

Premiers' Conference

Opening Statement by Prime Minister

It is only a little more than two months since we last met in Premiers' Conference to discuss the budgetary situation then facing you in 1970-71. For myself, I carried away from that meeting a feeling of genuine achievement. The Commonwealth had, I felt, by its offer to provide special revenue assistance of some \$43 million, gone a long way towards meeting the residual problem with which the States, even after the efforts they had made in the preceding month or so, were still faced.

So indeed it has proved. Information about your expected financial outcome for 1970-71 (and for 1971-72, which I shall come to later) has been supplied to us by you and your Treasury officers and I would like to digress for a moment to express the Commonwealth's real appreciation for the ready co-operation you and they have displayed. I know that the Treasurer would join me in that expression of thanks.

The information for 1970-71 which you have supplied indicates that, compared with the situation prior to the April Conference, there has been an improvement of over \$70 million in the States' revenue and loan accounts. The special revenue assistance which we provided accounted, of course, for the larger part of that, some \$43 million. In

addition, the financial assistance grants payable to the States under the formula have turned out to be some \$13.2 million higher than they had been estimated to be at that time - a fact of which, I understand, you were advised last week. Finally, the estimates for all but one State show some improvement, quite apart from these two factors, over the estimates supplied last April. Overall, whereas last April the States as a whole had appeared to be facing deficits on revenue and loan accounts combined of over \$70 million, on the present estimates the combined result, taking the States as a whole, will be a virtual balance.

All in all, Gentlemen, I think that is not a bad outcome from what has obviously been a situation fraught with difficulty for all parties, both the States and the Commonwealth. When I recall that in bringing down their own budgets the States actually budgeted for a deficit of nearly \$33 million on combined revenue and loan accounts; and when I recall also that the effects on State finances of post-budget wage awards in 1970-71 have been of the order of \$100 million, I think the outcome that has actually been achieved is striking.

Now I hasten to add that I am well aware that this outcome has not been achieved without cost. In part it has been achieved at the cost of the Commonwealth, with consequences for our own budget and the economy that I shall come to later. In part, however - indeed, in somewhat larger part - it has been achieved at the cost of sharp cut-backs in

one field or another of State expenditures or, to a much lesser degree, of increases in State taxation. Those are the measures, one might say, of the wage inflation that has been imposed upon State Governments in 1970-71 by circumstances largely beyond their control. We would all recognise that the outcome is not, in that sense, a happy one.

So much for the 1970-71 position. Since the April Conference, however, the States have re-examined their prospects for 1971-72 and the figures submitted to us in that regard show a rather depressing picture. In short, the "full year" effects of the extraordinary wage awards made this year will mean that the States will face in 1971-72 no less than \$170 million of additional expenditures on that score alone, over and above the very large increase already suffered from that factor in 1970-71. This clearly means that the States must inevitably face a very difficult year.

In passing, I want to underline one point. It relates particularly to the field of the State budgets, but also to a very large extent to our own Commonwealth budget.

1970-71 has been a year characterized by increased wage awards of a startling kind. It is not too much to say that this factor alone has served to unhinge the budgets of public authorities throughout Australia at all levels of government. It will continue to do so through its "full year" effects in 1971-72. I cannot too strongly stress the gravity with which the Commonwealth contemplates that situation.

To return to the situation facing the States in 1971-72, no doubt the figures that you have supplied to us could be debated here and there at the margin; but broadly

speaking I can say that we accept them as constituting, to all intents and purposes, a good indication of the order of magnitude of the problems you are all facing. No doubt you will all have something more to say about that when we come to hear you on the positions of your own States.

We are, believe me, very conscious of the problems you are facing. It is true that, with luck, 1971-72 may prove to be a passing phenomenon for the States - indeed it would be hard to contemplate another such year in 1972-73. If so, that may provide a basis for lifting our eyes a little beyond 1971-72 itself, and regarding the problems of that year as somewhat more manageable, viewed from that wider perspective, than perhaps they might appear if we concentrate upon them alone. That, however, is as may be - the States' financial problems in 1971-72 will be difficult viewed from any standpoint, and you should know that we acknowledge that fact fully.

That, very naturally, is the problem as the States see it. We in the Commonwealth see it too, but see also an over-riding economic problem. I refer in particular to our own budgetary position, and the serious situation confronting us in the field of general management of the economy.

As to our own budget, not only shall we finish this present financial year with expenditures sharply up, and our overall position appreciably worse, by comparison with what we had budgeted for last August, but also the outlook

for 1971-72 is, to say the least, grim. In large part because of the sharp increase in our payments to the States, associated in particular with the compensation for cessation of receipts duty revenue and with the special revenue assistance we have provided, our expenditures in 1970-71 seem likely to be of the order of \$1,000 million up on 1969-70. Revenues will be up also; but not commensurately, and our overall position will, as I say, show a marked deterioration from what we had provided for last August.

As to 1971-72, it is of course too early to be able to gain a fully considered picture of our own budget outlook. At this point of time we are still in process of considering the expenditure "bids" submitted by Departments, based as those purport to be solely on existing policies. The Treasurer will have his pruning knife out with respect even to those figures; but, without entering upon the detail of them at this time, I can say that the prospective position they reveal with respect to the likely growth in Commonwealth expenditure in 1971-72 even in the absence of any of the new spending policies which are being pressed upon us from all sides (including, I have no doubt, the policy of assistance to yourselves which you will be pressing upon us) is nothing short of alarming. So far from reining in the increase in our expenditures, which is and must be the central objective of our budgetary policy at this time, it is clear that we shall have to exercise the most extreme restraint if we are to hold the increase below that which has occurred in 1970-71.

Such an increase in Commonwealth expenditures would, in my mind, give rise to sharp questioning at any time. It would be doubly open to question in the context of our present economic situation and prospect. In brief compass, that situation is that inflationary pressures have not abated. Overall demand is increasing strongly with continuing strong escalation of costs and prices, and the public sector is contributing more than proportionately to that position. Such a situation, if allowed to continue, and particularly given the possibility that increased demand from other quarters could also eventuate, would be fraught with consequences for the economy of the gravest possible kind. You will therefore readily see why I say that, in this context, the prospective increases which are being foreshadowed in our own expenditures are nothing short of alarming. As to these questions of the budgetary and economic situations, you may want to hear further from the Treasurer. All I will say further at this time is that, in these circumstances, we conceive it to be the first and foremost duty of the Commonwealth to provide leadership in contesting this obviously disturbing state of affairs.

It has necessarily been against this background of our own budgetary difficulties and our continuing concern with the overall economic situation, that we have been looking at the whole question of a growth tax for the States which would assist you in meeting your own difficulties. I say at the outset that we see a lot of advantage in the States having

access to a new and broadly based tax field. We have, consequently, made a wide-ranging study of the whole field of possibilities.

One point to emerge quite early in such a study is, of course, that there are various constraints upon the possibilities. For example, and in some ways most importantly, the constitutional position clearly debars the States from imposing virtually any form of sales tax (including, so far as we can see, a value added tax). The unhappy history of the receipts duty is a salutary lesson. Nor would such a tax imposed by the Commonwealth on behalf of the States (which would have to be imposed at a uniform rate throughout the Commonwealth) offer a satisfactory alternative to the States. Indeed we have always regarded any State growth tax, to be at all satisfactory, as necessarily offering the possibility of variations in their own rates by individual States that wish to do so.

That narrows the field considerably. We have, as I say, looked in detail at the remainder of the field but, for one reason or another we find ourselves forced to the conclusion that there are in fact only two areas which offer scope for any move of this kind. The first is personal income tax and the second is the pay-roll tax.

As to the first, that is income tax, we have given close study to the possibilities, as indeed we have on several earlier occasions, and have come to the view that it would not be advisable to re-open the field of personal income tax to

the States. I doubt if much useful purpose will be served by going in detail into the pros and the cons as we see them. Our decision is, of course, based upon general grounds; I add, however, that it has particular pertinence in the economic and financial circumstances which we find confronting us at present.

The Commonwealth has therefore closely examined what appears to be the sole remaining possibility, namely that of giving the States access to the field of pay-roll tax. We recognise that, from some viewpoints, this may not in itself be regarded as an ideal tax although we also believe that a good many of the arguments commonly brought against it are not well-founded. In particular, the argument that it adds to costs can, broadly speaking, be applied to all taxes. However, it is broadly based, grows almost directly in line with the economy, would be relatively simple to administer (partly because employers already draw up returns on a State basis) and certainly offers some prospect for raising additional revenue should States wish to use it for that purpose.

We have therefore, after full and thorough examination, decided that if the States would like to have access to this additional taxation field, the Commonwealth would be prepared to withdraw from the field completely (apart from levying a similar tax within our own Territories). In doing so, arrangements would be made to ensure, at the Commonwealth's expense, continuation of the export incentive scheme based on the present pay-roll tax rate of $2\frac{1}{2}$ per cent.

In withdrawing from the field of pay-roll tax, the Commonwealth could not of course contemplate the loss of revenue involved and we would therefore propose to offset that loss, subject to some qualifications which I shall come to in a moment, by commensurate reductions in the financial assistance grants.

In considering the amount of those reductions, we would be prepared to take into account three points:

- (a) The additional cost to the States in administering the new tax, which would, of course, be minor.
- (b) The fact that, since revenues from pay-roll tax at constant rates would probably grow slightly more slowly than the financial assistance grants the States would be losing would have done, the reduction in the grants "base" for 1972-73 and subsequent years would need to be adjusted accordingly. (There would be no effect of this kind in 1971-72 and the grants arrangements as a whole are, of course, subject to review in four years' time.); and
- (c) Having in mind the state of the finances of some local authorities, the States might well feel that, once the pay-roll tax became a State tax, they would find it difficult to continue levying it upon the non-business activities of local authorities. If so, there would of course

be some loss of revenue involved, and in that case the Commonwealth would regard it as doing the fair thing if it were to share as to half in that loss.

On this approach what the Commonwealth would, in effect, be doing is to hand over to the States the pay-roll tax on the basis that, while levying the tax at the present rate, they would be unaffected financially by the transfer except in so far of course as they join us in relieving local authorities from payment of the tax in respect of their non-business activities. The States would of course stand to benefit from the scope for raising additional revenue that the new tax, once in their own hands, would give them.

That, Gentlemen, is at this stage the sum and substance of the Commonwealth's offer in this matter. The question to which I think we need an answer is whether the States would wish to take advantage of this offer. In order to assist you and your officers in your consideration of that question, we are now circulating a document in which fuller details of a scheme along the lines I have suggested are set out.