

*June 1968*

THE FINANCIAL ASSISTANCE GRANTS  
STATEMENT BY THE PRIME MINISTER



As some Premiers requested that the financial assistance grants arrangements be listed for discussion at this Conference, I think it would be useful if I were to say two things:

- \* First, to indicate by how much these grants are likely to grow next year under the formula agreed between us three years ago; and
- \* Secondly, to indicate the Australian Government's attitude towards any suggestion that we should change the five-year agreement to which we have all subscribed and which obtains until 30 June, 1970.

Formula Grants for 1968-69

In the present financial year we now know that the agreed formula provided the States with grants amounting to \$907,539,000. This was \$7.5 million more than the amounts estimated a year ago and included in the budgets of both the Commonwealth and the States. As compared with the grants paid in 1966-67 the formula produced an increase this year of approximately \$81 million.

The formula for determining the grant to each State next year, that is 1968/69, will take account of the estimated rise in average wages in the twelve months to 31 March 1969 and the increase in each State's population during the calendar year 1968 while the grants so produced will be increased by a betterment factor of 1.2 per cent.

It is not possible at this stage to make a reliable estimate of the future movement in average wages. Nevertheless, for purposes of planning our budgets we need to make an estimate of the grants and for this particular purpose we have calculated the effects of an increase of 5.5 per cent in average wages in the twelve months to the end of next March. On this basis, and with the added assumption that the increase in each State's population will be the same in 1968 as it was in 1967, the grants payable to the States in 1969 will be about \$989 million, or \$82 million more than in the year just ending. If the increase in average wages proved to be 6 per cent, the grant would amount to about \$994 million; if the rise in average wages were as great as  $6\frac{1}{2}$  per cent, the grants would be about \$1,000 million. I mention these latter figures to illustrate a broad range of possibilities.

For purposes of our discussion, I suggest that we use the estimate of \$989 million as the prospective amount of the grants next year. This would represent an increase of about \$82 million - or 9 per cent - as compared with the formula grants paid in the present financial year. I am circulating a table giving details of these figures for each State.

Commonwealth's Attitude to Revisions of Formula

"The Commonwealth's general attitude towards the formula grant arrangements themselves is that we wish the agreement made between us and the States to be kept. The present formula grant arrangements are designed to operate for a period of five years as from 1 July 1965 and they therefore do not come up for review until 1970."

It is fair to say that, from the States' standpoint, the present agreement represents a great improvement on the arrangements which operated prior to 1965. When the grants were reviewed at the Premiers' Conference in June 1965, two main improvements were effected in the grants formula - namely,

a trebling of the betterment factor and a reduction in the time lag before changes in population were reflected in the grants. At that Conference, a special addition of \$1.2 million was made to Victoria's formula grant for 1965-66 resulting in further increases in subsequent years and it was agreed to increase Queensland's share of the grants by adding \$2.0 million to the amount on which Queensland's grant for each of the five years of the arrangements would be calculated. In 1967, two further concessions were made by the Commonwealth in the grants arrangements - an amount of \$5 million was added to the grants on which the formula operates and arrangements were made to reduce the time lag before increases in wages are reflected in the grants. This latter revision gave effect to a proposal which the Commonwealth had advanced at the June 1965 Premiers' Conference as being desirable but which the States preferred not to agree to at that time.

As a result of these changes, the grants formula has now been improved to the point where it virtually ensures that the grants to the States will increase at a faster rate than Gross National Product. It is, I think, also worth pointing out that, under the present formula, the grants not only rise in proportion to increases in the two main factors causing increases in State expenditures - rises, in the wage costs and increases in population - but also provide an element for improvement of standards of State services, namely, a betterment factor which increases the grants by 1.2 per cent each year.

We recognise that, even under the improved grants formula, these grants have not been growing quite as fast as the growth in State expenditures desired by the States. Clearly, however, the Commonwealth could not undertake a commitment to underwrite any rate of growth by which State Governments might decide to increase their expenditures. This is particularly true at a time when the Commonwealth's commitments in other fields - particularly defence - have been increasing at a rapid rate. Nor should we overlook the assistance which the Commonwealth has been providing in other directions to the States. Commonwealth assistance in such fields as education, roads and railways has been increasing at a rapid rate. In fact, in recent years, total Commonwealth assistance to the States has been increasing at a faster rate than Gross National Product and it has also been absorbing an increasing share of Commonwealth tax revenues.

In this regard, in addition to the formula revenue grants to the States, specific purpose capital payments to the States, about which the Treasurer will have something to say in more detail at the Loan Council, have also been increasing. For the moment, it is sufficient for me to say that these additional payments to the States are expected to increase next year to \$330 million, equivalent to an increase of 20 per cent on the payments of \$275 million this year.

It is sometimes suggested that the revenue grants should increase at the same rate as what is described as the "natural" growth in Commonwealth income tax collections. It has also been suggested that this natural growth of income tax collections is in the region of 10 per cent per annum. Between 1959-60 and 1966-67 Commonwealth income tax collections did, in fact, increase by 10 per cent per annum. That increase, however, reflected a significant effective increase in tax rates. In actual fact, there is no clearly definable "natural" growth rate of Commonwealth income tax collections and, by choosing different periods, different answers can be produced. Between 1956-57 and 1966-67, for instance, the average rate of growth of Commonwealth income tax collections was only about 8 per cent per annum.

"In short, our attitude is that requests for variations in the agreement reached between us on the grants formula can not be considered until the present arrangements come up for review in the course of 1969-70. Clearly, there would be

little point in having arrangements which were agreed to run for a certain period of time if such arrangements were to be altered, or be subject to review, every year."

#### Action to meet Special Difficulties

At the same time, the Commonwealth is always ready to consider making assistance available outside the formula grant arrangements if any State is faced with serious financial difficulties arising from circumstances beyond its control.

I illustrate this fact by referring to the assistance which the Commonwealth has provided to help those States who have been facing major problems arising from the recent drought. Over the last three years, the Commonwealth has provided about \$84 million for this purpose.

The Commonwealth has been helping in two ways. First, we have made available over the last two years special revenue assistance amounting to about \$25 million to help offset the effects of the drought on the revenues of the States concerned. (This year, such assistance amounted to \$14 million.) We have also been meeting virtually the whole cost of the drought relief measures which have been instituted to help farmers and to provide employment grants in the drought areas. We have done this in co-operation with the States. Commonwealth reimbursements to the States in respect of these relief measures have amounted over the past three years to nearly \$60 million of which approximately \$20 million has been expended in the current financial year. These relief measures will continue for a period in 1968-69, and as there will also be large claims arising from commitments made in 1967-68, our reimbursements to the States next year will again be substantial.

#### General

I conclude on this note. These days, all Governments - Commonwealth and State - are faced with heavy commitments and with increasing demands for the provision of Government services. I appreciate that the State Governments are called upon to discharge important responsibilities. But I am sure that the Premiers will appreciate that the Commonwealth, in its approach to the problems we are discussing today, must also consider very carefully its own national responsibilities. In saying this, I am not referring simply to our increasing defence commitments - though these are important enough in themselves. I am referring also to much wider responsibilities for the economic health of the nation. We must keep the Australian economy moving strongly but not unhealthily ahead, we must maintain a sound external financial position in these unsettled times and we must avoid inflationary conditions which could undermine our efforts in all these directions.

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