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PRIME MINISTER

118/95

STATEMENT BY THE PRIME MINISTER, THE HON PJ KEATING MP

STATE TAX CAT OUT OF THE BAG

Mr Costello's tax cat is out of the bag and Mr Kennett has belled it.

Mr Costello's answer to repairing the Vertical Fiscal Imbalance which he says exists between the Commonwealth and the States - a State income tax - has been endorsed by his Victorian colleague, Premier Jeff Kennett.

This comes as little surprise because Mr Costello told *Business Review Weekly* that he had consulted conservative State Governments, which of course includes Victoria.

Mr Kennett's comments articulate the plan.

He says that basically the Commonwealth should have Defence, Telecommunications and a few other responsibilities and it should only be able to collect 20 per cent of the income tax. The balance - the other 80 per cent - would be collected by the states to fund social policies and services.

Apart from the inherent problems in this proposal, the conservative States are already walking away from all the responsibilities he says they should have. Health and education come readily to mind, and no one brings them to mind quicker than Mr Kennett himself.

The Victorian Premier has been closing hospitals down at an alarming rate, shutting down hundreds of schools and has now embarked on a privatisation binge which includes Victoria's ambulance services.

There is no better example of the Liberal mindset than Mr Kennett. Unless it is Mr Howard, of course.

We are now seeing the real conservative agenda revealed: get the Commonwealth out of social policy, get the Commonwealth back to some core functions, give the States the responsibilities and walk away from them; reduce the Commonwealth of Australia to a mirror image of the Liberal Party - a mere collection of States.

It is all consistent with Mr Howard's long-held view of the world.

Let there be no doubt that John Howard and Peter Costello mean to have State income taxes and State consumption taxes. They want the bulk of the revenue raised by the States and they want the Commonwealth pinned back to minimal responsibilities.

What we would then have is two tax bases in the system - a Commonwealth income tax and State income and broad based consumption taxes.

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