable advice : they cannot look with any favour upon these proposals, and we must be prepared for their frowns or, what may be as bad, their indifference coldly expressed. That position has, of course, its value, and Tasmania, if alone, may find it obstructive, although not permanently successful; but Australasia, if unitedly taking up the purpose, will establish investment stocks second in popularity only to Imperial Consols, and can breast all opposition.

The time must come, and I think is present, for the management by our own officers of all financial matters in London, and dealing directly with the public instead of through syndicates and bankers; and the exigencies of holders of stock, and the further cause which may arise for future borrowings should keep the doors of the Inscribed Stock Office open to the public in perpetuity, and Australasian Consols be dealt in as freely and as frequently as are Imperial Consols.

Obviously, then, the matters for reference are :---

- 1. The establishment of an Australasian Federal Finance Agency, in which the Australasian Agents-General shall ex officio be the "Managers."
- 2. The conversion and consolidation of Australasian Loans at a reduced uniform rate.
- 3. To report upon the purpose which is submitted, that the said Australasian Finance Agency shall undertake the flotation, inscription, and management of Loans, and all finance connected therewith.
- 4. To advise upon the probable capital sum at which investors should be invited to convert their holdings.
- 5. To advise upon the preference for Interminable Stocks, and whether option to redeem in Fifty years should be had by the Colonies.

Or, 6. Failing any concerted action by the other Colonies;

To advise separately upon the matters having regard to Tasmanian interests only.

The Hon. the Premier.

P. O. FYSH, Treasurer.

CHARGES IN CONNECTION WITH THE FLOTATION OF AUSTRALASIAN LOANS.

£200,000,000, AVERAGE CURRENCY 30 YEARS, AND LONDON MANAGEMENT OF COLONIAL FINANCE IN LONDON.

$\mathbb{T}_{\mathbf{r}}$ $\mathbb{D}_{\mathbf{r}}$ $\mathbb{D}_{\mathbf{r}}$ $\mathbb{C}_{\mathbf{r}}$	per annum.
To margin for Brokers and Syndicates between minimum price fixed and	£80,000
their selling price on closing of Tenders, £2 per cent	133,333
To Bankers' demand of £10,000, Floating Balance for Tasmania-probably	;
much larger for other Colonies-valued at lowest face rate of Colonial	
Stocks, 3 per cent., say	1000
To Interest lost, say on total of all habilities discharged by Banks by reason of their demand to be placed in funda series days in anticipation of the	
due date of £8,000,000 the annual disbursement for interest alone at	
1s. 4d. per cent	5333
To Bank of Issue on nominal amount of each loan floated, £200,000,000 at	
5s. per cent. = $\pounds 500,000$ in 30 years	$16,\!666$
To Brokers, on Tenders, at 5s. per cent	16,666
To Bankers, on repayment, at 1s. 3d. per cent	4166
To British Government-Commutations of Stamp Duty, 12s. 6d. per cent	41,666

£298,830

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CONVERSION AND CONSOLIDATION OF TASMANIAN FUNDED DEBT, £7,782,170.

(31st December, 1895.)

ESTIMATED Equivalent Value in 3 per cent. par Stock of the existing Funded Debt of Tasmania, and showing the immediate Saving to Revenue in respect of Annual Interest Burden, assuming that a transfer could be effected at once.

	Existing Funded Debt.		Present Value above 3 per cent. par Stock of similar amount.		Present Total Equiv par S	Immediate Saving in Yearly Interest.			
Nominal Rate.	Amount.	Year redeemable.	Years to run.	Yearly Interest.	Per £100.	TOTAL.	Capital Amount.	Yearly Interest.	
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3.824	7,782,170		Mean 18 nearly.	297,599•8	Mean 14.10 nearly.	887,784.65	8,669,954	260,098.65	37,500

Immediate Saving to Revenue, £37,500; equivalent per cent .-- To Interest, 12.60 per cent.; to original Debt, 0.482.

Note.- An equivalent saving in Australasian Debt of £210,538,117 would amount to £1,015,000 at first.

* Redeemable at option, 1920-1940.

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PROPOSED SCHEME FOR CONVERSION AND CONSOLIDATION OF EXISTING FUNDED DEBT OF TASMANIA.

(31st December, 1895.)

DEBT, £7,782,170. Interest Current Year, £297,600, or 3.824 per cent.; redeemable from Years 1897 to 1926. Present Capital Value, or Equivalent in Three per cent. par Stock, £8,669,554. Excess of Present Capital Value above existing Nominal Debt, £887,784.

	SCHEME B. Immediate Saving of £28,789 to Revenue	YEARLY.	IMMEDIATE	SCHEME SAVING OF C36 851	C.	
	(a) Negotiate with existing Stockholders an exchange value in Three per cent. par Stock, to be issued redeemable adding (b) $\frac{1}{4}$ per cent. as a bonus to induce exchange with fixed; (c) also establish a Sinking Fund to wipe off extra N	of an equivalent in — to 50 years, hin a time to be ominal Debt in 50	Same as B , but volume— Interest on £8,6	making no provision to	reduce Nominal Deb	£260.749
	Years ; thus- Equivalent of £7,782,170 in Three per cent. par Stock be issued redeemable in — to 50 years Add ‡ per cent. to induce transfer	to £8,669,954 21,675	IMMEDIATE AN	NNUAL SAVING TO RE	VENUE	£36,851 *
	Total Interest at Three per cent. Add Annual Contribution to Sinking Fund to wipe extra Nominal Debt in 50 years	£8,691,629 £260,749 off 8062	* Equivalent = £6,820,000, or original Capital	in effect to a contraction by £962,170 ; or repr Debt. †	of existing Nominal cesenting 0.471 per o	Debt to cent. of
	SAVING AS ABOVE PER YEAR IMMEDIATELY	£268,811 £28,789	+A corresponding sav Colo	ving of 0.471 per cent. o onies would represent a sun	n <i>£210,538,117</i> D n of <i>£991,600</i> .	bebt of Seven
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907			A	A		£260.099 & B£260.099
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of ± 7,782,170 talling due or redeemable between years 1897-1926 assuming that Stocks can be renewed at 3 % par = £8,669,954 m 3% par stock Fiz:

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acc/ " " "					2200	
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NIL----'----(A) EXISTING STATE OF DEBT

£ 837,785----(B) CONVERSION TO 3% PAR STOCK WITH SINKING FUND TO WIPE OFF EXTRA DEBT IN 50 YEARS. ALL THE EXACT MONETARY EQUIVALENTS OF EACH OTHER £1,065,485-----(C) DITTO BUT ALLOWING THE INCREASED NOMINAL DEBT £ 25,685,934 TO BE CONTINUOUS

PROPOSED SCHEMES FOR THE CONVERSION AND CONSOLIDATION OF THE EXISTING PUBLIC DEBT OF THE SEVEN COLONIES OF AUSTRALASIA.

SCHEME B.

For existing Stock, (A) issue equivalent value to holders in 3 per cent. Stock par value; (B) adding $\frac{1}{4}$ per cent. bonus, to induce holders to transfer; (C) establish Sinking Fund and wipe off the extra nominal debt in 50 years :--

Existing Interest Existing Nominal Debt	8,152,319 210,541,142
Present equivalent in 3 per cent. par Stock Add $\frac{1}{4}$ per cent. to induce transfer	£236,227,476 590,569
	£236,818,045
Interest	£7,104,541
Immediate saving	£1,047,778
years	233,000
Immediate saving to Revenue	£814,778
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SCHEME C.

Same as Scheme B, but no provision to wipe off extra nominal Debt.

Immediate	yearly	saving t	o Revenue	••••••	£1,047,778
immediate	yearry	saving t	o mevenue		J.1,0±1,110

R. M. JOHNSTON. 5. 6. 96.

CONVERSION AND CONSOLIDATION OF EXISTING PUBLIC DEBT OF THE SEVEN COLONIES OF AUSTRALASIA.

ESTIMATED EQUIVALENT in Three per cent. par Stock of the existing Nominal Public Debt of the Seven Colonies of Australasia; also showing approximately the immediate Saving to Revenue in yearly burden of Interest if a Transfer or Conversion could be effected forthwith.

-	(A) Proportion of Debt actually computed, with due regard to Nominal Rate and Years of Redemption.			(B) Estimated Equivalent in respect of Total Debt based upon calculated results—(see A.).					Immediate Saving to Revenue per Year.		Sinking Fund Contribution per Year for Fifty Years	
VARIABLE.	Existing Fr (Prope	unded Debt ortion).	Present Capital Value.	Total Existin Inter	g Debt and est.	Present Capital Value above 3 per cent. par.	Equivalent prev Value of Tota per cent. par S	sent Capital al Debt in 3 Stock.	Amount.	Per cent. to Total De bt.	to wipe off Debt.	extra Ňominal
	Amount.	Yearly Interest.	Above 3 per cent. par.	Amount.	(B) Yearly Interest (present). †	(B)	(в) Amount.	(в) Yearly Interest.	(B)	(в)	(B) Amount.	Net Saving per Year immediately.
N. S. Wales	£ 51,913,930	£ 1,953,226·2	£ 5,954,418	£ 58,204,253	£ 2,190,000	£ 6,676,000	£ 64,880,653	£ 1,946,419	\pounds 243,581	•418	£	£
Victoria,	42,480,475	1,652,419	4,611,900	47,804,382	1,859,500	5,189,000	52,993,382	1,589,801	. 269,699	•558	1	
Queensland	29,873,934	1,152,509.19	4,250,050	30,639,534	1,182,000	4,309,500	34,999,034	1,049,971	132,029	•431		
S. Australia	21,008,900	828,480.5	2,929,641	22,306,500	879,600	3,111,000	25,417,500	762,525	117,075	•525	1	•
W. Australia	2,375,663	96,517.5	372,012	3,417,339	137,420	535,150	3,952,489	118,575	18,845	•551		,
Tasmania	7,782,170	297,599.8	887,784	7,782,170	297,599	887,784	8,669,954	260 .099	37,500	·482		
Six Colonies	155,435,072	5,980,752	19,005,805	170,154,178	6,546,119	20,758,434	190,913,012	5,727,390	818,729	•481		
New Zealand‡	l —	_		40,386,964	1,606,200§	4,927,500	45,314,464	1,359,434	246,766	•611		
	155,435,072	5,980,752	19,005,805	210,541,142	8,152,319	25,685,934	236,227,476	7,086,824	1,065,495	•506	227,700	837,795

* Premium Present Capital Value computed on years to run of Stocks falling due and redeemable in various years from year 1896 onwards.

+ Computed on the mean rate of Interest for year 1896.

Computed on the mean of results ascertained in respect of the Six Colonies of Australia and Tasmania. This probably gives too favourable a result for New Zealand, as a very large proportion of her Debt in 4 per cent. Stock has a long period to run before redemption.

§ Approximately on year 1896.

 ∞

27TH MAY QUOTATIONS, (1896.) RETURN on Stocks redeemable in different years, including provision for redemption of

present Premium Amount at the end of year when each Class of Stock fall due.

EFFECTIVE RATE PER CENT. STOCK. GROSS AND INCLUDING PRO-VISION FOR REDEMPTION. COUNTRY. PRICE. Year Year to Nominal Sinking Net Effective Gross. redeemable run. Rate per cent Fund. Rate. £ £ £ £ đ. IMPERIAL CONSOLS $2\frac{3}{4}$ 112 5 0 $2 \cdot 5$ 2.5... AUSTRALIAN COLONIES-3.028Victoria 24 115 5 0 19203.471·443 4 2·966 3·085 $\cdot 282$ $\left. \begin{array}{c} 25 \\ 30 \end{array} \right\}$ 1921ł Ditto $3\frac{1}{2}$ 107 15 $3 \cdot 248$ 0 ·163 19262.936New South Wales 1933 37 122 $\mathbf{5}$ $3 \cdot 272$ ·336 0 $\mathbf{22}$ $3\frac{1}{2}$ $109 \ 15$ 3.1902.871Ditto 1918 0 $\cdot 319$ 2.913Ditto 1935 39 3 102 0 0 2.940 $\cdot 027$ $\left. \begin{array}{c} 2 \cdot 952 \\ 3 \cdot 298 \end{array} \right\}$ 20) 1916 $\cdot 540$ South Australia 114 10 3.4924 0 $\tilde{40}$ ·194 1936 ·139 Ditto $3\frac{1}{2}$ 112 0 0 $3 \cdot 124$ 2.985 1939 43 Ditto ? 49? 3 102 $\mathbf{5}$ 0 2.927 $\cdot 021$ 2.90619 28 } 1915 ·427 2.991117 0 'Queensland 0 3.4184 3.3451924 .073) 2.949 28) 1924 $\cdot 233$ 110 0 0 ł Ditto 3.182 $3\frac{1}{2}$ ·173 3.009 193034 ĵ 33 New Zealand..... 1929 116 10 0 3.635·300 3.332Ditto 1940 $109 \ 15$ 3·190 ·116 3.074 44 $3\frac{1}{2}$ 0 Ditto 1945 49 3 102 5 0 2.927 .0212.906 $\left. \begin{array}{c} 24 \\ 44 \end{array} \right\}$ 1920 ·305 2.862)Tasmania $3\frac{1}{2}$ 110 10 0 $3 \cdot 167$ ·118 3.049 ∫ 194419 (2.684} 1915 ·427 West Australia $3\frac{1}{2}$ 112 0 0 3.111193539 ∫ ·027 **3**·084 € 2.957 At shortest R.P. Mean of Seven Colonies) Gross..... 3.011 €

From reference to the Mean Effective Rate of Interest, it will be seen that the shortest optional period when Stock may be redeemed (viz., 2.957), it appears that Tasmania's $3\frac{1}{2}$ per cent. Stock, = 2.862 (at shortest optional period of redemption), stands amongst the best of all Australasian Stocks, being 0.095 below the average of all.

R. M. JOHNSTON.

28. 5. 96.

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WILLIAM GRAHAME, JUN. GOVERNMENT PRINTER, TASMANJA.