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PREMIERS' CONFERENCE 19 JUNE 1975  
OPENING STATEMENT BY THE PRIME MINISTER  
THE HON. E.G. WHITLAM, O.C., M.P.

THERE HAS BEEN MORE PREPARATION FOR THIS THAN FOR OTHER MEETINGS OF AUSTRALIAN HEADS OF GOVERNMENT. THE PREPARATION MUST BE HELPFUL. OUR OFFICIALS HAVE MET. YOU HAVE PROVIDED US WITH BACKGROUND INFORMATION AND WITH A JOINT STATEMENT OF YOUR PROPOSALS. WE HAVE RESPONDED TO THOSE PROPOSALS AND HAVE INDICATED MATTERS WHICH WE SEE AS OPEN FOR DISCUSSION TODAY. THIS MEETING WILL NOT REMOVE ALL THE MISUNDERSTANDINGS OR THE DISAGREEMENTS BETWEEN THE AUSTRALIAN AND STATE GOVERNMENTS, BUT THE PREPARATION MEANS THAT WE MEET WITH A BETTER UNDERSTANDING OF THE PROBLEMS BEFORE US. THIS DEVELOPMENT IS ONE WHICH I HAVE ENCOURAGED AND IN WHICH YOU HAVE ALL CO-OPERATED, AND I THANK YOU FOR THAT CO-OPERATION.

A CRUCIAL ITEM OF OUR AGENDA IS, OF COURSE, THE REVIEW OF GENERAL REVENUE ASSISTANCE ARRANGEMENTS. HOWEVER, BEFORE TURNING TO THAT, I WANT TO REFER BRIEFLY TO CO-OPERATIVE PLANNING AND REGIONALISM WHICH I HAVE PROPOSED FOR LATER DISCUSSION.

I MUST MAKE IT CLEAR THAT THE AUSTRALIAN GOVERNMENT DOES NOT REGARD THE PRESENT APPROACH TO DETERMINING REVENUE ASSISTANCE ARRANGEMENTS AS SATISFACTORY. STATE EXPENDITURES ARE LARGELY TAKEN AS GIVEN. THERE IS NO EXPLICIT CONSIDERATION

OF PROPER BALANCE BETWEEN STATE PROGRAMS AND RELATED AUSTRALIAN GOVERNMENT PROGRAMS. INSTEAD, AND BY TRADITION, FINANCIAL FACTORS ARE CONSIDERED LARGELY IN TERMS OF THE YEAR IMMEDIATELY AHEAD.

#### CO-OPERATIVE PLANNING

THE AUSTRALIAN GOVERNMENT WILL BE SEEKING IN THE LONGER TERM A MORE RATIONAL AND CO-ORDINATED SYSTEM OF ASSESSING NEEDS, SETTING PRIORITIES AND ALLOCATING RESOURCES IN THE PUBLIC SECTOR - ONE BASED ON CO-OPERATION BETWEEN GOVERNMENTS. IT MAY TAKE YEARS TO DEVELOP A NEW APPROACH OF THE KIND WE HAVE IN MIND, OF THE KIND DISCUSSED AMONG OUR OFFICIALS. BUT WE BELIEVE A START SHOULD BE MADE NOW.

THE VIEW OF THE AUSTRALIAN GOVERNMENT IS THAT IN SEEKING BETTER CO-OPERATIVE PLANNING ARRANGEMENTS IT WOULD BE BEST TO BEGIN WITH PARTICULAR IMPORTANT FUNCTIONS WHERE THERE IS A CLEAR NEED FOR CO-ORDINATION AND WHERE EARLY PROGRESS SEEMS POSSIBLE. THREE SUCH FUNCTIONS HAVE BEEN SUGGESTED IN THE DISCUSSIONS AMONG OUR OFFICERS - TRANSPORT, HEALTH AND URBAN DEVELOPMENT. LET ME ILLUSTRATE WHAT WE HAVE IN MIND BY REFERRING TO URBAN AND REGIONAL DEVELOPMENT WHERE IMPORTANT FACTORS DETERMINING DEVELOPMENT ARE PLANNED AND FUNDED AT DIFFERENT LEVELS OF GOVERNMENT. THE AUSTRALIAN GOVERNMENT IS RESPONSIBLE FOR THE RETICULATION OF TELECOMMUNICATIONS. THE STATE SEMI-GOVERNMENTAL AND LOCAL AUTHORITIES ARE RESPONSIBLE FOR THE

RETICULATION OF WATER AND SEWERAGE. THE NEED FOR OVERALL CO-ORDINATION IS OBVIOUS.

MORE THAN \$4,500 MILLION IS CURRENTLY BEING SPENT ON TRANSPORT EACH YEAR - AND THAT IS MORE THAN 12 PER CENT OF GROSS NATIONAL EXPENDITURE. THE DECISIONS BY EACH LEVEL OF GOVERNMENT ON THE ALLOCATION OF RESOURCES TO THE MODES OF TRANSPORT FOR WHICH IT IS RESPONSIBLE SHOULD BE CONSISTENT WITH THE DECISIONS BY OTHER LEVELS IF THIS MONEY IS TO BE WELL SPENT.

WE BELIEVE THAT OUR DECISIONS ON THE ALLOCATION OF RESOURCES TO AIRPORTS AND AIRWAYS FACILITIES SHOULD BE MADE WITH KNOWLEDGE OF THE STATES' VIEWS ON THEIR PRIORITY RELATIVE TO OTHER MODES OF TRANSPORT. SIMILARLY WE WOULD EXPECT THE STATES' DECISIONS ON THE ALLOCATION OF RESOURCES TO PORTS TO BE MADE WITH KNOWLEDGE OF OUR VIEWS.

THERE HAVE BEEN IMPORTANT DEVELOPMENTS IN RECENT YEARS. SINCE 1969 ROADS ASSISTANCE HAS BEEN BASED ON A SURVEY UNDERTAKEN JOINTLY BY AUSTRALIAN AND STATE AUTHORITIES. THE AUSTRALIAN GOVERNMENT IS NOW REPRESENTED ON STATE URBAN TRANSPORT PLANNING BODIES. REGIONAL ADVISORY COMMITTEES HAVE BEEN ESTABLISHED TO PARTICIPATE IN THE PLANNING OF MAJOR AIRPORTS.

APART FROM PARTICULAR DEVELOPMENTS, THE AUSTRALIAN TRANSPORT ADVISORY COUNCIL HAS BECOME THE MAJOR FORUM ON THE

PROBLEMS OF PUBLIC TRANSPORT SERVICES, MAIN RAILWAY LINES AND ROADS. THE AUSTRALIAN GOVERNMENT HAS RECENTLY TAKEN THE INITIATIVE IN INTRODUCING AVIATION MATTERS INTO ATAC, AND IN SEEKING CONSIDERATION THERE OF THE QUESTION OF RESOURCE ALLOCATION TO TRANSPORT GENERALLY. IT IS THIS LATTER DEVELOPMENT WHICH WE BELIEVE SHOULD BE ENCOURAGED AND ACCELERATED.

I UNDERSTAND THAT ATAC WILL BE REVIEWING ITS MACHINERY AT ITS MEETING NEXT MONTH. I SUGGEST WE SHOULD ASK BOTH ATAC AND THE PORTS AND MARINE COUNCIL TO REPORT BACK TO US ON HOW BEST TO PROCEED WITH THE DEVELOPMENT OF WIDER CO-OPERATIVE PLANNING ARRANGEMENTS OF THE KIND DESCRIBED.

A SUMMARY OF POINTS OF POSSIBLE AGREEMENT ON CO-OPERATIVE PLANNING HAS BEEN CIRCULATED TO YOU. I ASK YOU TO NOTE THAT THEY ARE SIMPLY INTENDED TO FORM A FRAME OF REFERENCE AGAINST WHICH OFFICIALS AND MINISTERS CAN PROCEED WITH FURTHER EXAMINATION IN THE MONTHS AHEAD SO THAT MORE CONSIDERED REPORTS CAN BE PUT BEFORE US AT A FUTURE TIME.

THERE IS NO COMMITMENT INVOLVED IN AGREEING TO THIS SET OF POINTS, OTHER THAN THAT FURTHER STUDY BE UNDERTAKEN CO-OPERATIVELY BETWEEN OUR OFFICIALS. ON THAT BASIS I WILL BE ASKING THAT PREMIERS INDICATE THEIR AGREEMENT WHEN WE COME TO DISCUSSION OF THAT ITEM.

REGIONAL POLICY

THE AUSTRALIAN GOVERNMENT HAS LAID CONSIDERABLE STRESS ON THE ADOPTION OF A REGIONAL APPROACH TO PLANNING AND DECISION-MAKING. THE AUSTRALIAN ASSISTANCE PLAN AND THE AREA IMPROVEMENT PROGRAM ARE EXAMPLES OF PROGRAMS DELIVERED ON A REGIONAL BASIS. A STATEMENT OF THE AUSTRALIAN GOVERNMENT'S REGIONAL POLICY WAS MADE BY ME ON 18 JUNE.

IN BRIEF, THE AUSTRALIAN GOVERNMENT HAS ADOPTED, AS A BASIS FOR ITS REGIONAL POLICY, THESE OBJECTIVES :

- (A) SERVICES AND PROGRAMS OF THE AUSTRALIAN GOVERNMENT SHOULD BE PROVIDED ON A REGIONAL BASIS UNLESS IT IS INAPPROPRIATE TO DO SO, WITH REGARD TO EFFICIENCY, ECONOMY AND EFFECTIVENESS.
- (B) REGIONAL BODIES OR ORGANISATIONS SHOULD BE GIVEN A RESPONSIBILITY FOR THOSE SERVICES WHEREVER POSSIBLE, NOTING THAT THIS RESPONSIBILITY MAY RANGE FROM DIRECT INVOLVEMENT IN DECISION-MAKING THROUGH TO CONSULTATION..
- (C) PUBLIC PARTICIPATION IN PLANNING AND DECISION-MAKING FOR, AND IMPLEMENTATION OF, PROGRAMS SHOULD BE ENCOURAGED AND ASSISTED.
- (D) STATE AND LOCAL GOVERNMENT SHOULD BE ENCOURAGED TO DELEGATE TO REGIONAL BODIES MORE RESPONSIBILITY FOR THOSE STATE AND LOCAL GOVERNMENT PROGRAMS WHICH ARE MOST APPROPRIATELY DELIVERED AT THE REGIONAL LEVEL AND TO FOSTER PUBLIC PARTICIPATION.

ARRANGEMENTS FOR THE IMPLEMENTATION OF THE AUSTRALIAN GOVERNMENT'S REGIONAL POLICY WILL NEED TO BE FLEXIBLE. THERE MAY

BE DIFFERENCES FROM STATE TO STATE, AND REGION TO REGION,  
BECAUSE OF PARTICULAR CIRCUMSTANCES.

REVIEW OF GENERAL REVENUE ASSISTANCE ARRANGEMENTS

I NOW SHOULD LIKE TO MAKE SOME OBSERVATIONS ON THE  
ECONOMIC CONTEXT IN WHICH THE REVIEW OF GENERAL REVENUE  
ASSISTANCE ARRANGEMENTS IS TO BE MADE. I SHALL THEN  
DEAL MORE SPECIFICALLY WITH OUR VIEWS ON WHAT THE NEW  
FINANCIAL ASSISTANCE ARRANGEMENTS SHOULD BE.

IN THE PAST EIGHTEEN MONTHS THE MAJOR ECONOMIES OF THE  
WORLD - SEVERELY AFFECTED BY THE OIL PRICE RISE AND THE  
DESTABILISING EFFECTS OF THAT ON WORLD TRADE AND INVESTOR  
CONFIDENCE - HAVE BEEN STRUGGLING WITH THE TWIN PROBLEMS OF  
RISING UNEMPLOYMENT AND RISING INFLATION. AUSTRALIA HAS NOT  
BEEN ABLE TO INSULATE ITSELF FROM THAT WORLD SITUATION.

BUT IN AUSTRALIA AS IN OTHER COUNTRIES THE BATTLE IS  
NOW ON TO RESTORE A MORE BALANCED ECONOMIC ORDER. WE ARE SEEING  
ECONOMIC GROWTH BEGINNING AGAIN. THE RISE IN UNEMPLOYMENT SEEMS  
TO HAVE COME TO AN END AND 1975/76 PROMISES TO SEE EMPLOYMENT  
OPPORTUNITIES ON THE INCREASE AGAIN. BUT INFLATION REMAINS DEEP-  
SEATED. FIRM AND RESPONSIBLE POLICIES WILL HAVE TO BE FOLLOWED  
IF IT IS TO BE BROUGHT UNDER CONTROL. INFLATION AT A RATE  
APPROACHING 20 PER CENT A YEAR IS INTOLERABLE. IT WRECKS  
CONFIDENCE, DISCOURAGES PRIVATE INVESTMENT, ROBS ORDINARY PEOPLE  
OF THE VALUE OF THEIR SAVINGS AND PREVENTS GOVERNMENTS FROM  
PURSUING CONSISTENTLY AND IN A PROPERLY PLANNED WAY THE IMPORTANT  
SOCIAL AND DEVELOPMENTAL PROGRAMS WE WERE ELECTED TO PURSUE.

SOME OF THE UNCERTAINTIES THAT SURROUNDED THE OUTLOOK FOR INFLATION EARLIER THIS YEAR HAVE BEEN CLEARED BY THE DECISIONS OF THE CONCILIATION AND ARBITRATION COMMISSION IN THE NATIONAL WAGE AND METAL INDUSTRIES CASES. THOSE WERE RESPONSIBLE DECISIONS. GOVERNMENTS MUST ALSO DO ALL THEY CAN TO CREATE AN ECONOMIC CLIMATE IN WHICH THE SUGGESTED WAGE DETERMINATION GUIDELINES HAVE THE PROSPECT OF BEING ADHERED TO. A BIG RESPONSIBILITY ALSO FALLS ON THE COMMUNITY ITSELF HERE AND, IN PARTICULAR, ON UNION LEADERSHIP.

THIS CONFERENCE COULD PLAY ITS PART BY EXPRESSING A FIRM COMMITMENT BY GOVERNMENTS TO ACTION TO ENSURE OBSERVANCE OF THE PRINCIPLES SET OUT IN THE NATIONAL WAGE CASE DECISION IN PARTICULAR IN RESPECT OF PUBLIC EMPLOYMENT WITHIN GOVERNMENT CONTROL. WE WILL BE DISCUSSING THIS UNDER THE AGENDA ITEM ON WORKING PARTIES ON INFLATION BUT I MENTION HERE THAT I HAVE ASKED ALL MY MINISTERIAL COLLEAGUES TO ACT CONSISTENTLY IN HANDLING WAGE CLAIMS WHICH ARISE IN THEIR INDIVIDUAL AREAS OF RESPONSIBILITY IN THE LIGHT OF THE NATIONAL WAGE CASE DECISION.

FOR OUR PART, WE AIM TO ENSURE THAT THE RECOVERY IN THE ECONOMY STRENGTHENS AND CONTINUES BUT DOES NOT REACH A PACE THAT ONCE AGAIN LEADS TO A SCRAMBLE FOR RESOURCES. AN ORDERLY RECOVERY WILL HELP ACHIEVE A CLIMATE CONDUCIVE TO THE EXPANSION OF INVESTMENT THAT IS NECESSARY TO ENSURE CONTINUED PROSPERITY AND GROWTH OF EMPLOYMENT OPPORTUNITIES.

LET ME NOW TURN BRIEFLY TO SOME OF THE FEATURES OF THE CURRENT ECONOMIC SCENE.

THE OPENING MONTHS OF 1975 HAVE SEEN A STRONG RECOVERY OF CONSUMER DEMAND. COUPLED WITH CONTINUED GROWTH OF GOVERNMENT EXPENDITURE AND EXPORTS THIS HAS RESULTED IN A SIZABLE INCREASE IN TOTAL DEMAND IN SPITE OF DECLINING PRIVATE INVESTMENT. HOWEVER, DEMAND GROWTH HAS BEEN MORE THAN MET BY SUPPLY FROM

SWOLLEN STOCKS. AS A RESULT THERE HAS BEEN LITTLE INCENTIVE TO INCREASE PRODUCTION AND EMPLOYMENT, BUT THIS IS EXPECTED TO STRENGTHEN FROM NOW ON AS STOCKS RETURN TO MORE NORMAL LEVELS.

GROWTH IN THE VOLUME OF MONEY HAS BEEN EXCEPTIONALLY STRONG. THE PERIOD OF SEASONAL TIGHTENING OF LIQUIDITY AT THE END OF THE FINANCIAL YEAR IS PASSING WITH ONLY MINOR STRAINS ON FINANCIAL MARKETS; BANKS WILL ENTER THE SEASONAL UPSWING WITH EXTREMELY HIGH LIQUIDITY RATIOS.

UNEMPLOYMENT SHOWED SIGNS OF IMPROVEMENT IN MAY AND A CONTINUED GRADUAL DECLINE IS CURRENTLY IN PROSPECT. THIS IMPROVEMENT OWES MUCH TO EXPANDED GOVERNMENT SPENDING BUT INDICATIONS ARE THAT THE TREND IN PRIVATE SECTOR EMPLOYMENT WILL SOON TURN UPWARDS ONCE AGAIN.

THE BALANCE OF PAYMENTS POSES NO IMMEDIATE PROBLEMS BUT HERE AGAIN THE OUTLOOK FOR TWELVE MONTHS HENCE IS DEPENDENT ON THE COURSE OF DEMAND AND INFLATION.

IT IS PLEASING TO NOTE THAT THE RATES OF INCREASE OF BOTH PRICES AND WAGES SLOWED SOMEWHAT DURING THE MARCH QUARTER. HOWEVER, EVEN THOUGH INFLATION RATES HAVE RECENTLY FALLEN SOMEWHAT THEY REMAIN HIGH; THE CONSUMER PRICE INDEX INCREASED BY 3.6 PER CENT IN THE MARCH QUARTER AND 17.6 PER CENT IN THE YEAR TO MARCH. SUCH RATES ARE MUCH TOO HIGH AT THE OUTSET OF A RECOVERY PHASE AND FOLLOWING, AS THEY DO, SIMILAR RATES OF INCREASE FOR THE PAST TWELVE MONTHS. ONE THING IS CLEAR - THERE HAS TO BE SOME ABATEMENT IN THE RATE OF INCREASE IN GOVERNMENT SPENDING IF WE ARE TO GET OUT OF OUR PRESENT TROUBLES.

GOVERNMENT EXPENDITURE ON FINAL GOODS AND SERVICES  
(AN APPROXIMATE MEASURE OF THE NATION'S PRODUCTION DIRECTLY



CONSUMED BY THE GOVERNMENT SECTOR) HAS RISEN FROM 20 PER CENT OF TOTAL NATIONAL EXPENDITURE TO 25 PER CENT IN THE COURSE OF A YEAR. AUSTRALIAN GOVERNMENT TOTAL BUDGET OUTLAYS INCLUDING ASSISTANCE TO THE STATES HAVE RISEN FROM BETWEEN 24 AND 25 PER CENT OF GDP IN THE PRECEDING THREE YEARS TO OVER 30 PER CENT THIS YEAR. IN 1974/75 IT WAS APPROPRIATE TO MAKE USE OF RESOURCES THAT WOULD OTHERWISE HAVE REMAINED IDLE IN THE PRIVATE SECTOR. BUT THE SHIFT OF RESOURCES TO THE PUBLIC SECTOR CANNOT CONTINUE AT THAT RATE IF THE ECONOMY IS TO BE GOT BACK ON ITS FEET. IN THE COMING FINANCIAL YEAR THERE WILL NEED TO BE MODERATION IN PUBLIC SECTOR SPENDING.

I COME TO THE MAIN FINANCIAL QUESTIONS WHICH ARE OF IMMEDIATE CONCERN TO THIS MEETING - SPECIFICALLY THE MATTER OF GENERAL REVENUE GRANTS IN 1975/76 AND SUBSEQUENT YEARS AND THE MATTER OF THE LOAN COUNCIL PROGRAMS OF THE STATES AND THEIR AUTHORITIES IN 1975/76.

THE PRESENT GENERAL REVENUE ASSISTANCE ARRANGEMENTS WERE ORIGINALLY SETTLED AT A PREMIERS' CONFERENCE IN JUNE 1970. AT THAT TIME THE AUSTRALIAN GOVERNMENT UNDERTOOK TO REVIEW THE ARRANGEMENTS AFTER FIVE YEARS. ALTHOUGH THE LEGISLATION UNDER WHICH THE FINANCIAL ASSISTANCE GRANTS ARE PAID - THE STATES GRANTS ACT 1973/74 - HAS INDEFINITE APPLICATION INTO THE FUTURE, WE ACCEPT THE OBLIGATION TO REVIEW THE ARRANGEMENTS. THE SPECIFIC QUESTION BEFORE US IS WHETHER ANY CHANGES IN THE LEGISLATION TO WHICH I REFERRED ARE DESIRABLE. YOU HAVE PROPOSED RADICAL CHANGES IN THAT LEGISLATION. YOUR MAIN PROPOSALS ARE THAT THE BASE ON WHICH THE FORMULA GRANTS IN 1975/76 ARE CALCULATED BE INCREASED BY \$350 MILLION AND THAT THE PRESENT AVERAGE WAGES ELEMENT IN THE FORMULA BE REPLACED BY A NEW PROGRESSION FACTOR EQUAL TO 1.5 TIMES THE INCREASE

IN AVERAGE WAGES EACH YEAR. I HAVE ALREADY INFORMED YOU THAT THE AUSTRALIAN GOVERNMENT DOES NOT ACCEPT THESE PROPOSALS. WE REJECT THEM FOR FOUR INTER-RELATED REASONS.

FIRST, WE REJECT THE CONCEPT ON WHICH THE STATES' PROPOSALS ARE BASED - THAT IS, THAT THE GRANTS ARRANGEMENTS SHOULD BE BASED, IN EFFECT, ON REIMBURSEMENT OR COMPENSATION FOR INCOME TAX FORGONE. THAT CONCEPT HAS LONG BEEN ABANDONED. SUCCESSIVE AUSTRALIAN GOVERNMENTS HAVE TAKEN THE VIEW THAT IT IS MORE LOGICAL AND APPROPRIATE THAT THE GRANTS BE BASED ON THE STATES' FINANCIAL NEEDS RATHER THAN ON MOVEMENTS IN ONE OF THE REVENUE SOURCES FROM WHICH THE FINANCIAL ASSISTANCE GRANTS ARE FINANCED.

SECONDLY, WE HAVE DOUBTS ABOUT THE WAY THE BASIC CONCEPT HAS BEEN APPLIED. SPECIFICALLY, WE NOTE THAT THE PROPOSALS ARE, AT LEAST IMPLICITLY, BASED ON THE ASSUMPTION THAT PRESENT INCOME TAX RATES WILL REMAIN UNCHANGED INDEFINITELY. GIVEN THE EFFECTS OF THE PROGRESSIVE RATE STRUCTURE OF THE PERSONAL INCOME TAX AS WAGE AND SALARY RATES RISE, THAT SEEMS TO US TO BE A QUITE UNJUSTIFIED ASSUMPTION. WITHOUT DISCUSSING THIS ASPECT IN DETAIL, I CAN SUMMARISE BY SAYING THAT IN OUR VIEW IT MEANS THAT THE STATES' PROPOSALS ARE TOO GENEROUS EVEN BY THEIR OWN CRITERION.

THE THIRD REASON IS A MORE COMPLEX ONE AND I CAN REFER TO IT ONLY BRIEFLY HERE. IT IS, IN ESSENCE, THAT ACCEPTANCE OF THE STATES' PROPOSALS COULD INVOLVE, IN TIMES OF RAPID INCREASES IN WAGE AND SALARY RATES, AN UNDUE TRANSFER OF FINANCIAL RESPONSIBILITY FROM THE STATES TO THE AUSTRALIAN GOVERNMENT, PARTICULARLY IN RESPECT OF BUSINESS UNDERTAKINGS AND SIMILAR ACTIVITIES.

THE BURDEN OF FINANCING THESE SERVICES COULD WELL BE INCREASINGLY SHIFTED FROM THE USERS OF THE SERVICES TO THE AUSTRALIAN GOVERNMENT'S BUDGET AND THENCE TO TAXPAYERS IN GENERAL, WITH THE SERVICES IN QUESTION BECOMING, IN THAT SENSE, MORE AND MORE UNECONOMIC. THE PRINCIPLE THAT THE USER PAYS SHOULD SURELY APPLY TO THESE SERVICES JUST AS TO POSTAL AND OTHER SUCH SERVICES PROVIDED BY THE AUSTRALIAN GOVERNMENT.

FINALLY, ALTHOUGH THE COSTS OF THE STATES' PROPOSALS CANNOT BE PREDICTED ACCURATELY (AS THEY WILL DEPEND ON FUTURE MOVEMENTS IN POPULATION AND AVERAGE WAGES), IT IS CLEAR THAT THEY WOULD BE FAR BEYOND WHAT COULD REASONABLY BE EXPECTED TO BE BORNE BY THE AUSTRALIAN GOVERNMENT'S BUDGET. EVEN ON MODEST ASSUMPTIONS ABOUT MOVEMENTS IN POPULATION AND AVERAGE WAGES, THE ADDITIONAL GRANTS RESULTING FROM THE STATES' PROPOSALS WOULD RUN INTO MANY THOUSANDS OF MILLIONS OF DOLLARS OVER A FIVE YEAR AGREEMENT.

ONE PARTICULAR POINT THAT WE HAVE NOTED IN THIS GENERAL BUDGETARY CONTEXT IS THAT THE STATES' PROPOSALS APPEAR TO INVOLVE ADDITIONAL AUSTRALIAN GOVERNMENT FUNDS IN 1975/76 SUFFICIENT TO MEET, AND ON THE FIGURES GIVEN TO US, POSSIBLY MORE THAN MEET, THE STATES' PROSPECTIVE BUDGETARY "GAPS" IN THAT YEAR (ON THE BASIS OF EXISTING RATES OF TAXES AND CHARGES AND PROJECTED EXPENDITURE LEVELS). PARTICULARLY IN THE LIGHT OF THE AUSTRALIAN GOVERNMENT'S OWN SEVERE BUDGETARY PROBLEMS THAT DOES NOT SEEM TO US TO BE REASONABLE.

ALTHOUGH THE AUSTRALIAN GOVERNMENT THUS DOES NOT ACCEPT THE STATES' PROPOSALS, WE BELIEVE NEVERTHELESS THAT

THERE IS A CASE FOR AN INCREASE IN THE LEVELS OF THE GRANTS IN 1975/76 BEYOND THOSE WHICH WOULD BE YIELDED BY THE EXISTING FORMULA AND THAT THERE IS A CASE FOR AN IMPROVEMENT IN THE ANNUAL GROWTH PRODUCED BY THAT FORMULA.

IN COMING TO THAT JUDGEMENT WE HAVE HAD A NUMBER OF CONSIDERATIONS IN MIND. NOTABLE AMONGST THEM HAS BEEN OUR DESIRE TO ELIMINATE, OR AT THE VERY LEAST TO REDUCE AS FAR AS POSSIBLE, WHAT HAS BECOME KNOWN AS THE ANNUAL "WRANGLE" BETWEEN THE AUSTRALIAN AND STATE GOVERNMENTS.

WE HAVE OBSERVED IN THIS CONNECTION THAT OVER THE LAST FIVE YEARS ASSISTANCE TALLING OVER \$800 MILLION HAS BEEN PROVIDED TO THE STATES OVER AND ABOVE THAT WHICH WOULD HAVE BEEN YIELDED HAD THE ORIGINAL ARRANGEMENTS BEEN ADHERED TO - THAT FIGURE, INCIDENTALLY, EXCLUDES ABOUT \$600 MILLION IN ADDITIONAL GRANTS RESULTING FROM THE AUSTRALIAN GOVERNMENT'S AGREEMENT TO COMPENSATE THE STATES FOR LOSS OF RECEIPTS DUTY.

OUR PROPOSALS ON THESE AND OTHER FINANCIAL MATTERS ARE SPELLED OUT IN DETAIL IN A DOCUMENT WHICH WILL BE CIRCULATED AT THE CONCLUSION OF THIS SPEECH. IN BRIEF, THE AUSTRALIAN GOVERNMENT IS OFFERING TO:-

- (A) INCREASE THE FINANCIAL ASSISTANCE GRANTS ABOVE WHAT THEY WOULD BE IN 1975/76 ON THE BASIS OF EXISTING LEGISLATION BY A TOTAL OF \$200 MILLION;
- (B) IMPROVE THE SUBSEQUENT RATE OF GROWTH OF THE GRANTS BY INCREASING THE PRESENT BETTERMENT FACTOR OF 1.8 PER CENT TO 3 PER CENT.

THERE WILL BE CLAIMS THAT THE INCREASE IN THE BETTERMENT FACTOR BY 1.2 PER CENT TO 3 PER CENT DOES NOT REPRESENT A VERY SIGNIFICANT CHANGE. HOWEVER, GIVEN THE MAGNITUDE OF THE FINANCIAL ASSISTANCE GRANTS, THE EFFECTS, PARTICULARLY GIVEN THAT THEY WOULD BE CUMULATIVE OVER THE YEARS, WOULD IN FACT BE SUBSTANTIAL. THE PRECISE EFFECTS OF OUR PROPOSALS CANNOT BE ESTIMATED. AS YOU WILL APPRECIATE, THEY WILL DEPEND ON FUTURE MOVEMENTS IN AVERAGE WAGES AND POPULATION. ON THE BASIS OF CERTAIN ASSUMPTIONS ABOUT WAGES AND POPULATION GROWTH, HOWEVER, WE ESTIMATE THAT THE EFFECT OF OUR PROPOSALS WILL BE TO INCREASE THE GRANTS, OVER THE FIVE YEARS BEGINNING IN 1975/76, BY SOMETHING IN THE ORDER OF \$2,200 MILLION. OF THIS, THE INCREMENT TO THE 1975/76 GRANTS WOULD ACCOUNT FOR AROUND \$1,500 MILLION AND THE IMPROVEMENT TO THE BETTERMENT FACTOR FOR AROUND \$700 MILLION.

I EMPHASISE THAT THIS LARGE GAIN WILL BE ON TOP OF THE GROWTH IN ASSISTANCE FLOWING FROM THE PRESENT ARRANGEMENT. AS AN INDICATION OF THE GROWTH PRODUCED BY THE PRESENT FORMULA IT IS ESTIMATED THAT FINANCIAL ASSISTANCE GRANTS IN 1975/76 WILL BE AROUND \$600 MILLION HIGHER THAN IN 1974/75 EVEN WITHOUT THE IMPROVEMENTS WE HAVE PROPOSED.

THESE PROPOSALS, WHEN ADDED TO OTHER INITIATIVES

WHICH THE AUSTRALIAN GOVERNMENT HAS TAKEN IN THE FIELD OF FEDERAL-STATE FINANCES, OR IN AREAS AFFECTING THOSE FINANCES, REPRESENT VERY RADICAL CHANGES INDEED. IN PARTICULAR I HAVE IN MIND THAT IN ASSESSING THE STATES' OVERALL FINANCIAL POSITION ACCOUNT MUST BE TAKEN OF OUR ASSUMPTION OF FULL RESPONSIBILITY FOR FINANCING TERTIARY EDUCATION, THE NEW OR EXPANDED PROGRAMS OF SPECIFIC ASSISTANCE OVER A WIDE RANGE OF ACTIVITIES FOR WHICH THE STATES PREVIOUSLY HAD SOLE OR MAIN RESPONSIBILITY, OUR OFFERS TO TAKE OVER THE STATES' RAILWAYS, AND THE "MEDIBANK" SCHEME FOR SHARING THE RUNNING COSTS OF PUBLIC HOSPITALS, AS WELL AS THE PROPOSALS IN RELATION TO REVENUE GRANTS WHICH I HAVE JUST OUTLINED.

IN RESPECT OF TWO OF THESE MATTERS - MEDIBANK AND RAILWAYS - NOT ALL OF THE STATES HAVE TAKEN ADVANTAGE OF OUR OFFERS AND THEIR BUDGETS, RELATIVE TO THOSE STATES WHICH HAVE, WILL SUFFER ACCORDINGLY.

THE PLAIN FACT IS THAT IF ALL STATES ACCEPTED OUR OFFERS IN RELATION TO MEDIBANK AND THE TRANSFER OF RAILWAYS THEIR BUDGETARY PROSPECTS, BOTH SHORT AND LONG TERM, WOULD BE VERY MUCH BETTER INDEED THAN THEY ARE NOW.

WE HAD HOPED THAT ALL THE STATES WOULD HAVE ENTERED THE HOSPITAL SIDE OF MEDIBANK FROM 1 JULY 1975. UNDER THE PROPOSED HOSPITAL AGREEMENTS WE WOULD HAVE ASSISTED THE STATES TO THE EXTENT OF 50 PER CENT OF THE NET OPERATING COSTS OF PUBLIC HOSPITALS. TASMANIA AND SOUTH AUSTRALIA SAW THE VALUE OF WHAT WE WERE OFFERING AND WE HAVE ENTERED INTO AGREEMENTS WITH THEM. WE HOPE THAT QUEENSLAND WILL FOLLOW. NEW SOUTH WALES, VICTORIA AND WESTERN AUSTRALIA, INSTEAD OF HELPING US EXPEDITE THE INTRODUCTION OF THE SCHEME IN THEIR STATES, AS LATE AS 30 MAY 1975 WERE WRITING TO ME PROPOSING NEW AGREEMENTS - AGREEMENTS THAT I INFORMED THEM ON 12 JUNE WERE COMPLETELY UNACCEPTABLE. WITH GREATER CO-OPERATION THE HOSPITAL SYSTEMS OF THOSE STATES WOULD BE BENEFITING FROM MANY MILLIONS OF DOLLARS PROVIDED BY THE AUSTRALIAN GOVERNMENT.

NONE OF YOU NEED REMINDING OF THE MAJOR BUDGETARY BURDENS THAT ARE CAUSED BY THE LOSSES OF YOUR RAILWAYS SYSTEMS. I AM TOLD THAT THE ESTIMATED DEFICITS FOR THE RAIL SYSTEMS IN 1974-75 EXCEED \$400 MILLION - THREE TIMES AS MUCH AS THREE YEARS AGO - CLEAR EVIDENCE OF THE HIGH PRICE AUSTRALIA AS A NATION, AND EACH STATE GOVERNMENT, IS PAYING FOR THE UNPLANNED, UNCO-ORDINATED APPROACH TO RAIL TRANSPORT AND INDEED TRANSPORT GENERALLY. UNLIKE AUSTRALIA, OTHER FEDERAL SYSTEMS OPERATE THEIR RAILWAYS ON A NATIONAL BASIS.

TASMANIA IS NOW TO BE RELIEVED OF THIS WORRY. IT WILL ALSO RECEIVE POSITIVE FINANCIAL BENEFITS BECAUSE THE OFFSET TO ITS FORMULA GRANTS BASE WILL BE LESS THAN THE RAILWAYS DEFICIT OF WHICH IT WILL BE RELIEVED. TASMANIA'S NET GAIN WILL BE \$3.3 MILLION. THE SOUTH AUSTRALIAN GOVERNMENT HAS SOUGHT A SIMILAR ARRANGEMENT IN RESPECT OF ITS NON-METROPOLITAN RAILWAY SYSTEM - ITS NET GAIN TO THE "BASE" WOULD BE \$25 MILLION.

I STATED IN MY 1972 POLICY SPEECH THAT MY GOVERNMENT WOULD ACCEPT THE OFFERS OF THE NEW SOUTH WALES AND VICTORIAN PREMIERS FOR A TRANSFER OF THEIR STATE RAILWAY SYSTEMS. DESPITE A FORMAL INVITATION THESE OFFERS HAVE NOT BEEN RENEWED. SIMILAR INVITATIONS HAVE BEEN MADE TO OTHER PREMIERS. IT IS OPEN TO THEM TO FOLLOW THE LEAD OF THEIR MORE PROGRESSIVE BRETHREN IN SOUTH AUSTRALIA AND TASMANIA. WE REMAIN PREPARED TO DISCUSS WITH EACH STATE THE TRANSFER OF ITS RAILWAY SYSTEM TO THE AUSTRALIAN GOVERNMENT. SURELY THIS IS ONLY GOOD SENSE - GOOD SENSE FOR THE STATES' FINANCIAL POSITION, AND GOOD SENSE FOR AUSTRALIA IF IT LEADS TOWARDS A TRULY NATIONAL RAILWAY SYSTEM.

IT MAY BE SUGGESTED THAT THE ADDITIONAL FUNDS NOW OFFERED WILL DO TOO LITTLE TO DEAL SPECIFICALLY WITH THE MAIN FACTOR CAUSING THE STATES' BUDGETARY PROBLEMS - NAMELY INFLATION. IN CONSIDERING SUCH A VIEW, HOWEVER, IT HAS TO BE BORNE IN MIND THAT, PARTICULARLY TAKING INTO ACCOUNT THE STATES' PAY-ROLL TAX REVENUES A HIGH PROPORTION OF THE ADDITIONAL COSTS TO THE STATES ARISING FROM INFLATION IS ALREADY AUTOMATICALLY RECOVERED BY INCREASED FORMULA GRANTS AND TAX RECEIPTS. FURTHERMORE, IT SEEMS IMPLICIT IN THE APPROACH PUBLICLY TAKEN BY SOME PREMIERS AT LEAST THAT FOR SOME REASON IT IS APPROPRIATE THAT INCREASES IN PUBLIC EXPENDITURES ATTRIBUTABLE TO INCREASES IN COST LEVELS SHOULD BE BORNE BY THE AUSTRALIAN GOVERNMENT'S BUDGETS RATHER THAN BY THE STATES'. THAT VIEW APPEARS, IN TURN, TO BE BASED ON A VIEW THAT INCREASES IN INCOME TAX, UNLIKE INCREASES IN OTHER TAXES, ARE SOMEHOW PAINLESS! IT IS SURELY NOW OBVIOUS TO US ALL THAT SUCH A VIEW IS MISTAKEN.



THERE IS AN OUTDATED ATTITUDE THAT INCOME TAXES ARE LESS INFLATIONARY THAN INDIRECT TAXES. WAGE EARNERS ARE CONSCIOUS OF HIGH MARGINAL INCOME TAX RATES, WAGE CLAIMS ARE MADE ACCORDINGLY. FURTHER, THE MATHEWS COMMITTEE'S THESIS ON THE NEED TO INDEX INCOME TAX AND THE ASPREY COMMITTEE'S VIEWS ON THE SHIFTING OF INCIDENCE TO INDIRECT TAXES ARE BOTH OPPOSED TO THIS OUTDATED ATTITUDE.

THE VERY REAL BENEFITS WHICH WOULD ACCRUE TO THE STATES UNDER THE PROPOSALS I HAVE MADE SHOULD NOT BE OBSCURED OR LOST SIGHT OF IN THE COMPLEX OF MATTERS WHICH MIGHT BE RAISED TODAY.

THE AUSTRALIAN GOVERNMENT PROPOSES THAT IF THE NEW SET OF ARRANGEMENTS TO COMMENCE IN 1975-76 IS TO BE FOR FIVE YEARS, IT OUGHT TO BE REVIEWED BEFORE THE END OF 1979-80. WE WOULD PROPOSE, ALSO AGAIN FOLLOWING PAST PRACTICE, THAT THE ARRANGEMENTS WOULD BE SUBJECT TO REVISION BEFORE THEN IF THERE OCCURRED SUBSTANTIAL CHANGES IN AUSTRALIAN/STATE FINANCIAL RELATIONSHIPS, OR IN MAJOR FACTORS AFFECTING THOSE RELATIONSHIPS. IN PARTICULAR, THE ARRANGEMENTS WILL BE SUBJECT TO THE STATES CONTINUING TO REFRAIN FROM LEVYING TAXES ON INCOME.

THE AUSTRALIAN GOVERNMENT'S PROPOSALS ARE MADE ON THE CLEAR UNDERSTANDING THAT SUBSEQUENT REQUESTS BY THE STATES FOR ASSISTANCE SUPPLEMENTARY TO THAT YIELDED BY THE FORMULA WILL NOT BE ENTERTAINED EXCEPT IN CIRCUMSTANCES WHICH ARE TRULY ABNORMAL AND UNPREDICTABLE, AND WITH WHICH THE STATES ARE CLEARLY UNABLE TO COPE UNAIDED.

THAT, IN TOTAL, IS OUR PROPOSAL ON REVENUE GRANTS FOR THE NEXT FIVE YEARS. IT CLEARLY OFFERS CONSIDERABLE BENEFITS TO THE STATES AND WE WOULD EXPECT IT TO BE ACCEPTED BY THE STATES. THE ALTERNATIVE TO A NEW SET OF ARRANGEMENTS IS THOSE WHICH WOULD CONTINUE UNDER EXISTING LEGISLATION AND THE STATES ARE, OF COURSE, FREE TO CHOOSE THAT ALTERNATIVE.

I NOW TURN BRIEFLY TO THE MATTER OF GENERAL PURPOSE CAPITAL FUNDS FOR THE STATES AND THEIR AUTHORITIES IN 1975-76. IN A FORMAL SENSE, THESE ARE DECISIONS TO BE TAKEN IN AND BY THE LOAN COUNCIL. BUT THESE FUNDS ARE, OF COURSE, A MOST IMPORTANT ELEMENT IN THE STATES' FINANCES AND WE BELIEVE THAT IT IS APPROPRIATE THAT THE STATES BE INFORMED RIGHT AT THE BEGINNING OF THIS MEETING OF THE AUSTRALIAN GOVERNMENT'S PROPOSALS IN AGGREGATE. AGAIN, OUR PROPOSALS ARE SET OUT IN DETAIL IN THE DOCUMENT TO BE CIRCULATED.

IN BRIEF AND ABSTRACTING FROM SPECIAL FACTORS WE HAVE IN MIND INCREASES IN THE LOAN COUNCIL PROGRAMS OF BOTH THE STATE GOVERNMENTS AND THEIR "LARGER" AUTHORITIES OF JUST OVER 17 PER CENT. WE PROPOSE THAT, FOLLOWING THE PRACTICE OF SOME YEARS NOW, NO OVERALL LIMIT BE SET ON BORROWINGS BY SMALLER AUTHORITIES. WE ALSO PROPOSE THAT, AS A MEASURE OF ASSISTANCE TO SUCH AUTHORITIES, THE BORROWING LIMIT FOR INDIVIDUAL AUTHORITIES BEFORE THEY HAVE TO BE INCLUDED IN THE "LARGER" CATEGORY BE INCREASED FROM \$500,000 TO \$600,000.

WHILE SPEAKING OF THE CAPITAL FUNDS TO BE MADE AVAILABLE TO THE STATES IN 1975-76 I MIGHT MENTION THE MATTER OF ADVANCES TO THE STATES FOR WELFARE HOUSING IN THAT YEAR. THE AUSTRALIAN GOVERNMENT'S DECISION ON THIS MATTER WILL BE MADE IN THE BUDGET CONTEXT AND THE STATES WILL THEN BE INFORMED. THE STATES CAN, HOWEVER, COUNT ON GETTING NOT LESS THAN THE 1974-75 AMOUNTS.

#### LOCAL GOVERNMENT

I SHOULD NOT PASS FROM THIS DISCUSSION OF REVENUE ASSISTANCE WITHOUT ACKNOWLEDGING THE FINANCIAL PROBLEMS FACING LOCAL GOVERNMENT.

THE AUSTRALIAN GOVERNMENT HAS TAKEN SIGNIFICANT STEPS TO MAKE LOCAL GOVERNMENT A MORE EFFECTIVE MEMBER OF THE FEDERAL SYSTEM. THE ROLE OF THE GRANTS COMMISSION HAS BEEN WIDENED TO INCLUDE LOCAL GOVERNMENT. IN 1974-75 THE AUSTRALIAN GOVERNMENT MADE UNTIED GRANTS OF SOME \$56 MILLION TO LOCAL GOVERNMENT BODIES. OTHER ASSISTANCE HAS BEEN GIVEN TO LOCAL GOVERNMENT THROUGH THE AREA IMPROVEMENT PROGRAM, THE NATIONAL ESTATE, THE NATIONAL SEWERAGE PROGRAM AND THROUGH OTHER PROGRAMS IN SUCH FIELDS AS TOURISM AND RECREATION, TRANSPORT, EDUCATION, AND SOCIAL WELFARE. ABOUT THREE QUARTERS OF THE FUNDS ALLOCATED UNDER THE REDS PROGRAM HAS GONE TO LOCAL GOVERNMENT.

THE CONDITIONS OF FINANCIAL STRINGENCY THAT WE FACE TODAY ALLOW LITTLE ROOM FOR FURTHER INCREASE IN THE AUSTRALIAN GOVERNMENT'S ASSISTANCE TO LOCAL GOVERNMENT. CERTAINLY, THERE

COULD BE NO MOVE FROM RELIANCE BY LOCAL GOVERNMENT ON LOCAL RATES AS A PRIME SOURCE OF REVENUE AND AS A REGULATOR OF DEMAND FOR SERVICES.

### CONCLUSION

THE PLACE OF LOCAL GOVERNMENT OF COURSE IS IMPORTANT TO OUR CONCEPTS OF REGIONALISM AND CO-OPERATIVE PLANNING.

WE SEE REGIONALISM AND CO-OPERATIVE PLANNING, TOGETHER, RATIONALISING THE ALLOCATION OF RESOURCES BETWEEN THE AUSTRALIAN AND STATE GOVERNMENTS. THEY WOULD OVERCOME MANY OF THE CONCERNS THAT YOUR OFFICIALS HAVE EXPRESSED ABOUT CONDITIONS ATTACHING TO SPECIFIC PURPOSE PAYMENTS. THEY WOULD DECENTRALISE DECISION-MAKING TO THE APPROPRIATE LEVEL.

THE POSITION MY GOVERNMENT HAS ADOPTED IS NEITHER NOVEL NOR UNIQUE. PROFESSOR RUSSELL MATHEWS, THE DIRECTOR OF THE CENTRE FOR RESEARCH ON FEDERAL FINANCIAL RELATIONS IN HIS 1974 REPORT POINTED TO THE NEED FOR AUSTRALIAN AND STATE GOVERNMENTS TO RECOGNISE THEIR INTERDEPENDENCE AND TO DEVISE EFFECTIVE MEANS OF CO-ORDINATING THEIR DECISION-MAKING PROCESSES.

WE SHOULD SEEK, FOR THE LONGER TERM, ARRANGEMENTS THAT WILL COPE WITH CHANGING CIRCUMSTANCES AND CHANGING PRIORITIES AND WILL ENABLE THE ALLOCATION OF RESOURCES RAISED FROM THE AUSTRALIAN TAX-PAYER TO BE MADE ON THE BASIS OF THE NEEDS AND PRIORITIES OF ALL AUSTRALIANS.