

PART III.—SINKING FUNDS FOR THE ABSOLUTE REDEMPTION OF EXISTING AND FUTURE STATE DEBTS.

Having already demonstrated that the Wealth of the People of the Australian States since the introduction of Loans has increased in a vastly greater ratio than either Population or the present aggregate capital value of the unredeemed State Debts; and also, that, owing to the consequent increase of population and the growing working profit of State Railways to State Treasury revenues, the burden of interest for State Debts of £240,149,727 in the year 1906-7 only exceeds by 2d. per head the corresponding interest burden for State Debts in 1870, when the latter only amounted to £28,328,000, it becomes an important matter to examine the question, now so frequently proposed, as to the absolute redemption of present and future debts by means of yearly appropriation from current States revenue accounts towards an absolute Redemption Sinking Fund within a given term of years from the present date as regards debts incurred in past years, and similar provision for freshly incurred debts from the date of their contraction.

There are many suggestions recently advocated by very able public men interested in the problems of State Finance for such a purpose.

But the real question is: How far should the taxpayer of the day burden himself, not only with his own share of burdens of the State for which he in his own time is responsible, but also with burdens incurred by a former generation of taxpayers, with the view obviously of giving a much lighter burden to future generations of taxpayers, who (having the same or a fuller benefit of the same Asset) by the natural increase of numbers, would be financially more able to bear such absolute weight of burden of interest on necessary State Debts than the taxpayers of to-day.

The suggestions made by many of such advisers, in promoting the idea of creating such Sinking Funds for the Total Redemption of existing and future State

Debts, within the limits of periods of, say, 40 to 60 years, though eminently prudent and economic from the standpoint of a private individual, may still be open to question or qualification when applied to the economics of a corporate body, such as a Railway, Joint Stock Company or modern Industrial State.

The policy for determining the extent, form, and duration of Public Loans, contracted for the purpose of investment in any advantageous scheme of remunerative or reproductive work or purpose, should differ widely in some important respects, accordingly as it affects the future outlook of the private individual, the corporate body, or the Industrial State, for the following reasons:—

The "Life-expectation" of an individual person is limited, and rapidly diminishes at every stage—say after the age of 20 years. In like manner his natural powers, physical and mental, gradually decline, especially so towards the close of the average individual life.

The average Breadwinner of the State may be taken as the Shareholder unit of the State, corresponding somewhat to the individual as the Breadwinner of the Family Circle. The average State Breadwinner's life, however, is practically interminable—never grows older with years—and, in the aggregate, whose individuality is ever changing in young prosperous States, the Breadwinners or Taxpayers at the end of a century are likely to possess fully five times the power and revenue-yielding ability possessed by the aggregate Breadwinners or Taxpayers of the same State at the beginning of the century, so far as any fixed amount of debt is concerned. Even if the present debt increased in the ratio of population, the latter, from the greater wealth producing asset, kept up to present value by current revenue for renewals and repairs, without any redemption of debts, would still be less burdened per head than the State Taxpayers of to-day.

The important distinction between the Individual Family Breadwinner and the corresponding unit—the Taxpayer of the State—is perhaps best illustrated by comparing the present capital value of £1 respectively of the annual incomes of the private individual and the State Taxpayer, as in the following abstract:—

- (1). An individual—say 20 years of age—possessing a fixed income, assumed to be terminable at death.
- (2). The average existing unit Taxpayer of the State, who may be regarded not only as possessing a practically interminable income, but, owing to the natural increase of the population, his present capital value, instead of diminishing, gradually increases from year to year. In this way a given fixed burden, which may at the beginning of a century in a State, with a population of, say, 4,000,000, demand a tax of 41s. 11d. per head, would only demand for the same burden a tax of 7s. 8d. per head, when the population then increased, probably, to over 22,000,000—that is at the close of the century.

TABLE SHOWING THE COMPARATIVE PRESENT CAPITAL VALUE OF EVERY £1 OF THE ANNUAL INCOME AT DIFFERENT PERIODS OF A SINGLE LIFE AND OF THE AVERAGE ANNUAL INCOME OF A STATE BREADWINNER RESPECTIVELY.

Column (A) indicates the year.

Column (B) indicates at each period the "Expectation of Life in Years of the Single Individual Life."

Column (C) indicates the relative increase of State Breadwinners at each period owing to the natural growth of population.

Column (D) indicates the Present Capital Value of every £1 of the fixed annual Income of a Single Individual terminable at death. The Individual is assumed to be of the age of 20 years at the year 1906. The present Capital Value gradually shrinks with the increasing age of the Individual.

Column (E) indicates the Present Capital Value of every £1 of the annual Income of the average Taxpayer of a progressive State. The life of the State Taxpayer may be regarded as practically interminable, and the Present Capital Value at each successive period increases in accordance with the natural increase of the population.

(A)	(B)	(C)	(D)	(E)
	No.	No.	£	£
1906	42.10	1	21.83	27.66
1916	34.73	1.17	20.00	30.95
1926	27.39	1.39	17.28	36.74
1936	20.27	1.64	14.21	43.60
1946	13.81	1.95	10.92	51.76
1956	8.49	2.32	7.24	61.45
1966	4.66	2.75	4.23	72.95
1976	2.31	3.17	2.20	84.03
1986	0.75	3.88	0.75	102.80
1996	nil	4.60	nil	122.10
2006	nil	5.47	nil	145.40

From such considerations the writer is of opinion that the State Taxpayers of the day stand, in relation to ever-changing individuality of the State Taxpayers of the past and the future, in exactly the same ethical and economical relation as do the existing Shareholders of a Private Railway Corporation to past and future Shareholders of the same concern; and, consequently (apart from the lack of any necessity to do so), there are neither moral nor economical grounds why either State Taxpayer or Shareholder of the day should, in addition to their own equitable share of burden mulct themselves in additional expense as by Sinking Funds for the purpose of relieving their future representatives of a portion of their own fair and equitable share of burdens. The latter, too, from increasing value of Loans, Assets, increasing number and financial ability, should be in a stronger position than their representatives of to-day to fully discharge all reasonable obligation falling naturally upon them.

In conclusion, I am strongly of opinion that Sinking Funds for the absolute redemption of Loans invested in Railways, Harbours, and other Public Works should be restricted to the portions of such Loans whose Assets are short-lived and, like the terminable life of Marine Vessels, cannot be permanently preserved in original pristine value and utility by the proper yearly contributions to Maintenance, Renewals, and Repairs from current revenue, by which means the whole Permanent Way, Machinery, and Equipment of Railways are ever kept up to their pristine value as State Assets.