



FOR PRESS:

PMs No 21/1972

OUTCOME OF THE PREMIERS' CONFERENCE

FEBRUARY 1972

Statement by the Prime Minister, The Rt Hon. William McMahon, C.H., M.P.

In my opening statement to the Conference (copies of which have been circulated), I outlined the Commonwealth's assessment of the economic situation and prospect and indicated in broad terms the programme of action which the Government had developed on the basis of its detailed review of the economy. This review was, of course, consistent with our commitment to keep the economy under review but it was also undertaken, having in mind the opportunity today's Conference presented, to take into account the views of the Premiers on our assessment and on our programme.

The programme I outlined to the Premiers this morning was :-

- (a) to increase unemployment benefits and associated short term sickness and special benefit for adult males from \$10 per week to \$17 per week with commensurate increases for juniors;
- (b) to increase the amount of the grants introduced last December for employment-creating activities in non-metropolitan areas from \$2.25 million per month to \$4 million per month - a rate of \$48 million per year;
- (c) to restore the special investment allowance on investment in new manufacturing plant and equipment as from this day in the form in which it previously existed.
- (d) to seek agreement to increases in the States' works and housing and semi-government borrowing programmes.

In discussion with the Treasurer and myself the Premiers indicated that they welcomed the proposals, both for their beneficial effect on the economy and particularly on unemployment, but also for their impact on the social hardship of some individuals in the community.

The Premiers argued cogently that there should be an increase in the amount of the non-metropolitan employment creating grants and, on their assurance that an increased amount could readily be allocated to urgent and useful works, the Commonwealth agreed to increase the monthly amount of the grants to \$4.5 million, thus lifting the annual rate of the grant to \$54 million. The increased grants effective from the beginning of this month, will be distributed on the same basis as under the existing arrangements, which will be subject to review in June.

The Premiers unanimously welcomed the Commonwealth's decision to restore the special investment allowance and recognised this initiative as likely to provide a major boost to confidence across a wide spectrum of Australian industry. The Treasurer is making a statement today in more detail on this subject.

In my opening statement this morning I had said that in the light of the Government's overall objectives, including maintaining the momentum of economic growth and hence of employment we believe there is a case for an increase both in the States' works and housing and semi-government programmes, and I noted that an increase in the works and housing programme which might be agreed would involve the Commonwealth in taking up part of such an increase in the form of interest-free capital grant. In reaching this view we had noted that within the overall picture of rather stronger growth in public sector expenditure this year than last year, total public authority capital expenditure is growing more slowly than current expenditure. Moreover, despite considerable special assistance from the Commonwealth, rapidly escalating wage costs had meant that in 1970-71 a number of important State works had had to be deferred. Similarly, the works activities of certain of the State semi-governmental and local authorities have also had to be curtailed and the Premiers had indicated in discussion that they welcomed some increase in this area. Additionally, of course, the loan raising programmes have been very successful in this financial year to date.

After the fullest consideration of the evidence and arguments produced by the States full agreement has been reached by the Loan Council on the amounts of the increases of these programmes. The amounts now agreed are :-

- (a) for the works and housing programmes an increase of \$32 million;
- (b) for the semi-governmental programme an increase of \$10 million.

It has been agreed that the works and housing programmes of the States for 1971-72 will be increased by \$32 million, bringing the total to \$892 million. This increase is made up of \$30 million on the same basis as the existing programme - that is, approximately one-quarter is interest-free capital grant and the remainder loan money - with the remaining \$2 million being entirely interest-free grant.

The additional \$2 million interest-free capital grant has been provided by the Commonwealth having regard to the continuing costs in which the States will be involved in administering the

conversion to the metric system. The States have agreed that, with this assistance (which of course will be reflected in and will escalate with the interest-free capital grant component of works and housing programmes in future years), they will meet these costs from their own resources.

These increased loan funds will be distributed between the States in line with the existing programme. (Details of the amounts and distribution are shown in the attached tables). They will have a direct impact in increasing employment and will certainly permit the carrying out of additional worthwhile public works projects particularly in the urban areas including hospitals, schools and water supply.

The Commonwealth is prepared to give an undertaking that the level of the works and housing and the semi-government borrowing programmes it is prepared to support for 1972-73 will not be less than the total of such programme in 1971-72 as decided at this meeting.

In agreeing to the Commonwealth proposal to increase the borrowing programmes, the Premiers have given their assurance that the additional funds will, so far as is practicable without loss of efficiency and effectiveness, be utilised quickly, having in mind the desirability of producing an early impact on employment.

In my opening statement I said that Premiers might also wish to consider not only their loan programmes but also their prospective revenue budgets for 1971-72, and I assured them that we would listen carefully to anything that they might care to put on this aspect. I did point out, however, that revisions to elements of the formula determining the financial assistance grants to be paid to the States in 1971-72 indicate that the amount the States will receive by way of general revenue assistance this financial year is presently calculated to increase by the order of \$20 million.

In the event, we have today had a very frank discussion of this aspect of the States finances.

All the Premiers indicated their budgetary position.

Following a very full discussion, a special general revenue grant of \$15 million will be made by the Commonwealth to the States, in 1971/72. This will be distributed between the States on the same basis as the financial assistance grants. (The figures for individual States are shown in the attached Table.)

New South Wales clearly has a much greater budgetary problem in 1971/72 than any of the other States. The Commonwealth has therefore agreed to extend additional assistance to that State in order to enable it to avoid taking extreme measures to improve its budgetary position. A loan of \$17.5 million will be provided by the Commonwealth to New South Wales this financial year on terms and conditions similar to the loan made available to Victoria for the same purpose at the end of 1969-70. The loan will be made on the basis set out in the Attachment.

Additional Funds to States Agreed at February 1972

Premiers' Conference/Loan Council Meeting (\$ million)

Note:- Distributions between States are approximate only in some cases.

	<u>Additional Revenue Grants (a)</u>	<u>Special Advance to New South Wales (b)</u>	<u>Additional Works and Housing Programmes</u>			<u>Additional Semi-Government Programmes</u>	<u>Additional Non-Metropolitan Unemployment Grants</u>	<u>Grand Total</u>
			<u>Loan Programmes</u>	<u>Interest-free Capital Grants</u>	<u>Total</u>			
N.S.W.	5.0	17.50	7.22	2.96	10.18	3.31	4.33	40.3
Vic.	3.7	-	5.80	2.37	8.17	3.48	2.53	17.9
Qld.	2.3	-	2.86	1.18	4.04	1.93	2.25	10.5
S.A.	1.6	-	3.12	1.27	4.39	0.51	0.68	7.2
W.A.	1.7	-	2.12	0.87	2.99	0.45	0.84	6.0
Tas.	0.7	-	1.58	0.65	2.23	0.31	0.62	3.9
<u>Total</u>	15.0	17.50	22.70	9.30	32.00	10.00	11.25	85.8

(a) The grants are to be distributed between the States in the same proportions as the financial assistance grants payable in 1971-72 but before making the deductions from those grants which are accompanying the transfer of pay-roll tax.

(b) To be paid for the purpose of reducing the State's revenue budget deficit and on the terms set out in an attached note.

RECONSTRUCTION OF THE STATE OF NEW SOUTH WALES
RECONSTRUCTION OF THE STATE OF NEW SOUTH WALES

... conditions of this advance, to be made to ... 30 June 1972, are as follows:-

- (a) ... over five years by annual instalments of \$3.5 million on 30 June each year with the proviso that New South Wales undertakes to repay more than \$3.5 million in any year if its budgetary position permits. The Commonwealth has indicated that it would agree to postpone an annual instalment if it is satisfied that the New South Wales budgetary position in the year concerned does not permit repayment to be made without deficit financing. This, of course, would not affect the requirement that the whole of the loan be repaid by 30 June 1972.
- (b) The loan carries interest at the short-term Commonwealth bond rate of 5.3 per cent offered in the February 1972 cash loan.
- (c) No interest is payable in the first year. After this, interest is payable semi-annually on 31 December and 30 June each year on the reducing balance of the loan.