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**Title:**

Radio talk by Don Dunstan, 5KA - Premiers' Conference on State Finances

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5KA BROADCAST BY THE LEADER OF THE OPPOSITION (DON DUNSTAN), 21. 1. 70.

SUBJECT: PREMIERS' CONFERENCE ON STATE FINANCES.

GOOD EVENING:

IT SEEMS THAT AS FAR AS STATE TREASURERS AND PREMIERS ARE CONCERNED A SOLUTION TO THE STATE-COMMONWEALTH FINANCIAL WRANGLING HAS AT LAST BEEN FOUND. AFTER A SERIES OF CONFERENCES THEY HAVE DECIDED TO APPROACH THE PRIME MINISTER (MR. GORTON) IN CANBERRA ON FEBRUARY THE TWENTY-SIXTH WITH A TWO PRONGED PLAN EMBRACING A LONG TERM AND SHORT TERM PLAN FOR A BETTER DEAL FOR THE STATES. THE SHORT TERM MEASURE PROVIDES FOR A SYSTEM OF TAX REIMBURSEMENT GRANTS BASED ON THE RATE OF GROWTH IN INCOME TAX YIELDS, WHILE THE LONG TERM PLAN IS FOR THE ADOPTION IN AUSTRALIA OF A VERSION OF THE CANADIAN TAXATION SYSTEM, WHICH GIVES THE STATES THE RESPONSIBILITY OF RAISING A PROPORTION OF INCOME TAX.

WITH THIS CANADIAN PLAN, WHAT IS IN FACT BEING INVESTIGATED BY THE PREMIERS CAN MOST CLEARLY BE SEEN BY CONTRASTING THE PRESENT SYSTEM ALREADY OPERATING IN AUSTRALIA WITH THE CANADIAN MODEL. IN AUSTRALIA FINANCIAL ASSISTANCE GRANTS TO THE STATES ARE PROVIDED FROM COMMONWEALTH REVENUES ON THE CONDITION THAT THE STATES REFRAIN FROM COLLECTING INCOME TAX. THE FORMULA GIVES SOME WEIGHTING TO THE DISABILITIES OF WESTERN AUSTRALIA, TASMANIA, AND SOUTH AUSTRALIA AND PROVIDES FOR INCREASES IN THE GRANTS ONCE INDIVIDUAL STATE WAGE LEVELS AND/OR POPULATIONS CHANGE. ON THE RECOMMENDATION OF THE GRANTS COMMISSION, TASMANIA ALSO GETS A SPECIAL DISABILITY GRANT DESIGNED TO PROVIDE IT WITH A LEVEL OF STATE SERVICES COMPARABLE WITH THE STANDARDS SHOWN FROM AN EXAMINATION OF THE VICTORIAN AND NEW SOUTH WALES BUDGETS. AND THEN, UNDER SECTION 96 OF THE CONSTITUTION, SPECIAL GRANTS AND SPECIFIC PURPOSE GRANTS ARE MADE FROM TIME TO TIME.

BY CONTRAST, IN CANADA PRIOR TO 1962 THE PROVINCES 'RENTED' THEIR INCOME TAXES TO THE FEDERAL GOVERNMENT WHICH BOTH IMPOSED AND COLLECTED THE TAX. IT PAID TO THE PROVINCES 'TAX RENTALS' WHICH GAVE THEM

TEN PERCENT OF THE PROVINCIAL YIELD OF FEDERAL AND INDIVIDUAL INCOME TAX, NINE PERCENT OF THE TAXABLE INCOME OF CORPORATIONS, AND FIFTY PERCENT OF THE YIELD IN FEDERAL SUCCESSION DUTIES. TAX EQUALIZATION PAYMENTS WERE MADE WHERE THE OVERALL PAYMENTS WERE BELOW THE WEIGHTED AVERAGE PER CAPITA YIELD IN ONTARIO AND BRITISH COLUMBIA, WHICH ARE PROVINCES EQUIVALENT TO NEW SOUTH WALES AND VICTORIA.

UNFORTUNATELY, THIS CANADIAN AGREEMENT LED TO JUST AS MUCH DISSATISFACTION THERE AS OUR PRESENT ARRANGEMENT BETWEEN THE COMMONWEALTH AND THE STATES HAS HERE. IN 1962, A NEW ARRANGEMENT WAS ENTERED INTO WHERE INSTEAD OF THE CANADIAN FEDERAL GOVERNMENT PAYING A 'TAX RENTAL' TO THE PROVINCES, IT AGREED TO REDUCE THE AMOUNTS OF ITS INDIVIDUAL AND CORPORATE INCOME TAX BY 10 AND 9 PERCENT RESPECTIVELY IN ORDER THAT THE PROVINCIAL GOVERNMENTS COULD IMPOSE THEIR OWN TAXES, WHICH THE FEDERAL GOVERNMENT OFFERED TO COLLECT. TAX PAYERS, UNDER THIS ARRANGEMENT, ARE ABLE TO TAKE THEIR PROVINCIAL TAX PAYMENTS AS ABATEMENTS OF THEIR FEDERAL TAX LIABILITY.

WHICH BRINGS US TO THE PRESENT, WHERE THE SYSTEM HAS BEEN FOUND IN MANY AREAS TO BE A NEW DISTINCTION THAT PROVIDES VERY LITTLE ACTUAL DIFFERENCE. PROVINCES LIKE MANITOBA AND SASKATCHEWAN TAX INDIVIDUALS AT RATES IN EXCESS OF THE ALLOWED ABATEMENTS, AND THOSE TWO PROVINCES TOGETHER WITH ONTARIO, QUEBEC AND NEWFOUNDLAND TAX CORPORATIONS AT RATES IN EXCESS OF THE ALLOWED ABATEMENTS. IN THE MATTER OF EQUALIZATION RATES, DESIGNED TO ENSURE A CONSISTENT STANDARD OF DEVELOPMENT AND SERVICES THROUGHOUT THE COUNTRY, THERE IS A HIGHLY COMPLEX ARRANGEMENT WHICH THE CANADIANS ARE ALSO FINDING VERY UNSATISFACTORY.

WELL, WHAT THEN WOULD HAPPEN IF AUSTRALIA WERE TO CHANGE TO A SYSTEM OF THE CANADIAN KIND? FIRSTLY, VICTORIA AND NEW SOUTH WALES, AND PARTICULARLY VICTORIA, WOULD BE LIKELY TO ACHIEVE A LARGER SUM IN TAX REVENUES. BUT THEN, IF THE SMALLER STATES LIKE SOUTH AUSTRALIA WANTED ACCESS TO THE REVENUES THAT COME FROM GROWTH AND EXPANSION, THEY WOULD HAVE TO IMPOSE HIGH RATES OF PERSONAL AND COMPANY TAX, DESPITE

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EQUALIZATION PAYMENTS. THESE ARE THE STATES WHICH ARE ALREADY AT A DISABILITY IN DEVELOPMENT, AND THE CONSEQUENCES WOULD BE THAT THEY WOULD FACE EVEN GREATER DISABILITY IN PROVIDING SERVICES TO THE STANDARDS SET BY NEW SOUTH WALES AND VICTORIA. MOREOVER, THEY WOULD BE UNABLE TO MAINTAIN THE COST ADVANTAGES AT PRESENT USED TO ATTRACT DEVELOPMENT. BUT FINALLY, AND OVERALL, IN USING THE CANADIAN SYSTEM, THERE IS NO INDICATION THAT THE AMOUNTS TO BE DERIVED PER CAPITA OR IN PERCENTAGE OF PERSONAL INCOME WOULD BE SIGNIFICANTLY GREATER THAN UNDER THE EXISTING COMMONWEALTH-STATES FINANCIAL AGREEMENT. THE COMPARITIVE FIGURES PROVE THIS - IN THE YEARS 1965/66 to 1967/68 THE EFFECTIVE RETURN TO THE STATES AS A PERCENTAGE OF PERSONAL INCOME IN AUSTRALIA WAS 5.08 PERCENT WHILE IN CANADA THE COMBINATION OF GRANTS AND TAX ABATEMENTS WAS 4.35 PER CENT. IN AUSTRALIA, GENERAL REVENUE GRANTS ARE \$75.50 PER HEAD; IN CANADA GRANTS PLUS TAX ABATEMENTS ARE \$76.52.

SO IT IS NOT BY ANY MEANS APPARENT THAT A CHANGE FROM THE PRESENT SYSTEM TO THE KIND SUGGESTED IS GOING TO SOLVE THE PROBLEM OF THE AUSTRALIAN STATES AT ALL. AT THE SAME TIME, WE HAVE TO MAKE OUR FEDERATION WORK, AND WE WON'T BE ABLE TO DO THAT BY CONTINUED WRANGLES ABOUT WHICH PARLIAMENTARY BODY, THE COMMONWEALTH OR THE STATES, IS TO HAVE THE RIGHT TO DETERMINE SEPARATELY THE PRIORITIES IN SPENDING THE AMOUNTS OF REVENUE AVAILABLE TO US. THE ONLY FUNCTIONAL COURSE IS TO DEVELOP BETTER JOINT COMMONWEALTH/STATE AREAS OF ADMINISTRATION AND TO EXPAND THE SPECIAL GRANTS. THIS IS NOT, AS ONE PREMIER PUT IT WITH MUDDY SHALLOWSNESS RECENTLY "THE COURSE OF SOCIALISM". IT IS A MATTER OF REASONABLENESS. AND THE CLEARLY REASONABLE COURSE IS ONE IN WHICH, INSTEAD OF THE COMMONWEALTH'S SETTING THE PRIORITIES FOR THE GRANTS AS, FOR INSTANCE, WITH ITS SCHOOLS' ASSISTANCE PROGRAMME, WHAT SHOULD HAPPEN IS THAT COMMONWEALTH AND STATES CONSULT ON AREAS OF NEED AND THE NATURE OF PRIORITIES, JOINTLY DETERMINING THE PATTERNS OF SPENDING AND THE ADMINISTRATION OF THE SCHEMES. THAT IS THE REASONABLE COURSE. WHERE ARE THE REASONABLE MEN TO DO THE JOB?